
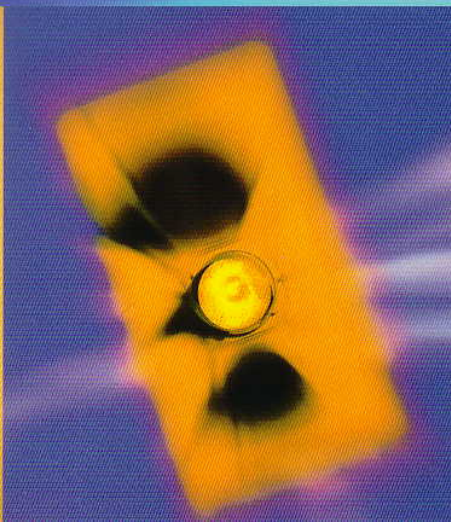


# City of Santa Monica, California

Comprehensive Annual Financial Report, Year Ended June 30, 2003



education  
affordable housing  
quality of life mobility  
sustainability  
financial flexibility



# **City of Santa Monica, California**

## **Comprehensive Annual Financial Report**

**Year ended June 30, 2003**

Prepared by the Department of Finance

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**CITY OF SANTA MONICA, CALIFORNIA**

**Comprehensive Annual Financial Report**

**Year Ended June 30, 2003**

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**City of Santa Monica, California**  
**Year Ended June 30, 2003**

**INTRODUCTORY SECTION**



Finance Department  
1717 Fourth Street, Suite 250  
Santa Monica, California 90401

October 16, 2003

Honorable Mayor, City Council,  
and Citizens of Santa Monica

Subject: Comprehensive Annual Financial Report of the City of Santa Monica for the Fiscal Year ended June 30, 2003.

Dear Honorable Mayor, City Council and Citizens of Santa Monica:

It is a pleasure to submit for your information the Comprehensive Annual Financial Report of the City of Santa Monica for the fiscal year ended June 30, 2003. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Section 1516 of the City Charter of the City of Santa Monica, California ("City") requires an annual audit by a qualified accountant of the books of account, financial records, and inventories and reports of all City officers and employees involved in the handling of financial matters. In compliance with this requirement, this Comprehensive Annual Financial Report ("CAFR") for the year ended June 30, 2003, is hereby submitted.

This CAFR consists of three sections: 1) an Introduction Section, which contains the letter of the transmittal and other information to familiarize the reader with the City, 2) a Financial Section explained below, and 3) a Statistical Section to provide additional historical financial information and other information about the City. The Financial Section consists of six parts: 1) independent auditor's report, 2) management's discussion and analysis, 3) the basic financial statements, 4) required supplementary information, 5) an optional section that presents combining statements for non-major governmental funds and internal service funds, and 6) an optional section that presents various supplementary financial information about this City's financial operations that may be useful and informative to CAFR users but which is not necessary for a fair presentation in conformity with generally accepted accounting principles ("GAAP").

This report presents management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As the City's Director of Finance, I assert that, to the best of my knowledge and belief, this financial report is complete and reliable in all material respects.

Conrad and Associates, LLP, a public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California, has audited the City's basic financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Santa Monica was part of a federally mandated Single Audit designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

### **Profile of the City of Santa Monica**

The City of Santa Monica is situated on the western side of Los Angeles County bordered by the City of Los Angeles on three sides and by the Pacific Ocean on the west. Santa Monica encompasses an area slightly greater than eight square miles and has an estimated population of 89,333 as of January 1, 2002, which makes it the 20th largest of 89 cities in Los Angeles County.

The name "Santa Monica" is derived from Franciscan Father Junipero Serra of the Portola Expedition of May 4, 1770, the feast day of St. Monica. It is said that the group had camped near a spring in the general area of the current City that reminded the padre of the tears that Saint Monica shed over her son, Saint Augustine.

The City of Santa Monica was incorporated November 30, 1886 and subsequently adopted a City Charter in 1945. In 1947, a Council-Manager form of government was established following a vote of the City's residents and approval by the California legislature. The City provides a wide range of traditional municipal and public enterprise services as authorized by its charter.

