

Attachment B

Mayer Hoffman and McCann P.C.

Independent Auditor's Report

Fiscal Year 2009-2010

**THE REDEVELOPMENT AGENCY
OF THE CITY OF SANTA MONICA, CALIFORNIA**
(A Component Unit of the City of Santa Monica, California)

Basic Financial Statements

Year Ended June 30, 2010

(With Independent Auditors' Reports Thereon)

**THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA, CALIFORNIA
 BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010**

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

The Board Members of
The Redevelopment Agency of the
City of Santa Monica, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Santa Monica, California (the Agency), a financial reporting component unit of the City of Santa Monica, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the City of Santa Monica, California, as of June 30, 2010 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010 on our consideration of the Redevelopment Agency of the City of Santa Monica's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 1, 2010

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Management's Discussion and Analysis
Year Ended June 30, 2010**

As management of the Redevelopment Agency of the City of Santa Monica, (the "Agency"), we offer readers of the Agency's report this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Agency's basic financial statements, which immediately follow this section.

Financial Highlights

The total assets of the Agency exceeded its liabilities as of June 30, 2010 ("fiscal year") by \$156.2 million. Of this amount, \$81.3 million are capital assets, net of related debt, \$22.2 million is restricted for use as specified by entities outside the agency, \$6.3 million is restricted for the payment of debt service and \$46.4 million is unrestricted for use in accordance with finance-related requirements reflected in the Agency's fund structure.

The Agency's net assets decreased by \$8.9 million during the fiscal year.

At the end of the fiscal year, the Agency's governmental funds reported combined ending fund balances of \$128.7 million, an increase of \$8.2 million from the prior year.

The Agency's investment in capital assets decreased by \$9.0 million. Please see further detail of capital assets on page 7.

The Agency's total debt increased by \$9.6 million during the current fiscal year. Please see further detail of long-term debt on page 28.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements consist of three components:

- 1) Agency-wide financial statements
- 2) Fund financial statements
- 3) Notes to basic financial statements.

Agency-Wide Financial Statements

The *agency-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances in a manner similar to the accounting used by most private-sector business.

The *statement of net assets* presents all of the Agency's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

Both of the agency-wide financial statements highlight functions of the Agency that are principally supported by property tax increment and bond proceeds. The governmental activities of the Agency include redevelopment activities and interest on long-term debt. Redevelopment activities, in general, include providing needed public improvements, assisting with development and rehabilitation of existing properties, and providing low and moderate-income housing to eliminate or alleviate blighting conditions.

The agency-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

Fund financial statements are designed to report information about related accounts, which are groupings (funds), used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related-legal requirements. All funds of the Agency are categorized as governmental funds.

Government funds are used to account for essentially the same functions reported as *governmental activities* in the agency-wide financial statements. However, unlike the agency-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available to finance the Agency's redevelopment programs.

Because the focus of governmental funds is narrower than that of the agency-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the agency-wide financial statements. By doing so, readers may better understand the long-term impact of the agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the agency-wide financial statements on pages 12 and 14 to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances, for each of these funds.

The governmental funds financial statements can be found on pages 11 and 13 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 – 32 of this report.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

Agency-Wide Financial Analysis

Our agency-wide analysis focuses on the net assets and changes in net assets for the Agency's governmental activities.

A summary of the Agency's net assets are as follows:

**Agency Net Assets - Governmental Activities
(in millions)**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Current and other assets	\$ 138.2	128.6	9.6
Capital assets, net	<u>150.7</u>	<u>159.7</u>	<u>(9.0)</u>
Total assets	<u><u>288.9</u></u>	<u><u>288.3</u></u>	<u><u>0.6</u></u>
Current and other liabilities	45.4	41.1	4.3
Long-term liabilities	<u>87.3</u>	<u>82.0</u>	<u>5.3</u>
Total liabilities	<u><u>132.7</u></u>	<u><u>123.1</u></u>	<u><u>9.6</u></u>
Net assets			
Invested in capital assets, net of related debt	81.3	89.2	(7.9)
Restricted	28.5	51.6	(23.1)
Unrestricted	<u>46.4</u>	<u>24.3</u>	<u>22.1</u>
Total net assets	<u><u>\$ 156.2</u></u>	<u><u>165.1</u></u>	<u><u>(8.9)</u></u>

As noted earlier, net assets may serve over time as a useful indicator of the Agency's financial position. In the case of the Agency, assets exceeded liabilities by \$156.2 million at the close of the most recent fiscal year. By far the largest portion of the Agency's liabilities reflects its bonded and other indebtedness, totaling \$122.9 million. The Agency, operating under California Redevelopment Law, must maintain indebtedness in excess of its available revenues to legally receive property tax increment revenue.

Capital assets decreased by \$9.0 million primarily due to the disposal of previously constructed assets that did not meet the Agency's capitalization policy.

The increase in current and long-term liabilities was due to line of credit draws partially offset by debt service payments.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

Governmental Activities

Governmental activities decreased the Agency's net assets by \$7.9 million. Key elements of this decrease are as follows:

**Agency Changes in Net Assets - Governmental Activities
(in millions)**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues			
Program revenues			
Charges for services	\$ 0.1	0.1	0.0
General revenues			
Property tax increment	56.1	54.3	1.8
Investment income	1.2	2.9	(1.7)
Miscellaneous	0.8	0.5	0.3
Total revenues	<u>58.2</u>	<u>57.8</u>	<u>0.4</u>
Expenses			
Housing and community development	40.0	36.2	3.8
General governmental	20.9	-	20.9
Interest on long-term debt	6.2	4.3	1.9
Total expenses	<u>67.1</u>	<u>40.5</u>	<u>26.6</u>
Increase in net assets	(8.9)	17.3	(26.2)
Net assets - beginning of year	<u>165.1</u>	<u>147.8</u>	<u>17.3</u>
Net assets - end of year	<u>\$ 156.2</u>	<u>165.1</u>	<u>(8.9)</u>

Property tax increment revenues net of pass throughs of \$56.1 million are the Agency's major source of revenue. This revenue increased by \$1.8 million or 3.3% from the prior year due to property tax increment revenues from an increase in assessed values.

