



Public, Safety, Finance and Strategic Committee
City of San José, California

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Ladies and Gentlemen:

In connection with our audit of the financial statements of the San José – Santa Clara Clean Water Financing Authority, California (the “Authority”), an Authority of the City of San José, California (the “City”) as of June 30, 2017 and for the year then ended, auditing standards generally accepted in the United States of America (“US GAAS”) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (“GAGAS”) 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 an audit 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 the Authority’s internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements under GAGAS
- 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 (Public, Safety, Finance and Strategic Committee):

- 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:
 - Objectives and strategies and related business risks that may result in 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 “Authority”)
- 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

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 the Authority. 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).

Areas of Focus

The areas of focus for the audit were primarily debt service payments and related party transactions.

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.

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This communication is intended solely for the information and use of management and the Public, Safety, Finance and Strategic Committee 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

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October 13, 2017
San José, California