

To the Honorable City Council  
of the City of 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, California (City) for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24 2010. 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 are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit 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. The most sensitive estimates affecting financial statements were:

- Estimated allowance for losses on accounts receivable.
- Estimated valuation allowance for loans receivable.
- Accrual and disclosure of self-insurance general liability and workers' compensation claims liability.
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property.
- Accrual and disclosure of compensated absences.
- Pension plan employer and employee annual required contribution rates and the unfunded accrued actuarial liability.
- Other Postemployment Benefit (OPEB) plan employer annual required contribution rate and the unfunded accrued actuarial liability.

Management's judgments and estimates were based on the following:

- Estimated allowances for losses on accounts receivable were based on historical experience.
- Estimated allowances for losses on loans receivable were based on historical experience.

- Estimated claims payable liabilities for general liability and workers' compensation claims were based on reports prepared by third party administrators summarizing the estimated liability for workers' compensation and the reports prepared by City staff summarizing historical loss levels for general liability claims against the City, and inquiries of the City Attorney.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset.
- Accrual and disclosures of compensated absences were based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.
- Pension plan employer and employee annual required contribution rates and unfunded accrued actuarial liability were based on third party actuarially determined amounts.
- OPEB plan employer annual required contribution rate and the unfunded accrued actuarial liability were based on third party actuarially determined amounts.

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.

#### *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. The following material misstatements detected as a result of audit procedures were corrected by management.

1. An adjustment to increase sales tax revenue and related receivable in the General Fund of approximately \$1.1 million was recorded for the June 2010 sales tax receivable that had not been recorded as of June 30, 2010.
2. An adjustment to decrease interest revenue and increase deferred revenue in the General Fund of approximately \$276 thousand was recorded for amounts that were not received within the City's defined availability period. Such interest related to a reimbursement agreement between the City and the Tustin Redevelopment Agency that had been recorded as interest revenue as of June 30, 2010.

The following material misstatements were detected by management and resulted in a prior period adjustment to the financial statements.

1. An adjustment of \$514 thousand to decrease beginning net assets and capital assets was recorded in the Water Enterprise Fund for amounts included in construction in progress in prior years that related to maintenance and operations.
2. An adjustment of \$1.3 million to increase beginning net assets and capital assets was recorded in the Governmental Activities for amounts that were not included in capital assets in previous years that the City owns.

The following material misstatement was detected by management after the basic financial statements for the year ended June 30, 2010 were issued on January 24, 2011 and requires the basic financial statements to be reissued as indicated in Note 6 to the basic financial statements.

An adjustment of \$473 thousand to decrease intergovernmental revenues and accounts receivable in the nonmajor Other Capital Projects Fund financial statements and Public Works Capital Grants and Contribution revenue and accounts receivable in the government-wide financial statements.

#### *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 January 24, 2011. As a result of the reissuance of the basic financial statements noted above, we have requested an update to the management representation letter dated March 1, 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 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.

#### Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the City's basic financial statements and our report thereon does not extend beyond financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. However, we read the other information included in the City's comprehensive annual financial report and considered whether such information or the manner of its presentation was materially inconsistent with the information or the manner of its presentation, appearing in the basic financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or its manner of presentation, appearing in the basic financial statements.

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

Very truly yours,

*Macias Fini & O'Connell LLP*

Certified Public Accountants  
Newport Beach

March 1, 2011