General Government expenses of \$20.9 million represents a mandatory payment under AB 26 4x which requires redevelopment agencies to remit to their county Supplemental Education Revenue Augmentation Fund ("SERAF") a proportionate share of \$1.7 billion for fiscal year 2009-10 and \$350 million for fiscal year 2010-11. Those payments are due May 10, 2010 and May 10, 2011, respectively. The Agency estimates the payment for FY 10-11 to be \$4.3 million.

Investment earnings of \$1.2 million were received from investments of available funds.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

Redevelopment activities expenses of \$40.0 million shown on the statement of activities consists of:

Agency Redevelopment Activities	
(in millions)	
Redevelopment and public improvement project operating costs	\$ 4.9
Redevelopment and public improvement project costs	22.9
Low and moderate housing projects	10.0
Depreciation and amortization	<u>2.2</u>
Total redevelopment activities expenses	<u>\$ 40.0</u>

Redevelopment and public improvement project operating costs of \$4.9 million are comprised of operating expenses such as administrative fees charged by the County for collection and disbursement of property tax increment, operating transfers to the City of Santa Monica General Fund, payment to the General Fund in accordance with a reimbursement agreement in conjunction with each project area, lease payment for the Ocean Park Boulevard Housing Project and administrative indirect costs.

Redevelopment and public improvement costs of \$22.9 million represents payments of \$3.7 million to the Parking Authority of the City of Santa Monica under a sale/purchase agreement for six parking structures. See note 5. Additional expenses included \$1.0 million in seismic retrofit expenditures, \$0.8 million for stabilization of the Palisades Bluffs, \$0.5 million for artwork and write off of \$11.3 million in previously recorded capital assets which did not meet the Agency's capitalization policy.

Low and moderate housing project expenditures of \$10.0 million are primarily comprised of \$2.7 million expended at 217 Bicknell, \$1.8 million expended at 2029 20th St, \$0.7 million at 1513 Centinela, \$0.6 million at 2602 Broadway and \$1.0 million at 750 Marine.

Financial Analysis of the Agency's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2010, the Agency's governmental funds reported total ending fund balances of \$128.7 million, which is an increase of \$8.2 million from the prior year. The fund balance of \$45.5 million is reserved to indicate that it is not available for new spending. It is comprised of \$6.3 million for debt service and \$39.2 million for notes receivable. The fund balance of \$79.4 million is designated for continuing capital projects. The remainder of the fund balance, \$3.8 million, is unreserved, undesignated.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

The key element of the \$8.2 million increase in fund balance from the prior year was proceeds from the line of credit.

Major Funds

The Low/Mod housing fund balance increased by \$11.9 million primarily due to property tax increment revenues and reduced housing and community expenditures.

The Downtown Project fund balance decreased \$0.6 million primarily due to increased property tax increment revenues being exceeded by housing and community expenditures.

The Earthquake Recovery Project fund balance decreased \$4.0 million primarily due to increased pass through and SERAF payments to other agencies of \$20.8 million over the prior year, offset by an increase in property tax increment of \$1.6 million, decreased project expenses of \$11.8 million and.

The Ocean Park Project fund balance increased \$0.7 million due to decreased project expenditures.

Capital Asset and Debt Administration

Capital Assets

The Agency's investment in capital assets for its governmental activities as of June 30, 2010 amounts to \$150.7 million (net of accumulated depreciation). This investment in capital assets includes parking structures, buildings, land, and equipment. This investment is detailed below:

**Agency Capital Assets - Governmental Activities
(in millions)**

		<u>2010</u>		<u>2009</u>
Land	\$	104.0		103.8
Buildings, parking structures, and improvements		43.5		58.6
Improvements other than buildings		11.0		10.8
Construction in progress		11.0		5.9
Subtotal		<u>169.5</u>		<u>179.1</u>
Less accumulated depreciation		<u>(18.8)</u>		<u>(19.4)</u>
Total	\$	<u><u>150.7</u></u>		<u><u>159.7</u></u>

Significant capital projects included expenditures at various low/moderate income housing projects.

Long-Term Debt

At the end of the current fiscal year, the Agency had total bonded debt of \$66.7 million. The bonds are secured solely by specified revenue sources.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

Management's Discussion and Analysis, (continued)

The Agency's total debt increased by \$5.3 million or 6.5% during the current fiscal year. The increase was primarily due to draws on the Low/Mod fund of \$8.0 million offset by scheduled debt service payments on the Earthquake Recovery Project and Ocean Park Redevelopment Project outstanding obligations.

Time limitations on incurring debt are as follows:

<u>Project area</u>	<u>Time limitation to incur debt</u>
Ocean Park 1A	January 1, 2004
Ocean Park 1B	January 1, 2004
Downtown	None
Earthquake Recovery	June 21, 2014

The Agency does not have an overall credit rating; however, the Agency has received bond ratings on all of its outstanding bond issues as follows: Ocean Park Redevelopment Project Tax Allocation Bonds, "BBB+," "Baal" and "A;" and Earthquake Recovery Redevelopment Refunding Project Tax Allocation Bonds, "AAA", "AAA" and "Aaa."

Additional information on outstanding long-term liabilities may be found in note 6 of the notes to basic financial statements.

Economic Factors and Next Year's Budget

The assessed value of property is estimated to rise in the Downtown Redevelopment Project Area as a result of standard minimum increases and the reopening of Santa Monica Place; decrease in assessed value in the Earthquake Redevelopment Project area and in the Ocean Park Project area as a result of general declines in the real estate market.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Santa Monica Redevelopment Agency, 1717 4th Street, Suite 250, Santa Monica, California 90401 or (310) 458-8281. Additional financial data may also be found on the City of Santa Monica's website (www.smgov.net).