SERVICES PROVIDED BY THE CITY OF SANTA MONICA

Traditional Municipal Services

Police and fire protection  
Highways and streets  
Library  
Culture and recreation  
Parks  
Planning and zoning  
Housing and community  
development  
General administrative  
support

Public Enterprise Services

Water and wastewater (sewage)  
Storm water management  
Solid waste (refuse collection,  
street sweeping and recycling)  
Pier  
Civic auditorium  
Airport  
Cemetery  
Big Blue Bus  
Parking structures and lots  
Cable communications

The City Council consists of seven members elected by the community at large. Council terms are for four years. Elections are held every two years at which time either three or four Council members are elected. The Council selects from its members the Mayor, and appoints a City Manager to administer the affairs of the City, as well as a City Attorney and a City Clerk. A listing of the names of officials of the City of Santa Monica and a City organization chart are included in the Introductory Section of this CAFR.

The official responsible for City financial administration is the Director of Finance/City Controller. The Director of Finance/City Controller is appointed by the City Manager and is responsible for establishing and maintaining the general accounting system for the City, and auditing and approving for payment all demands or charges upon the City.

The annual budget preparation process begins in November when staff prepares five-year forecasts of the General and other funds' revenues and expenditures/expenses and presents this information to the City Manager. In January, the City Council holds a public hearing to receive input on budget priorities for the following fiscal year. From February through May, City staff prepares the proposed budget, and provides it to the City Council and the public during May. Early in June, the City Council holds study sessions with staff on the proposed budget. The budget includes proposed expenditures and expenses, the means of financing them, departmental objectives and performance measures. Before the end of June, the Council holds a public hearing and adopts the budget for the following fiscal year beginning on July 1.

In accordance with the City Charter, formal budgetary adoption is employed as a management control device during the year for the general and special revenue fund budgets. In addition, yearly operating budgets are adopted for the City's proprietary, capital projects and internal service funds to facilitate management evaluation. Additional information on the budget can be found in Note 2 in the notes to the basic financial statements.

**Economic Condition of the City and Financial Condition of the General Fund**

**A. Economic Condition**

The City of Santa Monica has a diverse and strong economy. The City's business community is comprised of a diverse collection of businesses ranging from traditional retailers to companies specializing in film post-production and various internet firms. Tourism, health industries, and retail augment the large business service sector. Mainstay firms such as Saint John's and UCLA-Santa Monica Hospitals, Sanford Papermate along with hotels and new car dealerships occupy a more traditional niche as large institutional property owners, sales tax producers, and employers. Major entertainment and multimedia-software industry firms like Sony Music, Apple, Symantec-Peter Norton, and MTV are

among over 200 hi-tech, multimedia, and related entertainment firms of all sizes. These companies relocate to Santa Monica and West Los Angeles because they appreciate the quality of life here. In addition, the cluster of hi-tech and entertainment firms provide a critical mass of support businesses to other similar businesses in the area.

While the City's economy has been adversely impacted by the recent national recession and the events of September 11, 2001, long-term trends are positive. Details concerning the City's economy for a ten-year period are set forth in Management's Discussion and Analysis which is in the Financial Section of this CAFR.

## **B. Condition of the General Fund**

Since September 11, 2001, the City of Santa Monica has experienced declining revenues at a time when the costs of providing services are significantly increasing. Not only are the ongoing costs of providing services to the community increasing, but also costs associated with employee benefits are skyrocketing. For example, workers' compensation, health insurance and retirement costs have all risen during this same time period. The City's management began immediately addressing the budget challenges facing Santa Monica. A budget balancing approach utilizing almost entirely ongoing measures was implemented for FY 2003-04. Even with these balancing measures, it appears that Santa Monica will have several difficult years to recover from this economic downturn. In spite of these budgetary constraints, the City continues to provide extraordinary financial flexibility. Santa Monica continues to maintain adequate reserves for continuing capital projects as well as equipment replacement reserves and a 10% undesignated fund balance for unanticipated events. We believe that projected budget gaps are manageable through FY 2005-06 when the budget again stabilizes. Through continuing conservative financial management practices, Santa Monica looks to the future with great optimism.

