



CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
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January 24, 2012

To the Honorable Mayor and Members of the City Council
City of Colton, 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 Colton (City) for the year ended June 30, 2011, and have issued our report thereon dated January 24, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. Again, instances of non-compliance with provisions of laws, regulations, contracts and grants noted by us, if any, have been communicated to you by a separate letter.

Planned Scope and Timing of the Audit

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.



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During the audit, we obtained an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

Our audit has been performed in phases which consisted of interim contact(s) during the fiscal year and a year-end contact which occurred after the fiscal year-end.

Had we noted any significant matters related to the financial statement audit that were, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, we would have communicated those in a separate letter. We did not note any such matters. Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. 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

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. Where applicable, the City utilized accounting estimates for depreciation on City assets, amortization of bond related issuance costs, premiums/discounts and gains/losses on bond defeasance and for reporting incurred but not reported amounts relating to the liability for claims and judgments. The methodology used during this audit is consistent with that of prior years. 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.

Financial Statements Disclosure

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



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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. These differences are described below in the audit difference evaluation form. In addition, we detected misstatements as a result of audit procedures which were material, and were subsequently corrected by management. The details of these misstatements are described in a separate letter dated January 24, 2012.

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, 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 Communications

The City implemented the following new Governmental Accounting Standards Board (GASB) pronouncements, which were effective for fiscal year 2010-2011 audits:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

Redevelopment Agency Compliance

In July, 2011, the State Controller's Office released *Guidelines for Compliance Audits of California Redevelopment Agencies, 2011*. In accordance with Health and Safety Code Section 33080.1, the Agency is required to submit an annual report to the governing body and the State Controller's Office by December 31st of each year. The annual report is required to contain the following information:



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- a. Independent financial audit report
- b. Fiscal statement
- c. Blight report
- d. Loan report
- e. Property report
- f. List of the year the Agency expects various time limits to expire
- g. Other information the Agency believes is useful, including, but not limited to, the number of jobs created and lost in the previous fiscal year
- h. Housing and Community Development Report

The only reports that have a prescribed format are the independent financial audit report and the Housing and Community Development Report. Based on our test of compliance, we believe the remaining components of the annual report have been satisfied through the submission of a combination of other reports. However, as a result of a recent audit of 18 redevelopment agencies by the State Controller's Office, findings were cited under this section of the Health & Safety Code. As a result, we recommend the Agency complete separate reports to more thoroughly document compliance with this section of the Health & Safety Code.

This information is intended solely for the use of the members of the City Council or individual(s) charged with governance 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,

Lance, Soll & Loughard, LLP

