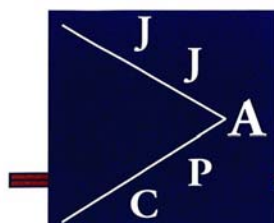


SAN MATEO COUNTY HARBOR DISTRICT

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND
COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS**

JUNE 30, 2015



JJACPA, Inc.

A Professional Accounting Services Corp.

May 19, 2016

To the Board of Commissioners
San Mateo County Harbor District
So. San Francisco, California

We have audited the basic financial statements of the San Mateo County Harbor District (District) as of and for the year ended June 30, 2015, and have issued our report thereon dated May 19, 2016. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 5, 2015, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of San Mateo County Harbor District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the District changed its method of accounting for pensions by adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are useful lives of capital assets ("useful lives").

Management's estimate of the useful lives is based on experience with and observation of capital assets, by category (e.g. infrastructure) as well as industry standards, when applicable (i.e. buildings). We evaluated the key factors and assumptions used to develop the useful lives and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to commitments and contingencies.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements

Uncorrected and Corrected Misstatements, Continued

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated May 19, 2016.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Communication of Internal Control Related Matters

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 deficiencies, significant deficiencies or material weaknesses. As indicated in Finding 2015-01, we identified a significant deficiency in internal control.

This report is intended solely for the information and use of the Board of Commissioners and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Joseph J. Arch, CPA

JOSEPH J. ARCH, CPA

President/CEO

JJACPA, INC.

San Mateo County Harbor District
Schedule of Findings and Responses
For the year ended June 30, 2015

Finding 2015-01

Significant Deficiency – Capital Asset Inventory Management

Condition: The District does not have procedures in place to perform counts or verification of its capital asset inventory and is not reconciling capital assets on hand to its general ledger on a regular basis.

Effect: The District paid for and capitalized equipment in which it did not receive. The erroneously capitalized item went undetected by the District and was carried on the books for a period of time before being detected and corrected.

Cause: The District does not have policies or procedures for capital asset inventory management and has not assigned personnel to perform inventory counts or reconciling procedures.

Criteria: The Government Finance Officers Association recommends that every state and local government periodically inventory its tangible assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years. While well-designed and properly maintained perpetual inventory systems can eliminate the need for an annual inventory of a government's tangible assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory.

Recommendation: We recommend the District implement policies and procedures for capital asset inventory management, including acquisition and disposal of equipment. This should include specific tasks to be performed by the District's personnel, specific tasks to be performed by the Finance department, completion of the tags, and completion of the control sheets. This should also include reconciliation and recount procedures performed on a regular basis. Strong accounting and control procedures over inventory will be a significant benefit in providing better financial information with which to make well-informed financial decisions.

Responsible Officials' Response: The District is revising our policies and procedures for fixed assets including inventory management, acquisition and disposal of equipment. Inventory procedures will include tagging of equipment, specificity of tasks for the Finance Department, tasks for other District Personnel, and completion of signed inventory control sheets. Importantly this will include a requirement for annual physical inventory of District Capital Assets beginning with the 2016/17 fiscal year.