



City Council
Parks and Recreation Commission
Library and Early Education Commission
Neighborhoods Commission
City of San José, California

Grant Thornton LLP
10 Almaden Blvd., Suite 800
San Jose, CA 95113-2015

T 408.275.9000
F 408.275.0582
www.GrantThornton.com

Ladies and Gentlemen:

In connection with our audits of the financial statements of the Branch Library Bond Projects Fund, the Parks and Recreation Bond Projects Fund, the Library Parcel Tax Fund, and the Neighborhood Security Bond Projects Fund of the City of San José, California (collectively, the “Funds”), as of June 30, 2017 and for the year then ended, auditing standards generally accepted in the United States of America (“US GAAS”) require that we communicate the following information related to our audit to management, the respective oversight committees, and the City Council.

Responsibilities

Our responsibilities

We are responsible for:

- Performing audits under US GAAS and GAGAS of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with a modified accrual basis of accounting
- Reporting on whether the Fund’s internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Examining compliance with certain provisions of Measure P, Measure S and Measure O
- Communicating specific matters to you

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged with Governance and management responsibilities

Those Charged with Governance (City Council):

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the City’s activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:

- Entity strategies and related business risks that may result in heightened risks of material misstatement
- Matters warranting particular audit attention
- Significant communications with regulators
- Matters related to the effectiveness of internal control and your related oversight responsibilities
- Your views regarding our current communications and your actions regarding previous communications

Management:

- Defining the reporting entity (the “Funds”)
- Preparing and fairly presenting the financial statements in accordance with GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

Audit scope and results

City of San José Bond and Parcel Tax program summary

We were engaged to perform audits of the following four funds and an examination of each of the Fund’s compliance with certain provisions of the Measures outlined below.

Fund	Oversight Committee	Compliance Measure
Parks and Recreation Bond Projects Fund (Fund 471)	Parks and Recreation Commission	Measure P
Branch Library Bond Projects Fund (Fund 472)	Library and Early Education Commission	Measure O (2000)
Neighborhood Security Bond Projects Fund (Fund 475)	Neighborhoods Commission	Measure O (2002)
Library Parcel Tax Fund (Fund 418)	Library and Early Education Commission	Measure S

Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark. We believe that total assets is the appropriate benchmark for each of the Bond Project Funds and that total revenue is the appropriate benchmark for the Library Parcel Tax. Financial statement items greater than materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).

Significant risks and other focus areas

Based on our risk assessments, we identified the following areas of significant audit focus.

Areas of focus
Equity in Pooled Cash and Investments (418, 471, 472, 475) (Fund 472 has a negative cash balance, presented as a Due to Other Funds in the financial statements, which is part of the City's pooled cash and investments pool)
Investments in Fiscal Agents (471, 472, 475)
Expenditures (418, 471, 472, 475)
Compliance with Measure P (471), Measure O (472, 475), and Measure S (418)
Parcel Tax Revenues (418)
Intergovernmental Revenues / Operating Transfers Out (472 / 475)
Other Income (475)

Unrecorded misstatements, including omitted disclosures

Refer to Appendix A for the Schedule of unrecorded misstatements, including omitted disclosures identified during the audits.

Quality of accounting practices and alternative treatments

Accounting policies

Accounting policies are consistency and appropriately applied. The significant accounting policies are disclosed in the financial statements.

Internal control matters

A deficiency in internal control (“control deficiency”) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Our responsibilities related to internal control consist of the following:

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency were communicated to management.

* * *

This communication is intended solely for the information and use of management and the City Council of the City of San José and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

GRANT THORNTON LLP



October 20, 2017
San José, California

Appendix A – Schedule of recorded misstatements, including omitted disclosures

Description	Increase (Decrease) to:			Change in Fund Balance
	Assets	Liabilities	Fund Balance	
Recorded adjustments - Fund 472				
1 VILLAGE SQUARE BRANCH				(23,343)
MISC POST-CONSTRUCTION COSTS				23,343
<i>To reverse impact of improper reclassification entry.</i>				
Unrecorded adjustments - Fund 472				
1 VILLAGE SQUARE BRANCH				(11,721)
OPENING FUND BALANCE			11,721	
<i>To reverse impact of prior-year over accrual.</i>				
Net impact	\$ -	\$ -	\$ 11,721	\$ (11,721)

Other recorded adjustments (disclosures only)

In conjunction with the recorded adjustment to the financial statements outlined above, we also identified two disclosure recorded adjustments related to total encumbrances at year-end. The audit team determined that the following adjustments were appropriate to more properly reflect true encumbrances at year-end:

1. Reduced total encumbrances for Fund 471 by \$110,000 (from \$130,734 to \$20,734).
2. Reduced total encumbrances for Fund 475 by \$119,692 (from \$405,680 to \$285,988).

Omitted disclosures

We have identified the following unrecorded disclosure adjustment during the audit of the Funds (471, 472, 475):

- The policy for allocating indirect expenses to functions in the statement of revenues, expenditures, and changes in fund balance.