## **C. Debt Administration**

As of June 30, 2003, the City's general obligation bond rating was Aaa (Moody's), AAA (Fitch) and AAA (Standard and Poor's). The City's bonded debt applicable to its debt limit consisted of: \$28.4 million of Main Library Improvements Project General Obligation Bonds; \$30.6 in Public Safety Lease Revenue Bonds; \$88.4 million in Downtown Redevelopment Project Lease Revenue Bonds, Earthquake Recovery Redevelopment Project Tax Allocation Bonds and Ocean Park Redevelopment Projects Tax Allocation Refunding Bonds, and \$10.4 million in Parking Authority Lease Revenue Bonds. The City is \$1.37 billion below its debt limit. The calculation of the City's debt limit is detailed in Table 9 of the Statistical Section of this CAFR.

The City has other long-term payment obligations, which are not bonded debt (e.g., lease-purchase agreements and Certificates of Participation obligations). These are detailed in Note 10 of the basic financial statements.

## **D. Cash Management**

In order to maximize interest earnings, the City commingles the cash of all funds except permanent funds, and those funds held in trust for the City by various financial institutions in accordance with applicable trust agreements. This cash is invested in accordance with the City's investment policy, which is annually reviewed and approved by the City Council. Interest revenue derived from commingled cash and investments is allocated to the participating funds on a quarterly basis based on the cash balance of each fund.

## **E. Risk Management**

The City utilizes internal service funds for its self-insurance programs. Four separate funds are

maintained, providing for different types of risks. These are as follows:

- Comprehensive – provides for general liability, property and performance bond coverage required by the City.
- Bus – provides liability coverage for the bus lines operated by the City's Big Blue Bus Department and bus physical damage coverage.
- Automobile – provides for liability, collision and comprehensive coverage for City vehicles.
- Workers' Compensation – provides statutory coverage for all City employees involved in on-the-job injuries/illnesses.

Additional information about the City's Risk Management practices can be found in Note 16 of the notes to the basic financial statements.

#### **F. Pension and Post Employment Benefits**

The City provides its full-time and part-time employees who have worked over 1,000 hours during a fiscal year, and their beneficiaries, retirement and disability benefits through three defined benefit pension plans, one for its fire safety employees, one for its police safety employees and one for its miscellaneous employees. These plans are part of the California Public Employees' Retirement System ("CalPERS"). The City makes contributions to the plans based on amounts determined by CalPERS actuaries. The City also contributes the employees' required contributions on their behalf and for their account. Part-time non-benefited hourly employees participate in a separate defined contribution plan.

In addition to providing pension benefits through CalPERS, the City, in accordance with various Memorandums of Understanding, also provides medical coverage to certain retired employees. The retirees may participate in one of the City's health plans for retirees. The City pays the entire amount on a pay-as-you-go basis through monthly premiums to the various health insurance providers.

Additional information regarding the City's pension and post employment benefits can be found in Note 17 to the basic financial statements.

## **Awards and Acknowledgments**

I am pleased to report that for the nineteenth straight year (fiscal years ended 1984-2002), the Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of State and local government financial reports.

In keeping with past practice, a copy of this CAFR will be placed on file in the City libraries and sent to City management personnel, bond rating agencies, and other agencies (such as financial institutions and governments), which have expressed an interest in the financial affairs of the City. It is also available at [www.santa-monica.org/finance](http://www.santa-monica.org/finance).

To all City staff, especially those in the Finance Department, who have assisted and contributed to the preparation of this Comprehensive Annual Financial Report, I want to take this opportunity to express my appreciation.

Respectfully submitted,

A handwritten signature in black ink that reads "Steve Stark". The signature is written in a cursive, flowing style.

Stephen C. Stark  
Director of Finance/City Controller

## OFFICIALS OF THE CITY OF SANTA MONICA

### City Council

Richard Bloom, Mayor

Kevin McKeown, Mayor Pro Tempore

Michael Feinstein

Ken Genser

Robert Holbrook

Herb Katz

Pam O'Connor

### Administration and Department Heads

City Manager

Assistant City Manager

City Attorney

Director of Records and Election Services

Director of Finance

Director of Human Resources

Chief of Police

Fire Chief

Director of Planning and Community Development

Building Officer

City Librarian

Director of Community and Cultural Services

Director of Transit Services

Director of Resource Management

Director of Environmental and Public Works Mgmt.

Susan E. McCarthy

Gordon Anderson

Marsha Jones Moutrie

Maria M. Stewart

Stephen C. Stark

Karen Bancroft

James T. Butts, Jr.

