August 31, 2011

To the Audit Committee
of the City of San Diego

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego (City) for the year ended June 30, 2010. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, or the Southeastern Economic Development Corporation, a blended component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission and the Southeastern Economic Development Corporation is based on the reports of the other auditors. We audited the financial statements of the San Diego City Employees' Retirement System (SDCERS) as part of a separate engagement; however, our communications are made directly to the SDCERS Board of Administration in a separate communications letter. This letter does not include any communication matters related to the San Diego Housing Commission or the Southeastern Economic Development Corporation. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 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 the City are described in Note 1 to the financial statements. As described in Note 1 (v) to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Also, as described in Note 23, as a result of the City's revision to its Debt Policy, the City has reclassified the outstanding special assessment obligations as debt without government commitment. As a result, the outstanding special assessment obligations have been removed from the City's financial statements in accordance with the provisions of GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments.* 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. The most sensitive estimates affecting the City's financial statements were:

- Management's estimates of the workers' compensation, public liability, and long-term disability are based on actuarial valuations using historical loss, employee and other data.

- Management's estimate of the City's Annual Required Contribution (ARC) for pension benefits and OPEB benefits is based on annual actuarial valuations using an accepted actuarial method and various actuarial assumptions. The Net Pension Obligation (NPO) and the Net OPEB Obligation (NOPEBO) are a function of the respective ARC and are estimated by comparing the ARC with the actual funding during the current year and applying an interest rate factor and an amortization adjustment factor to the prior year's NPO and NOPEBO.

- Management's estimates of useful lives for depreciable property were based on the nature of the capital asset.

- Management's estimates of the allowance for bad debts related to accounts and other receivables were based on historical experience on collections related to outstanding accounts.

- Management's estimates of claim losses and contingencies were based on advice from legal counsel about the ultimate outcome of the claim.

- Management's estimates for the landfill closure and postclosure care liability were based on the percentage of the landfill capacity used to date, which is applied to the estimated total closure costs; monitoring and postclosure maintenance costs; less the actual costs incurred.

- Management's estimates for the fair values of investments, except real estate and commingled funds of publicly traded companies, and debt securities acquired through private placements are based on quoted market values. Directly owned real-estate assets (SDCERS investments) are stated at appraised values as determined by SDCERS contracted real estate advisors or by independent certified appraisers. The fair value of investments in commingled funds of publicly traded securities are based on the funds' underlying asset values determined from published market prices and quotation from major investment firms. In the case of debt securities acquired through private placements, SDCERS' contract investment advisors compute fair value based on market yields and average maturity dates of comparable quoted securities.

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

- The disclosure related to the funded status of the City's defined benefit pension plan and the City's NPO in Note 12 to the financial statements.

- The disclosure related to the funded status of the City's OPEB plan and the City's NOPEBO in Note 13 to the financial statements.

- The disclosure related to the contingencies affecting the City in Note 18 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the completion of the audit was delayed because of the configuration errors associated with the City's implementation of the SAP ERP system.

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and 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 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 August 31, 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 City'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 City's audited basic financial statements are included in its Comprehensive Annual Financial Report (CAFR). Our responsibility for the other information in the CAFR 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 these documents. 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 year, the City included its fiscal year 2009 audited financial statements in the following Official Statements:

> $123,075,000 Public Facilities Financing Authority (PFFA) of the City of San Diego Water Revenue Bonds, Refunding Series 2010A
>
> $161,930,000 PFFA of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2010a
>
> $163,165,000 City of San Diego, California 2010-11 Tax and Revenue Anticipation Notes ($51,335,000 Series A; $42,690,000 Series B; and $69,140,000 Series C)
>
> $161,000,000 City of San Diego, California 2011-12 Tax and Revenue Anticipation Notes ($49,500,000 Series A; $43,850,000 Series B; and $67,650,000 Series C)

During the year, the City's Redevelopment Agency (a blended component unit of the City) 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. We were not associated with and did not have any involvement in the Official Statements. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the Official Statements.

This information is intended solely for the use of the Audit Committee of the City of San Diego 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 Gini & O'Connell LLP

San Diego, CA

City of San Diego
Schedule of Uncorrected Misstatements
Fiscal Year Ended June 30, 2010

Impact of Adjustments on Fund Financial Statement Caption - Increase (Decrease)

	Description (Nature) of Audit Difference	Balance Sheet: Assets	Balance Sheet: Liabilities	Balance Sheet: Fund Equity	Statement of Revenues, Expenditures, and Changes in Fund Balance: Revenues	Expenditures	Net Change in Fund Balance: Current Year	Net Change in Fund Balance: Prior Year
	General Fund							
1	To accrue additional amount of sales tax receivable and deferred recognition of revenue.	$ 3,046,000	$ 3,046,000	$ -	$ -	$ -	$ -	$ -
2	To adjust for the over-accrual of the Accounts Receivable for Mission Bay Revenues for FY 2008/09	$ -	$ -	$ -	$ 604,621	$ -	$ 604,621	$ (604,621)
3	To adjust the over-accrual of the Transient Occupancy Taxes Receivable for FY 2008/09.	$ -	$ -	$ -	$ 2,763,002	$ -	$ 2,763,002	$ (2,763,002)
	Total uncorrected misstatements	$ 3,046,000	$ 3,046,000	$ -	$ 3,367,623	$ -	$ 3,367,623	$ (3,367,623)
	Financial statement amounts	$ 180,093,000	$ 65,070,000	$ 115,023,000	$ 965,607,000	$ 1,072,732,000	$ 631,000	$ (10,389,000)
	Impact as a percentage of financial statement amounts	1.69%	4.68%	0.00%	0.35%	0.00%	533.70%	32.42%
	Aggregate Remaining Fund Information							
4	To adjust the beginning equity related to 4th quarter franchsie fee accrual recognized as revenue in FY 2009/10 that should have been recognized in a prior period.	$ -	$ -	$ -	$ (11,789,000)	$ -	$ (11,789,000)	$ 11,789,000
	Total uncorrected misstatements	$ -	$ -	$ -	$ (11,789,000)	$ -	$ (11,789,000)	$ 11,789,000
	Financial statement amounts	$ 7,978,986,000	$ 1,692,778,000	$ 6,286,208,000	$ 998,340,000	$ 1,031,302,000	$ 430,526,000	$ (895,588,000)
	Impact as a percentage of financial statement amounts	0.00%	0.00%	0.00%	-1.18%	0.00%	-2.74%	-1.32%

	Government-wide (Governmental Activities)	Statement of Net Assets: Assets	Statement of Net Assets: Liabilities	Statement of Net Assets: Net Assets	Statement of Activities: Revenues	Expenses	Change in Net Assets: Current Year	Change in Net Assets: Prior Year
5	To accrue additional amount of sales tax receivable and deferred recognition of revenue.	$ 3,046,000	$ -	$ 3,046,000	$ 3,046,000	$ -	$ 3,046,000	$ -
	Total uncorrected misstatements	$ 3,046,000	$ -	$ 3,046,000	$ 3,046,000	$ -	$ 3,046,000	$ -
*	Summarized impact on Governmental Activities	$ 3,046,000	$ -	$ 3,046,000	$ (5,375,377)	$ -	$ (5,375,377)	$ 8,421,377
	Financial statement amounts	$ 6,600,100,000	$ 2,245,055,000	$ 4,355,045,000	$ 1,724,421,000	$ 1,757,752,000	$ (34,549,000)	$ 104,822,000
	Impact as a percentage of financial statement amounts	0.05%	0.00%	0.07%	-0.31%	0.00%	15.56%	8.03%