



Information Item

March 1, 2011

To: Mayor and City Council
From: Carol Swindell, Director of Finance/City Treasurer
Subject: Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2010, and Auditors' Communication with Those Charged With Governance

Introduction

This report transmits to Council the City's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2010, and the independent auditor's communication with those charged with governance.

Discussion

The City issues a Comprehensive Annual Financial Report (CAFR) reflecting the City's financial condition and statistical information of general interest about the Santa Monica community.

As required by the City Charter, the City's financial statements embodied in the CAFR are audited annually by independent auditors. The auditors expressed an unqualified (clean) opinion regarding the City's financial statements as of June 30, 2010. The auditors are also required by current auditing standards to communicate with those charged with governance. This communication outlines the auditors' responsibilities, scope and timing of the audit and findings from the audit. This letter is attached. The auditors identified two unrecorded adjustments to the financial statements; neither adjustment has any impact on the city's financial condition as of June 30, 2010.

The City recently terminated its professional services agreement with Mayer Hoffman McCann, PC, which was approved by Council for a five-year term on April 8, 2008. On January 13, 2011, the City issued a request for proposals for audit services for a five-

year term beginning with the audit for the fiscal year ending June 30, 2011. Proposals by interested auditing services firms were due to the City Monday, February 14, 2011. A Selection Committee of staff from the City Manager's Office, Housing and Economic Development, Community and Cultural Services, Big Blue Bus and Finance will be returning to Council for approval to negotiate and execute a professional services agreement in April 2011.

Financial Highlights

The net assets of the City (total assets less total liabilities) decreased by \$5.5 million during the fiscal year and remain at \$1.54 billion at June 30, 2010. Revenue exceeded expenditures by \$7.9 million for the fiscal year ended June 30, 2010.

A summary overview and analysis of the City's financial activities for the fiscal year ended June 30, 2010, can be found in the CAFR in the form of "Management's Discussion and Analysis." This discussion and analysis complements a "Letter of Transmittal" and should be read in conjunction with it.

Summary

A copy of the City's CAFR for the Fiscal Year Ended June 30, 2010, and the Auditor's Communication with Those Charged with Governance are attached to this information item. The CAFR can also be accessed online at http://www.smgov.net/finance/financial_operations/index.htm.

Attachments: Comprehensive Annual Financial Report
Auditor's Communication with Those Charged with Governance



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To the Members of City Council
City of Santa Monica, 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 Santa Monica ("City") for the year ended June 30, 2010, and have issued our report thereon dated December 28, 2010. 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
OMB Circular A-133***

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight 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. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement" that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. 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.

Planned Scope and Timing of the Audit

Audit fieldwork was substantially completed by November 2010. We performed the audit according to the planned scope and timing previously communicated in a letter about planning matters dated February 25, 2010.



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Significant Audit Findings

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 to the financial statements, the City increased its capitalization threshold. Accordingly, there is no cumulative effect on the beginning fund balance being reported in the financial statements. We noted no transactions entered into by the governmental unit 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. We evaluated the key factors and assumptions used to develop the estimates described below in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of the allowance for doubtful accounts of receivables over 90 days past due.
- Management's estimate of depreciation expense is based on the straight-line method over the assets estimated useful lives.
- Management's estimate of the Postemployment Benefits Other than Pensions ("OPEB") liability is based on the actuarial calculation performed on July 1, 2009.
- Management's estimate of unbilled utility receivable is based on the average of the past three years of utility revenues.

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. The following adjustments are 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.

- Difference in the General Fund and the Miscellaneous Grant Fund of \$401,689 and \$83,196, respectively, was due to receivables collected prior to June 30, 2010 which were not reduced when the cash was received, accordingly cash was understated and receivables were overstated.
- Difference in the AQMD Fund was an overstatement of expenses in the amount of \$7,000, which was due to an expense recorded in the current fiscal year but incurred in a prior fiscal year.

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 December 28, 2010.

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.

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLeann PC

Irvine, California
December 28, 2010