Ettore A. Berardinelli

Suzanne Frick

Tim McCormick

Winona Allard

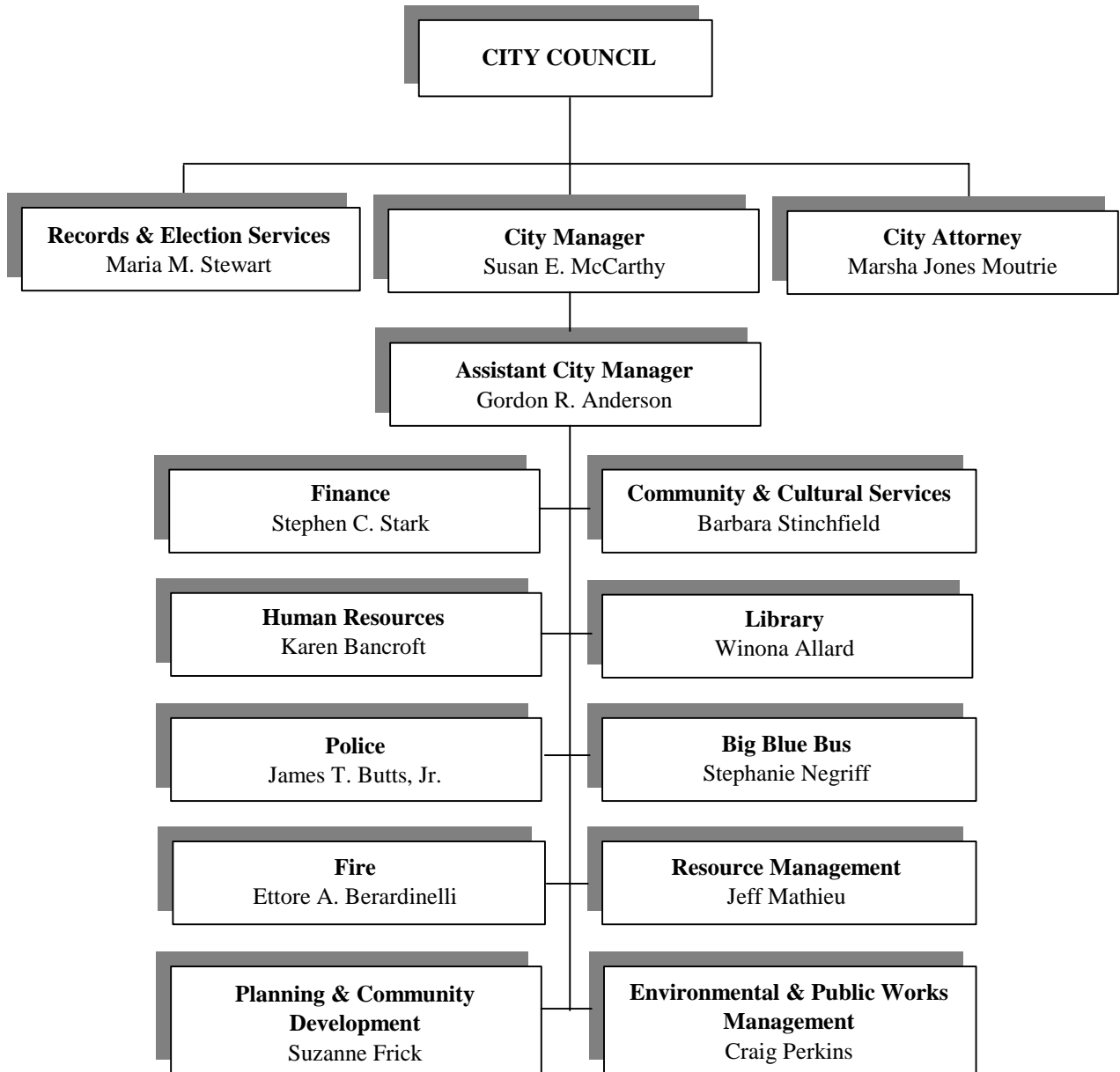
Barbara Stinchfield

Stephanie Negriff

Jeff Mathieu

Craig Perkins

**ORGANIZATION CHART - CITY OF SANTA MONICA**



The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Monica, California for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2002.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. City management believes that the 2003 CAFR conforms to the Certificate of Achievement Program requirements, and it is being submitted to GFOA for review.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Monica,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director