

CITY OF SAN JOSE
SOUTH BAY WATER RECYCLING
PROGRAM AND SYSTEM
(A Program of the City of San José, California)

Report to the
Recycled Water Policy Advisory Committee

Year Ended June 30, 2017



Certified
Public
Accountants



Recycled Water Policy Advisory Committee
City of San José, California

In planning and performing our audit of the schedule of net operating revenues (“Schedule”) of the South Bay Water Recycling Program and System (“Program”), a program of the City of San José (“City”), for the year ended June 30, 2017, in accordance with the terms of the Integration Agreement between the City and the Santa Clara Valley Water District (“District”) dated March 2, 2010 (“Integration Agreement”), we considered the Program’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Program’s internal control.

A deficiency in internal control 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Additionally, we have included in this letter a report on communications with the Recycled Water Policy Advisory Committee as required by auditing standards generally accepted in the United States of America.

This communication is intended solely for the information and use of management of the City, the District, the Recycled Water Policy Advisory Committee, and others within the organization, and is not intended to be, and should not be used, by anyone other than these specified parties.

Walnut Creek, California
March 16, 2018

CITY OF SAN JOSE
SOUTH BAY WATER RECYCLING PROGRAM AND SYSTEM

Required Communications
For the Year Ended June 30, 2017

We have audited the schedule of net operating revenues of the South Bay Water Recycling Program and System (“Program”), a program of the City of San José (“City”), for the year ended June 30, 2017 and have issued our report thereon dated March 16, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have previously communicated such information to you in our engagement letter dated August 9, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The Program’s significant accounting policies are described in Note 2 to the Program’s schedule of net operating revenues. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the Program during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the Schedule in the proper period.

Accounting estimates are an integral part of the Schedule prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the Schedule of net operating revenues was the allocation of the Wastewater Treatment System fund’s expenses to the Program. Management’s judgments and estimates were based on the level of effort of Environmental Services Department personnel who worked directly and indirectly on the Program.

We evaluated the key factors and assumptions used to develop the accounting estimate described above in determining that it is reasonable in relation to the Schedule taken as a whole.

Certain disclosures are particularly sensitive because of their significance to users of the Schedule. The most sensitive disclosure affecting the Schedule was the presentation of the Program’s expenses and allocations. As described in Note 1 to the Schedule, the Schedule is intended to present the net operating revenues of only that portion of the Program’s revenues and expenses to comply with the Integration Agreement and is not intended to be a complete presentation of the Program’s changes in financial position.

The disclosures to the Schedule are neutral, consistent, and clear.

CITY OF SAN JOSE
SOUTH BAY WATER RECYCLING PROGRAM AND SYSTEM

Required Communications
For the Year Ended June 30, 2017

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements discovered during the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 16, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Program's Schedule or a determination of the type of auditor's opinion that may be expressed on the Schedule, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Program's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.