

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

We have audited the financial statements of the governmental activities, business-type activity, each major fund, and aggregate remaining fund information of the City of Tustin (the City) for the year ended June 30, 2015. 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 engagement and planning communication letters to you dated June 18, 2015. 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 discussed in Notes 1d and 20 to the financial statements, the City has recorded the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the cost-sharing defined benefit pension plans due to the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". The adoption of these standards required retrospective application resulting in a \$45,364,118 and \$2,418,112 reduction of previously reported net position of the governmental activities and business-type activity, respectively. No other accounting policies were adopted and the application of other existing polices was not changed during the year ended June 30, 2015. 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'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 capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- d. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit plans with CalPERS are based on actuarial valuations provided by CalPERS.
- e. The annual required contribution and actuarial accrued liability for the City's Other Post-Employment Benefit Plan is based on certain actuarial assumptions and methods prepared by an outside consultant.
- f. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on estimates by the claims administrators.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were 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 disclosures affecting the financial statements were reported in Note 9 regarding the CalPERS defined benefit plans, Note 10 regarding the City's other post-employment benefit plan, Note 12 regarding the claims payable, Note 18 regarding the recent changes in legislation affecting California Redevelopment Agencies and Note 20 regarding the restatement of prior year financial statements.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **Significant Audit Findings (Continued)**

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatement, detected as a result of audit procedures, was corrected by management:

- a. Adjustment to capital assets to retire right of way property transferred to another agency.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 22, 2015.

### *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 City'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 Matters**

We applied certain limited procedures to management's discussion and analysis, the safety plan schedule of proportionate share of the net pension liability and schedule of contributions, the miscellaneous plan schedule of changes in net pension liability and related ratios and schedule of contributions, the other post-employment benefit plan schedule of funding progress, and the budgetary comparison schedule, which are required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

## **Other Matters (Continued)**

We were engaged to report on the combining and individual non-major fund financial statements and schedules (supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

## **Restriction on Use**

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*

Irvine, California  
December 22, 2015