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

Statement of Net Assets

June 30, 2010

Assets:		
Cash and investments (note 2)	\$	87,850,856
Cash and investments with fiscal agents (note 2)		6,983,601
Interest receivable		378,053
Property tax increment receivable		2,452,396
Unamortized bond issuance costs, net		1,368,709
Notes receivable (note 3)		39,211,151
Capital assets, not being depreciated (note 4):		
Land		104,029,364
Construction in progress		10,969,830
Capital assets, being depreciated net of accumulated depreciation (note 4):		
Buildings		33,817,998
Improvements other than buildings		1,863,303
Total assets		<u>288,925,261</u>
Liabilities:		
Accounts payable and other liabilities		3,043,340
Accrued interest payable on bonds		1,627,077
Contracts retainage payable		456,824
Accrued expenses		3,041
Due to other agencies		4,653,297
Noncurrent liabilities (note 6):		
Due within one year		35,705,259
Due in more than one year		87,258,989
Total liabilities		<u>132,747,827</u>
Net assets:		
Invested in capital assets, net of related debt		81,301,461
Restricted:		
Low- and moderate-income housing		22,205,781
Debt service		6,315,429
Unrestricted		46,354,763
Total net assets	\$	<u>156,177,434</u>

See accompanying notes to basic financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

Statement of Activities
Year Ended June 30, 2010

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (expense) revenue and changes in net assets Total</u>
Functions/programs:					
Governmental activities:					
Housing and community development	\$ 40,040,568	112,252	—	—	(39,928,316)
General government	20,883,384	—	—	—	(20,883,384)
Interest on long-term debt	6,245,683	—	—	—	(6,245,683)
Total governmental activities	<u>67,169,635</u>	<u>112,252</u>	<u>—</u>	<u>—</u>	<u>(67,057,383)</u>
General revenues:					
Property tax increment					56,054,448
Investment income					1,209,126
Miscellaneous					835,905
Total general revenues					<u>58,099,479</u>
Change in net assets					(8,957,904)
Net assets – beginning of year					<u>165,135,338</u>
Net assets – end of year					<u>\$ 156,177,434</u>

See accompanying notes to basic financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

Balance Sheet - Governmental Funds

June 30, 2010

Assets	Capital Projects						Total governmental funds
	Debt Service Redevelopment	Low/Mod Housing	Downtown Redevelopment Project	Earthquake Recovery Redevelopment Project	Ocean Park Redevelopment Project		
Cash and investments	\$ -	23,333,341	2,179,582	57,188,376	5,149,557		87,850,856
Cash and investments with fiscal agents	6,315,429	113,985	-	-	554,187		6,983,601
Interest receivable	-	77,051	12,003	263,824	25,175		378,053
Property tax increment receivable	-	885,484	105,583	1,417,364	43,965		2,452,396
Notes receivable	-	34,175,756	1,923,000	716,669	2,395,726		39,211,151
Total assets	\$ 6,315,429	58,585,617	4,220,168	59,586,233	8,168,610		136,876,057
Liabilities and Fund Balances							
Liabilities:	\$ -	1,241,545	122,773	1,555,903	123,119		3,043,340
Accounts payable and accrued liabilities	-	-	22,994	433,830	-		456,824
Contracts retainage payable	-	-	-	3,041	-		3,041
Accrued liabilities	-	-	-	4,653,297	-		4,653,297
Due to other agencies	-	-	-	-	-		-
Total liabilities	-	1,241,545	145,767	6,646,071	123,119		8,156,502
Fund balances:							
Reserved for debt service	6,315,429	-	-	-	-		6,315,429
Reserved for notes receivable	-	34,175,756	1,923,000	716,669	2,395,726		39,211,151
Reserved for other assets	-	962,535	117,586	1,681,188	69,140		2,830,449
Designated for continuing capital projects	-	22,205,781	1,320,398	50,542,305	5,338,697		79,407,181
Unreserved, undesignated - capital projects funds	-	-	713,417	-	241,928		955,345
Total fund balances	6,315,429	57,344,072	4,074,401	52,940,162	8,045,491		128,719,555
Total liabilities and fund balances	\$ 6,315,429	58,585,617	4,220,168	59,586,233	8,168,610		136,876,057

See accompanying notes to basic financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2010

Total fund balances-governmental funds		\$ 128,719,555
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities that are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		169,457,709
(Accumulated depreciation		(18,777,214)
 Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		
Deferred charges net of accumulated amortization		1,368,709
 Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:		
Tax allocation bonds, net	\$ (66,727,384)	
Advances from the City of Santa Monica	<u>(32,765,259)</u>	(99,492,643)
 Line of credit liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds.		(23,471,605)
 Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.		(1,627,077)
 Net assets of governmental activities		\$ <u>156,177,434</u>

See accompanying notes to basic financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2010

