January 31, 2012

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, 2011. 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 October 12, 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 are described in Note 1 to the financial statements. As described in Note 1 (w) to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 59, *Financial Instruments Omnibus*. 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 estimate of the workers' compensation, public liability, and long-term disability liabilities 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 estimate of the useful lives for depreciable property is based on the nature of the related capital assets.

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

- Management's estimate 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 estimate 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. Real estate equity investments (SDCERS' investments) fair values are based on either annual valuation estimates provided by SDCERS' contract 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 quotations 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.

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

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

- 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 in Note 14 regarding the cooperation agreement between the City and the Redevelopment Agency of the City of San Diego and the related asset transfers that occurred during the year ended June 30, 2011.

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

- The disclosure in Note 23 related to the legislation enacted by the California State Legislature intending to dissolve redevelopment agencies in the State of California (Assembly Bill X1 26) unless certain payments are made to the State of California (Assembly Bill X1 27).

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. The attached schedule summarizes the uncorrected misstatement of the financial statements. Management has determined that the effect is immaterial to the 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 January 31, 2012.

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

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 basic 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.

During the year, the City included its fiscal year 2010 audited financial statements in the following loan applications:

- $20,000,000 of State Revolving Fund Loan from the State Department of Public Health for the Miramar Water Treatment Plant Upgrade and Expansion project.

- $18,000,000 of State Revolving Fund Loan from the State Department of Public Health for the Otay Water Treatment Plant project.

We do not have an obligation to perform any procedures to corroborate other information contained in the loan application. We were not associated with and did not have any involvement in the application. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the loan applications.

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, California

City of San Diego
Schedule of Uncorrected Misstatement
For the Year Ended June 30, 2011

Impact of Adjustment on the Governmental Activities Financial Statement Caption - Increase (Decrease)

		Statement of Net Assets			Statement of Activities		
	Description (Nature) of Audit Difference	**Assets**	**Liabilities**	**Net Asets**	**Revenues**	**Expenses**	**Change in Net Assets Current Year**
1	To recognize revenue for developer contributions and fees and capitalize associated assets.	$ 24,418,912	$ -	$ 24,418,912	$ 24,418,912	$ -	$ 24,418,912
	Total uncorrected misstatements	$ 24,418,912	$ -	$ 24,418,912	$ 24,418,912	$ -	$ 24,418,912
*	Summarized impact on Governmental Activities	$ 24,418,912	$ -	$ 24,418,912	$ 24,418,912	$ -	$ 24,418,912
	Financial statement amounts	$ 6,693,535,000	$ 2,324,132,000	$ 4,369,403,000	$ 1,698,054,000	$ 1,689,736,000	$ 14,358,000
	Impact as a percentage of financial statement amounts	0.36%	0.00%	0.56%	1.44%	0.00%	170.07%