



AUDIT COMMITTEE SPECIAL MEETING

CITY OF FOSTER CITY

**PURSUANT TO GOVERNOR NEWSOM'S EXECUTIVE ORDER N-29-20, THE MEETING
WILL BE HELD BY TELECONFERENCE AND/OR VIDEO CONFERENCE ONLY.**

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**THE PUBLIC MAY PARTICIPATE BY SUBMITTING COMMENTS ON ANY AGENDA ITEM
VIA EMAIL PRIOR TO OR DURING THE MEETING BY SENDING THOSE COMMENTS TO
PUBLICCOMMENT-AUDIT@FOSTERCITY.ORG**

TELECONFERENCE PARTICIPANTS

**AUDIT COMMITTEE MEMBERS MICHAEL BARRY, JAMES HWANG, KEERTHANA
SWAMINATHAN AND CINDY WANG WILL PARTICIPATE BY TELECONFERENCE
PURSUANT TO GOVERNOR NEWSOM'S EXECUTIVE ORDER N-25-20**

**PURSUANT TO RALPH M. BROWN ACT, GOVERNMENT CODE SECTION 54953, ALL
VOTES SHALL BE BY ROLL CALL DUE TO AUDIT COMMITTEE MEMBERS MICHAEL
BARRY, JAMES HWANG, KEERTHANA SWAMINATHAN AND CINDY WANG
PARTICIPATING BY TELECONFERENCE**

**ANY REQUEST FOR REASONABLE ACCOMMODATION SHOULD BE SENT TO
PUBLICCOMMENT-AUDIT@FOSTERCITY.ORG OR (650) 286-3224**

AGENDA

Tuesday June 30, 2020 7:00 PM

- I. Call to Order**
- II. Roll Call**
- III. Public Comments**
- IV. Minutes**
 - a. Approval of April 23, 2020 minutes.
- V. Reports**
 - a. FY2019-2020 Interim Accounting Issues Memo.
- VI. Old Business**
 - a. Consideration of FY2019-2020 Directed Study to be performed by auditor.
- VII. New Business**
 - a. Selection of November 2020 Audit Committee Meeting Date to review audited draft Comprehensive Annual Financial Report (CAFR) and other reports.
 - b. Membership Update
Recruitment in mid-July 2020, anticipating appointment in September 2020 by the City Council.
- VIII. Adjournment**



AUDIT COMMITTEE
REGULAR MEETING MINUTES
City Hall, Conference Room 1D/EOC
610 Foster City Blvd, Foster City, CA 94404

Thursday, April 23, 2020

Pursuant to Governor Newsom's Executive Order N-29-20, the meeting was held by teleconference and/or video conference only.

I. Call to Order

The meeting was called to order at 7:00 pm by Assistant Finance Director Fiti Rusli.

II. Roll Call

Assistant Finance Director Fiti Rusli called the roll:

Members Present: **Member Michael Barry, Cindy Wang, and Leia Lucas.**

Member Absent: **Member James Hwang and Keerthana Swaminathan.**

City Council Liaison: **Richa Awasthi.**

Maze & Associates: **Grace Zhang, Partner.**

Staff Present: **Edmund Suen, Finance Director; Fiti Rusli, Assistant Finance Director; Karen Li, Senior Accountant; Priscilla Schaus, Communications Director/City Clerk; Rob Lasky, IT Manager.**

III. Introductions

A brief introduction from each of the Audit Committee Members, City Council Liaison, Auditor and City Staff.

IV. Public Comment – **None**

V. Special Presentation

a. Priscilla Schaus, Communications Director/City Clerk, provided a PowerPoint presentation of the Brown Act and Robert's Rules of Order.

VI. New Business

- a. Election of New Officers – **Chair and Vice Chair**
Motion by Member Michael Barry, seconded by Member Cindy Wang, and carried by roll call vote, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to accept the nomination to be Chairperson.

Motion by Member Cindy Wang, seconded by Member Michael Barry, and carried by roll call vote, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to accept the nomination to be Vice Chair.

- b. Development of Audit Committee Mission Statement and Goals for 2020

Discussion ensued on the Audit Committee mission statement.

The Mission Statement was updated as follows: *To provide insights, advice and support into audit, governance and other relevant fiscal matters appropriate to the oversight, operational and fiduciary responsibilities of the City Council and the Estero Municipal Improvement District Board of Directors.*

Motion by Chair Michael Barry, seconded by Member Leia Lucas, and carried by roll call vote, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to accept the Mission Statement.

Chair Michael Barry intention was to encompass Mission Statement and Goals. The goal of the previous audit committee was very specific to review the annual audit and other financial matters as requested. The Committee is satisfied with the Audit Committee's goals that have already been articulated in the Statement of Purpose that was accepted at the City Council level.

- c. Minutes

Motion by Chair Michael Barry, seconded by Member Leia Lucas, and carried by roll call, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to accept the Minutes of the Audit Committee Meeting of November 21, 2019.