	Capital Projects					
	Debt Service Redevelopment	Project Low/Mod Housing	Downtown Redevelopment Project	Earthquake Recovery Redevelopment Project	Ocean Park Redevelopment Project	Total governmental funds
Revenues:						
Property tax increment	-	14,705,347	982,650	54,614,858	3,223,882	73,526,737
Investment income	97,305	340,944	45,409	621,624	103,844	1,209,126
Rental income	-	-	-	112,251	-	112,251
Other	-	288,901	73,497	438,830	34,677	835,905
Total revenues	97,305	15,335,192	1,101,556	55,787,563	3,362,403	75,884,019
Expenditures:						
Current:						
Housing and community development	-	9,969,180	1,652,346	17,819,793	1,305,194	30,746,513
Passthrough payments	-	-	-	17,472,286	-	17,472,286
SERAF payment	-	-	-	20,883,384	-	20,883,384
Debt service:						
Principal	2,800,000	-	-	-	-	2,800,000
Interest and others charges	3,324,305	248,484	365,244	2,229,567	150,785	6,318,385
Total expenditures	6,124,305	10,217,664	2,017,590	58,405,030	1,455,979	78,220,568
Excess (deficiency) of revenues over (under) expenditures	(6,027,000)	5,117,528	(916,034)	(2,617,467)	1,906,424	(2,536,549)
Other financing sources (uses):						
Proceeds of advances	-	-	365,244	2,229,567	150,785	2,745,596
Transfers in (note 7)	6,096,843	-	-	-	-	6,096,843
Transfers out (note 7)	-	(1,151,490)	-	(3,609,952)	(1,335,401)	(6,096,843)
Proceeds from line of credit draws	-	7,986,281	-	-	-	7,986,281
Total other financing sources (uses)	6,096,843	6,834,791	365,244	(1,380,385)	(1,184,616)	10,731,877
Net change in fund balances	69,843	11,952,319	(550,790)	(3,997,852)	721,808	8,195,328
Fund balance:						
Beginning of year	6,245,586	45,391,753	4,625,191	56,938,014	7,323,683	120,524,227
End of year	\$ 6,315,429	\$ 57,344,072	\$ 4,074,401	\$ 52,940,162	\$ 8,045,491	\$ 128,719,555

See accompanying notes to basic financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities

Year Ended June 30, 2010

Net change in fund balance – governmental funds \$ 8,195,328

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. The components of capital outlay related costs not reported in the statement of activities for the current period are as follows:

Costs capitalized related to accumulated redevelopment project costs	\$ 7,009,400	
Loss on disposal of assets	(13,905,226)	
Depreciation expense	<u>(2,126,744)</u>	(9,022,570)

Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding debt for the purposes of the statement of activities. Current year amortization. (90,026)

Repayment of long-term debt principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Agency's long-term debt was reduced because principal payments were made to bondholders:

Tax allocation bonds 2,800,000

Draws on the line of credit are reported as other sources in the governmental funds. However the draws increase liabilities in the statement of net assets and do not result in revenue in the statement of activities (7,986,281)

Advances and repayment of advances are reported as a revenues and expenditures in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, advances and repayment of advances increase/reduce the liabilities in the statement of net assets and do not result in income/expense in the statement of activities. The Agency's advances were increased/reduced because of the net advances/payments made to the note holder:

Advances from the City of Santa Monica (2,745,596)

Accrued interest expense on long-term debt is reported in the statement of activities but does not require the use of current financial resources. Amortization of bond premiums, discounts and deferred amounts on refunding are expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds.

Decrease in accrued interest expense	70,155	
Amortization of bond premium/discount	2,546	
Amortization of deferred amounts upon refunding	<u>(181,460)</u>	(108,759)

Change in net assets of governmental activities \$ (8,957,904)

See accompanying notes to basic financial statements.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

(1) Summary of Significant Accounting Policies

The basic financial statements of the Redevelopment Agency of the City of Santa Monica ("Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles of the Agency are described below:

(a) General

The Agency was established by the Santa Monica City Council in 1957 pursuant to the Community Redevelopment Law of California as codified in the State of California Health and Safety Code. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a "Redevelopment Project Area".

The Agency generally finances redevelopment projects through the issuance of tax allocation bonds. These bonds are payable from the incremental portion of property taxes collected within a project area relating to an increase in assessed valuation resulting from redevelopment. The County of Los Angeles ("the County") collects these incremental tax revenues on behalf of the Agency.

The Agency has four project areas: the Downtown Redevelopment Project Area, the Earthquake Recovery Redevelopment Project Area and the Ocean Park Redevelopment Project Areas 1A and 1B.

Downtown Redevelopment Project

The City Council adopted the Redevelopment Plan for the Downtown Redevelopment Project on January 13, 1976. The Downtown Redevelopment Project encompasses 9.9 acres of property located in the downtown core of Santa Monica bounded by Broadway to the north, 4th Street to the east, Colorado Avenue to the south, and 2nd Street to the west. The project consists of Santa Monica Place, a large retail center that is owned and operated by the Macerich Company. The project also includes two Agency-owned parking structures that provide 1,843 parking spaces. Santa Monica Place underwent a substantial remodel that began in 2008, and the center re-opened in August 2010. The Agency made significant improvements to Parking Structures 7 & 8, which re-opened in conjunction with the mall in the summer of 2010. Improvements included renovating the façades, converting the structures to full-day attendant parking, installing parking controls, and other related capital improvements.

Earthquake Recovery Redevelopment Project

The City Council adopted the Redevelopment Plan for the Earthquake Recovery Project on June 21, 1994. The project is 2.9 square miles bounded to the east by Cloverfield Boulevard and 26th Street, to the west by Pacific Coast Highway/Beach Promenade, to the south

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

generally by Pico Boulevard, and to the north by Montana Avenue and includes structures predominantly damaged in the January 1994 Northridge earthquake. Approximately 90% of all red tagged and 60% of all yellow tagged buildings in the City were in the project area. To date the Earthquake Recovery Project has funded disaster prevention and mitigation, commercial revitalization, community revitalization and institutional projects.

Ocean Park Redevelopment Project Areas

The Ocean Park Redevelopment Project areas are Ocean Park Redevelopment Project 1A and Ocean Park Redevelopment Project Area 1B.

The City Council adopted the Redevelopment Plan for the Ocean Park Redevelopment Project 1A on June 30, 1960. The Redevelopment Plan was amended on November 14, 1967, primarily to change the permitted land uses in the project area. The project area is 25 acres bounded by Ocean Park Boulevard to the north, Nielson Way to the east, Ocean Park Project 1B to the south and the State beach parking lots and the beach itself to the west. Phase one of the project was completed in 1980 and phase two was completed in 1987. The project contains two 17-story, 250 rental unit high-rise buildings known as Santa Monica Shores and is surrounded by the Sea Colony condominium project, which contains 340 condominium units. Ocean View Park is also contained in the project area.

