

San Antonio Water System

Independent Accountant's Report on
Applying Agreed-Upon Procedures
December 31, 2016

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RSM US LLP

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Trustees and Management
San Antonio Water System

We have performed the procedures enumerated on the following pages, which were agreed to by San Antonio Water System (SAWS), solely to assist SAWS and the specified users in evaluating if SAWS complied with the general conditions required by paragraph (C)(i), (C)(ii) and (C)(v) of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C as of December 31, 2016, as required by the Texas Commission on Environmental Quality (TCEQ). Management of SAWS is responsible for its compliance with the general conditions required. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on the following pages, either for the purpose for which this report has been requested or for any other purpose.

Our procedures, and findings relative thereto, are set forth in the related accompanying summary of procedures and findings.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the general conditions required by the referenced paragraphs noted above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of SAWS' Board of Trustees, management, and the TCEQ and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

San Antonio, Texas
June 26, 2017

San Antonio Water System

Summary of Procedures and Findings

The agreed-upon procedures relate to the general conditions required by paragraph (C)(i), (C)(ii) and (C)(v) of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C, as required by the Texas Commission on Environmental Quality (TCEQ). Management of SAWS reviewed and discussed the following sections of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C with TCEQ and both SAWS and TCEQ agreed on the following requirements:

Paragraph (C)(i) of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C requires the following: SAWS shall prepare its financial statements in conformity with Generally Accepted Accounting Principles for governments and have its financial statements audited by an independent certified public accountant (or appropriate state agency).

Paragraph (C)(ii) of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C requires the following: SAWS must not have operated at a deficit equal to 5.0 percent or more of total annual revenues in each of the past two fiscal years. In consultation with TCEQ, management of SAWS has defined the following:

Surplus (Deficit) Ratio—Total surplus as a percent of total annual revenues

Total Surplus—Total annual revenues less total expenditures

Total Annual Revenues—operating revenues per the annual audited financial statements

Total Expenditures—the sum of operating expenses before depreciation, nonoperating revenues and nonoperating expenses per the annual audited financial statements

Paragraph (C)(v) of the Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C requires the following: SAWS must not have received an adverse opinion, disclaimer of opinion or other qualified opinion from the independent certified public accountant (or appropriate state agency) auditing its financial statements.

Accordingly, we performed the following agreed-upon procedures:

1. **Procedure:** We obtained the Independent Auditor's Report included in SAWS' 2016 annual audited financial statements (Annual Financial Report) and observed whether the opinion paragraph stated that the financial statements were prepared in accordance with Generally Accepted Accounting Principles for governments.

Finding: We found the financial statements were prepared in accordance with Generally Accepted Accounting Principles for governments (accounting principles generally accepted in the United States of America).

2. **Procedure:** We obtained SAWS' 2016 annual audited financial statements (Annual Financial Report) and observed if it included a signed Independent Auditor's Report.

Finding: We found the Independent Auditor's Report was signed.

3. **Procedure:** We obtained management's computation of the Surplus (Deficit) Ratio for 2016 and 2015 (Attachment I) and SAWS' 2016 and 2015 annual audited financial statements (Annual Financial Reports). We agreed amounts used by management in its computation of the Surplus (Deficit) Ratio to the Annual Financial Reports. We recomputed the Surplus (Deficit) Ratio as defined above.

Finding: Based on the recomputation, we found SAWS did not operate at a deficit equal to 5.0 percent or more of total annual revenues in each of the past two fiscal years. The Surplus (Deficit) Ratio was 33.8 percent and 30.1 percent for 2016 and 2015, respectively.

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Summary of Procedures and Findings

4. **Procedure:** We obtained the Independent Auditor's Report included in SAWS' 2016 annual audited financial statements (Annual Financial Report) and observed the type of opinion issued by the independent certified public accountant (or appropriate state agency) auditing its financial statements.

Finding: We found SAWS did not receive an adverse opinion, disclaimer of opinion or other modified opinion from the independent certified public accountant auditing its financial statements.

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**Attachment I—Surplus (Deficit) Ratio
December 31, 2016 and 2015
(Dollars in Thousands)**

| | 2016 | 2015 |
|--|-------------------------------|-------------------------------|
| Total annual revenues | \$ 622,457 (a) | \$ 557,032 (a) |
| Total expenditures | 411,902 (b) | 389,125 (b) |
| Total surplus | \$ 210,555 (a)-(b)=(c) | \$ 167,907 (a)-(b)=(c) |
| Surplus (deficit) ratio | 33.8% (c)/(a) | 30.1% (c)/(a) |
| Total annual revenues: | | |
| Operating revenues | <u>\$ 622,457</u> | <u>\$ 557,032</u> |
| Total expenditures: | | |
| Operating expenses before depreciation | \$ 315,395 | \$ 291,246 |
| Nonoperating revenues | (8,146) | (6,079) |
| Nonoperating expenses | 104,653 | 103,958 |
| Total expenditures | <u>\$ 411,902</u> | <u>\$ 389,125</u> |

