

December 29, 2010

To the Audit Committee
of the City of San Diego

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of San Diego (Agency) 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 *Government Auditing Standards*, 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 May 14, 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 Agency are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Agency changed accounting policies related to its reporting for intangible assets, derivative instruments, and filing for bankruptcy under Chapter 9 by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, respectively. We noted no transactions entered into by the Agency 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 the Agency's financial statements were:

Management's estimates of the fair value of investments are based on quoted market prices. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the claim losses and contingencies are based on advice from legal counsel about the ultimate outcome of the claim. We confirmed our understanding by communicating with attorneys representing the Agency and evaluated the key factors and assumptions used in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expense on depreciable capital assets is based on estimated useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of commitments and contingencies in Notes 10 and 11, respectively, affecting the Agency's fiscal year 2010 financial statements.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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, 2010.

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

The Agency's audited basic financial statements are included in its Annual Financial Report (AFR.) Our responsibility for the other information in the AFR containing the basic financial statements and our report does not extend beyond the financial information identified in our audit report.

We do not have an obligation to perform any procedures to corroborate other information contained in this document. However, we read the other information and considered whether such information, or its manner of presentation, was materially inconsistent with 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 manner of its presentation, appearing in the basic financial statements.

During the fiscal year, the Agency included its fiscal year 2009 audited financial statements in the following Official Statements:

\$58,565,000 of Redevelopment Agency of the City of San Diego Housing Set-Aside Tax Allocation Bonds, Series 2010 A

\$15,225,000 of Redevelopment Agency of the City of San Diego City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 A and B

\$4,915,000 of Redevelopment Agency of the City of San Diego Crossroads Redevelopment Project Tax Allocation Bonds, Series 2010 A

\$19,765,000 of Redevelopment Agency of the City of San Diego Naval Training Center Redevelopment Project Tax Allocation Bonds, Series 2010 A

\$7,930,000 of Redevelopment Agency of the City of San Diego San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 A and B

We do not have an obligation to perform any procedures to corroborate other information contained in the Official Statements listed above. We were not associated with nor did we have any involvement in the Official Statements. Accordingly, we did not perform any procedures on the documents listed nor did we provide assurance as to the other information contained in the Official Statements.

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

Very truly yours,



Certified Public Accountants
San Diego, California

February 7, 2011

To the Audit Committee
of the City of San Diego

This letter is in response to the following questions asked us by the City of San Diego's (City's) Audit Committee with respect to our audits of the Redevelopment Agency of the City of San Diego (Agency) for the fiscal year 2010.

1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?

No.

2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for the City or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?

All Macias Gini & O'Connell LLP (MGO) staff sign an annual independence statement attesting to their independence from our clients. In addition, during our planning procedures, the manager goes through and ascertains that all staff assigned to the engagement are independent with respect to that particular client. In addition, all prospective work with existing clients is reviewed in advance to determine potential conflicts of interest.

3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?

Yes, this audit was performed in accordance with GAGAS.

4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?

The financial statements do not contain material deviations from GAAP.

5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?

Yes. As noted in footnote 1 to the fiscal year 2010 financial statements; the Agency adopted Governmental Accounting Standards Board (GASB) Statements:

- ***No. 51, Accounting and Financial Reporting for Intangible Assets, which establishes accounting and financial reporting requirements for intangible assets, particularly in the areas of recognition, initial measurement, and amortization.***
- ***No.53, Accounting and Financial Reporting for Derivative Instruments, which addresses the recognition, measurement, and disclosures of information regarding derivative instruments entered into by state and local governments.***
- ***No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies, which provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.***

6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?

No. There were no significant accounting adjustments noted in the current year.

7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?

No. We believe that the financial statements and disclosures appear appropriate.

8. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or Management's Discussion & Analysis, could be improved?

Management has incorporated our comments into the Agency's financial statements.

9. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?

We have not noted any attempts by management to commit management override. Also, we have not noted any biases with respect to accounting estimates made by management.

10. Did you encounter any difficulties in dealing with management in performing the audit, including any disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff?

We did not experience any significant difficulties with management during the audit and enjoyed full cooperation of management and staff.

11. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?

No. We do utilize a professional standards reviewer who attends regulatory setting bodies meeting on various GAAP issues and updates us that provides us with the latest issues at the national level. However, we did not seek the advice of other audit firms, nor did we consult with regulatory bodies relating to issue for the Agency's fiscal year 2010 financial statements.

12. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc.).³

We did not encounter any significant difficulties in performing the audit.

13. Discuss your impressions of the performance of the City's financial management in terms of the completeness, accuracy and faithfulness of the financial reporting process.

The Agency has taken significant steps to improve external financial reporting.. During fiscal year 2010, the Agency implemented all of the prior year findings and recommendations. We did not identify additional findings related to fiscal year 2010.

14. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.

We are not aware of any situation in which management has attempted to circumvent the spirit of generally accepted accounting principles.

15. Would you characterize management's application of GAAP as conservative, aggressive or somewhere in between?

Management's application of GAAP appears to be conservative in nature.

16. Are there any new pronouncements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?

The Agency will be required to adopt the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Bund Type Definitions in the next fiscal year (2011)). There are no other significant new pronouncements and or areas of potential financial risk with respect to the Agency that we believe the audit committee should be aware of.

17. How would you compare the City's financial reporting with that of comparable government entities with which you are familiar?

The Agency's financial reporting has improved significantly in recent years and is very comparable with most other governmental entities. Based on procedures instituted such as increased communications with the administrating agencies, Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC), the Agency has reduced risk of misstatement in it's financial statements. The Agency's use of the City's Disclosure Practices Working Group (DPWG) and the role of the audit committee are also key processes that have resulted in improved financial reporting.

18. Please explain the significance of any reportable conditions or material weaknesses referenced in your letter or report dealing with the City's internal controls.

There are no reportable conditions or material weaknesses identified as a result of our audit.

19. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

Sincerely,

Macias Gini & O'Connell LLP
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