

To the Honorable Mayor  
and Members of the City Council  
of the City of Tustin  
Tustin, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tustin for the year ended June 30, 2011. 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 communicated such information in our professional services agreement letter to you dated June 1, 2011 and during our meeting on planning matters on July 11, 2011. 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 significant accounting policies used by the City of Tustin are described in Note I to the financial statements. The City implemented Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. No other accounting procedures were adopted and the application of other existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements 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.

Significant Audit Findings (Continued):

*Qualitative Aspects of Accounting Practices (Continued)*

The most sensitive estimates affecting the City of Tustin's financial statements are as follows:

- a. Management's estimate of the fair market value of investments is based on market values provided by outside sources.
- b. Management's estimate of the value of the capital assets (infrastructure) is based on industry standards.
- c. Management's estimate of the useful lives of capital assets for depreciation purposes is based on industry standards.
- d. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims is based on reports prepared by third party administrators and inquiries of the City Attorney.
- e. The funded status and funding progress of the public defined benefit plans with CalPERS is based on actuarial valuations.
- f. The funded status and funding progress of postemployment benefits other than the public defined benefit plans with CalPERS is based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial disclosures are particularly sensitive because of their significance to the financial statements users. The most sensitive disclosures affecting the financial statements are reported in Note 8 regarding the defined benefit pension plans, Note 10 regarding claims payable, Note 9 regarding other post-employment benefits and Note 17 regarding the recent changes in legislation affecting California Redevelopment Agencies.

*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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### *Corrected and Uncorrected Misstatements (Continued)*

The following material misstatements detected as a result of audit procedures were corrected by management:

- a. Interest receivable and deferred revenue were decreased to reverse accrual of interest related to discounted United States Treasuries.
- b. Cash with fiscal agent was reduced to remove duplicate entry on expense reimbursement.
- c. The infrastructure capital asset balance was increased as a result of an adjustment to the amount for current year disposals.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 December 29, 2011.

### *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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, 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 Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

*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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

*White Nelson Dick Evans LLP*

December 29, 2011  
Irvine, California