The City Council adopted the Redevelopment plan for the Ocean Park Redevelopment Project Area 1B on January 24, 1961, with subsequent amendments on January 26, 1965, July 13, 1971, and again on September 12, 1972, which were implemented in order to change the permitted land uses within the project area. The project area consists of 8 acres bounded by Ocean Park Redevelopment project 1A to the north, Nielson Way to the east, the City limit to the south and both the State beach parking lots and the beach itself to the west. The project was completed in 1983.

Currently the project has two senior citizen residential apartment complexes, Nielson Villas and Barnard Park Villas, which contain 100 and 61 rental units respectively. A former utility building within the project was adapted to offices and art storage for the Eli Broad Trust Art Foundation.

Project Area Time Limits

For the Ocean Park Redevelopment project areas, agency indebtedness must have been incurred by January 1, 2004. Additionally, plan activities for the project area are to cease by January 1, 2012. The time limit for receiving property tax increment and paying off debt for the project area is January 1, 2022. The time limit for incurring agency indebtedness for the Downtown Redevelopment project was eliminated by ordinance on January 13, 2004. Plan activities for the project area are to cease by January 13, 2019 and the time limit for receiving property tax increment and paying off debt for the project area is January 13, 2029.

For the Earthquake Recovery Plan Project Area, indebtedness must be incurred by June 21, 2014. The plan activities for the project area are to cease by June 21, 2027 and the time limit for receiving property tax increment and paying off debt is June 21, 2042.

**REDEVELOPMENT AGENCY OF
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**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Local funds are provided principally from property tax increment and rentals for parking facilities.

(b) Reporting Entity

Under GASB No. 14, *The Financial Reporting Entity*, the Agency is considered a component unit of the City of Santa Monica since the Agency Board consists exclusively of the Mayor and the seven members of the City Council. Consequently, the Agency's financial statements are blended in the City's basic financial statements.

(c) Basis of Accounting and Measurement Focus

The basic financial statements of the Agency are composed of the following:

- Agency-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Agency-Wide Financial Statements

Agency-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) display information about the Agency as a whole. All significant interfund activity has been eliminated in the Statement of Activities. The Agency provides only governmental activities which are supported principally by property tax increment revenue. Agency-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax increment revenue is recognized in the year for which it is levied.

Amounts paid to acquire capital assets are capitalized as assets in the agency-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the agency-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

In the Agency-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt: This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributions or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Unrestricted Net Assets: Represents the net assets of the Agency, not restricted for any project or other purpose.

Fund Financial Statements

The accounting system of the Agency is organized and operated on the basis of separate funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting is defined as the basis of accounting under which expenditures, other than accrued interest on long-term debt, are recorded at the time liabilities are incurred. Revenues are recorded when received in cash, except for measurable and available revenues, which are defined as available to finance current period expenditures and are accrued to properly reflect the revenues earned. Revenues which are susceptible to accrual include property tax increment, interest income, and rental income.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. Generally, only current assets, and current liabilities are included on the balance sheets. However, non-current portions of long-term receivables related to governmental funds are also reported on their balance sheets and are offset by deferred revenue or fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

(d) Major Funds

The Agency considers all of its funds as major governmental funds. They are:

The Capital Projects Funds are as follows: Low/Mod Housing, Downtown Redevelopment, Earthquake Recovery Redevelopment and Ocean Park Project Areas. The Capital Projects Funds are used to account for bond proceeds available for project improvements, interest income on invested funds, property tax increment revenues and certain other income.

The Redevelopment Debt Service Fund is used primarily to account for repayment of principal and interest on long-term indebtedness of the Agency.

(e) Investments

Investments are stated at fair value and generally consist of federal government-backed securities.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

In order to maximize investment return, the Agency pools its available cash except for cash required to be held by outside fiscal agents under the provisions of bond indentures. All investment decisions are made by the City Director of Finance based on the Agency's investment policy or controlling bond indentures.

Interest income, realized gains and losses and changes in fair value of investments arising from such pooled cash and investments are apportioned to each participating Agency fund based on the relationship of such fund's respective cash balances to aggregate pooled cash and investments. Interest income, realized gains and losses and changes in fair value of investments arising from cash and investments held by outside fiscal agents under the provisions of bond indentures is credited directly to the related fund.

The Agency's investments are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year may have been recognized as an increase or decrease in fair value of investments reported in the prior year.

(f) Long-Term Liabilities

In the Agency-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(g) Property Tax Increment Revenues

Property tax increment is considered as project revenue by the Agency when it becomes both measurable and available for financing the Agency's redevelopment activities during the year. Property tax increment is considered available if received within 60 days following year-end in accordance with generally accepted accounting principles.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Property tax increment revenues represent property taxes collected from the excess of taxes levied and collected each year on any redevelopment project over that amount which would have been levied and collected on the base year property tax assessment. A property tax base year is determined to be the year prior to the establishment of a redevelopment project area.

(h) *Low and Moderate Income Housing*

Under requirements of the State of California Health and Safety Code, the Agency is required to set aside 20% of property tax increment revenues for use in housing projects benefiting low- and moderate-income households. At June 30, 2010, the net cumulative unspent low- and moderate-income housing set aside funds have been obligated by the Agency and are included in the Low and Moderate Income Capital Projects Fund for 20% set aside.

(i) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

(j) *Capital Assets*

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset are defined by the Agency as assets with an initial cost in excess of \$50,000 and an estimated life in excess of five years and buildings, parking structures and improvements other than buildings with an initial cost in excess of \$100,000 and an estimated useful life of twenty years or more.

Capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building, parking structures and improvements	20 to 50
Improvements other than buildings	20 to 30
Machinery and equipment	5

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

(2) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 87,850,856
Cash and investments with fiscal agent	<u>6,983,601</u>
 Total cash and investments	 \$ <u>94,834,457</u>

Equity in the cash and investment pool of the City of Santa Monica

The Agency has no separate bank accounts or investments other than investments held by bond trustee and the Agency's equity in the cash and investment pool managed by the City. The Agency is a voluntary participant in that pool. The pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City's City Council. The Agency has not adopted an investment policy separate from that of the City. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on accounting records maintained by the City, which are recorded on an original cost basis. Detailed information concerning the City's pooled cash and investments, including interest rate risk, credit risk, and concentration of credit is addressed in the City's Comprehensive Annual Financial Reports for the year ended June 30, 2010.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Unsecured Certificates of Deposit	180 days	None	None
Banker's Acceptances	180 days	None	None
State Obligations	None	None	None
Repurchase Agreements	1 year	None	None
Pre-refunded Municipal Obligations	None	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	None	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investments by maturity.

Information about the sensitivity of the fair values of the Agency's investments held by bond trustee to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity. For purposes of this schedule, callable securities are assumed to be held to maturity:

Investment Type		Remaining Maturity (in Months)			
		12 Months or less	13 to 24 Months	25-60 Months	More than 60 Months
City Investment Pool	\$	87,850,856			
Held by bond trustee:					
Money market funds		5,235,249	-	-	-
U.S. agency securities		1,748,352	-	-	-
Total	\$	94,834,457	-	-	-

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of yearend for each investment type.

Investment Type	Total	Minimum Legal Rating	AAA
City investment pool	\$ 87,850,856	N/A	87,850,856
Held by bond trustee:			
Money market funds	5,235,249	AA	5,235,249
U.S. agency securities	<u>1,748,352</u>	N/A	<u>1,748,352</u>
Total	<u>\$ 94,834,457</u>		<u>94,834,457</u>

Concentration of Credit Risk

No investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) represents 5% or more of total investments by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, nonmajor funds in the aggregate, etc.).

Custodial Credit Risk

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

(3) Notes Receivable

	<u>Balance at June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>
Redevelopment Activities				
Community Corporation of Santa Monica (a)	\$ 2,900,000	-	-	2,900,000
Community Corporation of Santa Monica (b)	5,408,033	-	-	5,408,033
Step Up on Fifth L.P. (c)	5,870,000	-	-	5,870,000
Low income senior housing (d)	46,250	-	-	46,250
Community Corporation of Santa Monica (e)	4,234,507	-	-	4,234,507
Santa Monica Housing Partners, Ltd. (f)	5,122,218	85,096	-	5,207,314
Community Corporation of Santa Monica (g)	5,226,343	448,246	-	5,674,589
Community Corporation of Santa Monica (h)	2,044,914	179,922	-	2,224,836
Community Corporation of Santa Monica (i)	3,665,855	413,457	-	4,079,312
FAME Santa Senior Apts (j)	3,120,000	446,310	-	3,566,310
Total notes receivable	<u>\$ 37,638,120</u>	<u>1,573,031</u>	<u>-</u>	<u>39,211,151</u>

- a. A promissory note dated January 28, 2003, in the amount of \$1,382,619 was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 1512 Fifteenth Street. This loan was for the acquisition of land and predevelopment expenses for future low/moderate income housing. This was a non-interest bearing loan with the principal amount due and payable after a two-year deferral period. On October 26, 2004 the note was superseded and replaced by a new promissory note secured by a deed of trust. The new note increased the amount of the note to \$2,900,000, changed the due date of the note to 55 years from the later of the date the project is placed into service per Internal Revenue Service Form 8609 or the issuance of a certificate of occupancy, and changed the interest rate to 3%. At June 30, 2010, \$2,900,000 had been disbursed to the borrower.
- b. A promissory note dated March 18, 2003, in the amount of \$2,714,033 was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 2601 – 2615 Santa Monica Blvd which is more commonly known as 1349 26th Street. This loan is for the acquisition of land and predevelopment expenses for a 40-unit income housing development. This was a non-interest bearing loan with the principal amount due and payable after a two-year deferral period. On October 26, 2004 the note was superseded and replaced by a new promissory note secured by a deed of trust. The new note increased the amount of the note to \$4,458,033, changed the due date of the note to 55 years from the later of the date

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

the project is placed into service per Internal Revenue Service Form 8609 or the issuance of a certificate of occupancy, and changed the interest rate to 3%. At June 30, 2010, \$4,458,033 had been disbursed to the borrower. A note dated June 12, 2007, was executed in the amount of \$950,000 bearing interest at 3% due 55 years from the later of the date the project is placed into service per Internal Revenue Service Form 8609 or the issuance of a certificate of occupancy. At June 30, 2010, \$950,000 had been disbursed to the borrower. The Earthquake Recovery Redevelopment Project, the Downtown Redevelopment Project and the Ocean Park Redevelopment Project provided \$1,621,500, \$903,405 and \$2,883,128 respectively.

- c. A promissory note dated December 17, 2004, in the amount of \$1,985,000 was executed with Step Up on Fifth, L.P. for an Affordable Housing Project located at 1548 Fifth Street. This loan is for the acquisition and predevelopment expenses of a surface parking lot where Step Up will build up to 46 new rental units for very low income mentally disabled persons. This is a non-interest bearing loan with the principal amount due and payable after a two-year deferral period. On February 13, 2007, the note was superseded by a new promissory note secured by a deed of trust. The new note increased the amount to \$5,870,000. At June 30, 2010, \$5,870,000 had been disbursed to the borrower.
- d. The Redevelopment Housing Trust Fund, formerly known as "CHARP" provides funds to eligible borrowers in the form of deferred payment loans to make up the financial gap between available non-program resources, including the borrower's equity and private financing, and the limited equity cooperatives. At June 30, 2010, loans totaling \$46,250 are outstanding.
- e. A promissory note dated January 30, 2006, in the amount of \$1,497,714 was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 2411-2423 Centinela Avenue. This loan is for the acquisition and predevelopment expenses to construct 36 new rental units for very low income and low income persons. This is a non-interest bearing loan and is due and payable after a two-year deferral period. On July 24, 2006 the note was superseded and replaced by a new promissory note secured by a deed of trust. The new note increased the amount of the note to \$4,234,507, changed the due date of the note to 55 years from the later of the date the project is placed into service per Internal Revenue Service Form 8609 or the issuance of a certificate of occupancy, and changed the interest rate to 3%. At June 30, 2010, \$4,234,507 had been disbursed to the borrower.
- f. A promissory note dated February 13, 2007, in the amount of \$3,120,000, was executed with Santa Monica Housing Partners for an Affordable Housing Project located at 1458 14th Street. This loan is for the acquisition and predevelopment expenses to construct 20 new rental units for very low income and low income seniors. This is a non-interest bearing loan and is due and payable after a two-year deferral period. At June 30, 2010, \$5,207,314 had been disbursed to the borrower.