- d. Auditor's Overview of Preliminary Audit for FY2019-2020

Grace Zhang, Audit Partner of Maze and Associates provided an overview of the Preliminary Audit for FY2019-2020. Grace Zhang stated that the auditor's ultimate responsibilities is to issue an opinion on City's financial statement to ensure that the

financial statement is not materially misstated. To achieve that, the auditor designs the audit into two phases: Interim and Final. The main focus of the Interim audit is to test the City's Internal Control for proper segregation of duties. The main focus of the final audit is to ensure that the information presented in the financial statement are not materially misstated.

Questions and comments from the audit committee members and responses from auditor on preliminary audit ensued.

Motion by Member Leia Lucas, seconded by Vice Chair Cindy Wang, and carried by roll call, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to accept the auditor's overview of preliminary audit for FY2019-2020.

- e. Consideration of FY2019-2020 Directed Study to be performed by auditor (if any)

Finance Director Edmund Suen provided an explanation of what Directed Study is and gave an example of a Directed Study performed by auditor in previous years.

Chair Michael Barry opened a discussion on ideas for a directed study. The audit committee members concluded that there is no need for directed study in a particular area at this time. Chair Michael Barry proposed another meeting in three months where they will have an opportunity to discuss the directed study with full committee members.

If audit committee members decide to do a directed study when they meet in three months, Chair Michael Barry said that he is particularly interested in 1) Pension Liabilities and 2) Parks & Recreation's Sponsorship. City Council Liaison Richa Awasthi suggested Levy Bond for directed study.

Motion by Chair Michael Barry, seconded by Vice Chair Cindy Wang, and carried by roll call, 3-0-0, with James Hwang and Keerthana Swaminathan absent, not to have directed study at the moment.

- f. Selection of November 2020 Audit Committee Meeting Date to review audited draft Comprehensive Annual Financial Report (CAFR) and other reports

Chair Michael Barry proposed to reconvene for another meeting before the November 2020 meeting, given the absent of two committee members, to further discuss a potential directed study for the auditor and to set the November 2020 meeting.

Motion by Chair Michael Barry, seconded by Vice Chair Cindy Wang, and carried by roll call, 3-0-0, with James Hwang and Keerthana Swaminathan absent, to meet sometime during the month of June 2020 and to set a date for the November 2020 meeting.

VII. Adjournment

Hearing no objection from the Members, Chair Michael Barry adjourned the meeting. Meeting adjourned at 8:45 p.m.

**CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020**

AUDIT SCHEDULE

- **Before July 1** – Closing checklist will be sent to City via email
- **June 30** – Audit Committee meeting to go over interim audit
- **September 14 (or earlier)** – Trial balance data sent to Maze for download and input. Please email trial balance to:
 - **Chris Hunt** – chrish@mazeassociates.com
 - **Patrick Callan** – patrickc@mazeassociates.com
 - **Grace Zhang** – gracez@mazeassociates.com

Please note that, once the trial balance is sent, no additional journal entries should be booked to the City's G/L. If there are any adjustments, please forward any journal entries to Patrick & Grace.

- **September 16:** Maze prepares Analytical Review and sends to City staff
- **September 21 – September 25:** Final audit fieldwork for ONE weeks.
- **September 23** – City to provide responses for analytical review
- **October 5** – Maze to provide drafts to City for review for:
 - **CAFR**
 - **MOIC**
 - **Measure A**
 - **GANN Limit**
- **October 13** – City provide the followings to Maze:
 - **MD&A (draft), Transmittal Letter (draft)**
 - **Report draft changes for CAFR, MOIC, Measure A & GANN**
 - **Statistics**
- **October 19** – Draft changes Day at City
- **October 26** – City to provide final draft changes;
- **October 29** – Maze sends Final DRAFT for ALL reports (**PDF**) to City for distribution to Audit Committee Members, **NOT later than 2pm.**
- **November 19** – Audit Committee meeting; CAFR Presentation, City to provide photo for CAFR cover.
- **November 22** – Target date to issue all reports, with **Nov 24 AT THE LATEST**
- **November 29** – Target date for City to receive ALL physical reports, with **Dec 8 AT THE LATEST**

CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020

INTERIM CONTROL TESTING RESULTS

During our interim audit, we performed testing utilizing different audit techniques, such as observation, sample testing, examination of supporting documents as well as cross-checking of the City's accounting procedures with staff of various functions and levels. We have not noted any financial audit related internal control exceptions.

NEW GASB PRONOUNCEMENTS:

The following comment represents new pronouncements taking affect in the next few years.

EFFECTIVE FISCAL YEAR 2021:

GASB 84 –*Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020

GASB 90 - Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. **The requirements should be applied retroactively**, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

EFFECTIVE FISCAL YEAR 2022:

GASB 87 – Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020

GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

EFFECTIVE FISCAL YEAR 2023:

GASB 91 - Conduit Debt Obligations

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
 - (1) an issuer
 - (2) a third-party obligor, and
 - (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

CITY OF FOSTER CITY
INTERIM ACCOUNTING ISSUES MEMO
For The Year Ended June 30, 2020

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.