**REDEVELOPMENT AGENCY OF
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**Notes to Basic Financial Statements
Year Ended June 30, 2010**

- g. A promissory note dated December 23, 2008, in the amount of \$6,582,323, was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 2602 Broadway. This loan is for the acquisition and predevelopment expenses to construct approximately 33 two- and three-bedroom units for very low- and low-income families with 56 subterranean parking spaces. This is a non- interest bearing loan and is due and payable after a two-year deferral period. At June 30, 2010, \$5,674,589 had been disbursed to the borrower.
- h. A promissory note dated January 12, 2009, in the amount of \$3,720,204, was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 430-508 Pico. This loan is for the acquisition and predevelopment expenses to construct 32 - 2 and 3 bedrooms with very low to low income units. This is a non- interest bearing loan and is due and payable after a two-year deferral period. At June 30, 2010, \$2,224,836 had been disbursed to the borrower.
- i. A promissory note dated February 2, 2009, in the amount of \$5,595,897, was executed with Community Corporation of Santa Monica for an Affordable Housing Project located at 2802 Pico. This loan is for the acquisition and predevelopment expenses to construct approximately 30 two- and three-bedroom units for very low and low-income families. This is a non- interest bearing loan and is due and payable after a two-year deferral period. At June 30, 2010, \$4,079,312 had been disbursed to the borrower.
- j. A promissory note dated January 16, 2009, in the amount of \$4,424,711, was executed with FAME Santa Monica Senior Apartments, LP for an affordable housing project located at 1754 19th Street. This loan is for the acquisition and predevelopment expenses to construct 49 units of very low income seniors housing units. This is a non- interest bearing loan and is due and payable after a two-year deferral period. At June 30, 2010, \$3,566,309 had been disbursed to the borrower.

**REDEVELOPMENT AGENCY OF
THE CITY OF SANTA MONICA**

**Notes to Basic Financial Statements
Year Ended June 30, 2010**

(4) Capital Assets

A summary of changes in the Agency's capital assets for the fiscal year ended June 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Nondepreciable:				
Land	\$ 103,790,524	238,840	-	104,029,364
Construction in progress	5,910,666	6,642,424	(1,583,260)	10,969,830
Depreciable:				
Building, parking structures, and improvements	58,565,018	-	(15,082,388)	43,482,630
Improvements other than buildings	10,841,446	128,136	-	10,969,582
Machinery and equipment	6,303	-	-	6,303
Total historical cost	<u>179,113,957</u>	<u>7,009,400</u>	<u>(16,665,648)</u>	<u>169,457,709</u>
Accumulated depreciation:				
Building, parking structures, and improvements	(10,444,596)	(1,980,458)	2,760,422	(9,664,632)
Improvements other than buildings	(8,959,993)	(146,286)	-	(9,106,279)
Machinery and equipment	(6,303)	-	-	(6,303)
Total accumulated depreciation	<u>(19,410,892)</u>	<u>(2,126,744)</u>	<u>2,760,422</u>	<u>(18,777,214)</u>
Total	<u>\$ 159,703,065</u>	<u>4,882,656</u>	<u>(13,905,226)</u>	<u>150,680,495</u>

Depreciation expense in the amount of \$2,126,744 was charged to the Housing and Community Development function in the Statement of Activities.

(5) Other Liabilities

During the fiscal year ended June 30, 2003, the Redevelopment Agency and the Parking Authority entered into a purchase/sales agreement for the purchase/sale of six downtown parking structures with related land for \$60.0 million. The related promissory note, secured by a deed of trust, calls for annual principal payments of \$2.0 million for 30 years with interest. The promissory note was revised in December 2004 creating two fully amortized notes with a principal of \$38,930,000 and \$21,070,000.

These parking structures with related land, built generally in the late 1960's, were carried on the books of the Parking Authority at historical cost less related depreciation. At the time of sale, the book value of the six structures and land was \$2,958,016.

The sale/purchase transaction has been recorded as a transfer of the structures and land from the Parking Authority to the Redevelopment Agency and a corresponding receivable/liability for the book value of the assets transferred. The excess of the purchase price over the book value is not recorded as a gain on the transfer because the transaction is between two blended component units of the City of Santa Monica.

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As related parties, no gain on the sale was recorded. Once the Redevelopment Agency's payments exceed the book value of the assets transferred, all future promissory note payments will be considered recorded as interfund transfers on the financial statements of the two component units. At June 30, 2010, \$48.2 million plus interest remained due under the agreement. Also as part of the agreement, an additional \$60.0 million has been committed by the Agency to make seismic repairs to the parking structures.

(6) Long Term Debt

A summary of the changes in the long-term liabilities of the Agency excluding advances from the City of Santa Monica and a line of credit of \$23,471,605 for the year ended June 30, 2010 is as follows:

<u>Bonds Payable</u>		<u>Earthquake Recovery Project Bonds</u>	<u>Ocean Park Redevelop- ment Project Bonds</u>	<u>Total</u>
Beginning balance	\$	59,350,000	13,550,000	72,900,000
Debt retired		<u>(1,705,000)</u>	<u>(1,095,000)</u>	<u>(2,800,000)</u>
Total bonds payable		57,645,000	12,455,000	70,100,000
Premium on bond issue, net		23,297	22,425	45,722
Discount of bond issue, net		(153,583)	-	(153,583)
Deferred loss on refunding, net		<u>(3,140,256)</u>	<u>(124,499)</u>	<u>(3,264,755)</u>
Ending balance		<u>54,374,458</u>	<u>12,352,926</u>	<u>66,727,384</u>
Due within one year	\$	<u>1,795,000</u>	<u>1,145,000</u>	<u>2,940,000</u>

Bonds Payable

On May 2, 2002, the Redevelopment Agency issued \$19,315,000 of Ocean Park refunding and new money bonds bearing interest at 5.03% to defease the outstanding 1992 Ocean Park Project Bonds and to provide funds for new low/moderate income projects. Secured by Ocean Park Redevelopment property tax increment revenues which totaled \$4,029,852 or 234% of FY 09-10 debt service.

On April 27, 2006, the City issued \$64,720,000 of Earthquake Redevelopment Project refunding bonds bearing interest from 4.0% to 5.5% to advance refund the outstanding 1999 Earthquake Redevelopment Project. Secured by Earthquake Recovery Redevelopment Project property tax increment revenues which totaled \$68,268,572 or 1,550% of FY 09-10 debt service.

**REDEVELOPMENT AGENCY OF
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**Notes to Basic Financial Statements
Year Ended June 30, 2010**

Debt service requirements for the Agency's bonds at June 30, 2010 are as follows:

Earthquake Recovery Project Bonds			
	Principal	Interest	Total
Fiscal year ending June 30:			
2011	1,795,000	2,601,431	4,396,431
2012	1,900,000	2,499,819	4,399,819
2013	2,005,000	2,392,431	4,397,431
2014	2,115,000	2,279,995	4,394,995
2015	2,225,000	2,178,194	4,403,194
2016 - 2020	12,610,000	9,374,899	21,984,899
2021 - 2025	15,575,000	6,322,903	21,897,903
2026 - 2030	19,420,000	2,368,181	21,788,181
Total	\$ 57,645,000	30,017,853	87,662,853

Ocean Park Project Bonds			
	Principal	Interest	Total
Fiscal year ending June 30:			
2011	1,145,000	578,170	1,723,170
2012	1,195,000	525,495	1,720,495
2013	1,250,000	468,635	1,718,635
2014	1,310,000	407,820	1,717,820
2015	1,370,000	342,815	1,712,815
2016 - 2019	6,185,000	637,375	6,822,375
Total	\$ 12,455,000	2,960,310	15,415,310

**REDEVELOPMENT AGENCY OF
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**Notes to Basic Financial Statements
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Advances Payable

In addition, the Agency is indebted to the City of Santa Monica for the following advances, with interest at varying rates per annum accruing on principal only. These notes were for a period of one year. At the end of that period, the notes were reissued; with accrued interest, for a one-year period. On June 21, 2005, the notes were amended to be due on demand when sufficient future unpledged property tax increment is available to redeem them.

The notes consist of the following at June 30, 2010:

<u>Advance payable to</u>	<u>Balance at June 30, 2009</u>	<u>Principal addition</u>	<u>Principal reduction</u>	<u>Balance at June 30, 2010</u>
Downtown Redevelopment Project Capital Project Fund:				
City of Santa Monica General Fund	\$ 1,557,358	35,664	-	1,593,022
City of Santa Monica General Fund	18,412,347	329,581	-	18,741,928
	<u>19,969,705</u>	<u>365,245</u>	<u>-</u>	<u>20,334,950</u>
Earthquake Recovery Redevelopment Project Capital Project Fund:				
City of Santa Monica Miscellaneous Grants Fund	3,118,900	2,006,606	-	5,125,506
City of Santa Monica CDBG Special Revenue Fund	346,552	222,961	-	569,513
	<u>3,465,452</u>	<u>2,229,567</u>	<u>-</u>	<u>5,695,019</u>
Ocean Park Redevelopment Project Capital Project Fund:				
City of Santa Monica CDBG Special Revenue Fund	5,849,929	133,963	-	5,983,892
City of Santa Monica CDBG Special Revenue Fund	734,577	16,821	-	751,398
	<u>6,584,505</u>	<u>150,784</u>	<u>-</u>	<u>6,735,290</u>
Total advances payable to the City of Santa Monica	<u>\$ 30,019,662</u>	<u>2,745,596</u>	<u>-</u>	<u>32,765,259</u>

Line of Credit

On May 1, 2008, the Agency entered into a line of credit agreement with Bank of America. The agreement calls for an initial line up to \$50,000,000 available to be drawn which may be increased at the banks option to \$75,000,000 at the request of the Agency. The line is available through June 2013 and is subject to quarterly interest payments at LIBOR plus 1.25%. The line is secured by future property tax increment revenues of the Earthquake Recovery Redevelopment Project Low/Mod housing fund which totaled \$13,653,714. The line of credit subordinates to the bonded indebtedness of the fund

**REDEVELOPMENT AGENCY OF
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Year Ended June 30, 2010**

As of June 30, 2010, \$23,471,605 had been drawn on the line which is due on June 1, 2013 and has been included in noncurrent liabilities due in more than one year. Interest on the line was \$248,484 which has been reported as interest expense.

The above bonds, notes, line of credit and advances are payable when future property tax increment revenues are received by the projects. Management does not anticipate that the remaining balance of these notes and advances will be repaid with currently available spendable resources.

Management believes that the Agency is in compliance with all significant financial restrictions and requirements as set forth in its various bond and line of credit covenants.

The Agency has a number of debt issues that involve the pledging of revenues. The amounts and terms of the remainder of these commitments and the purposes for which the proceeds of the debt issuances are utilized are indicated in the summary of long-term bonds outstanding at year end presented in this note. For the current year, debt service payments as a percentage of the pledged gross revenue (net of certain expenses where so specified in debt covenants) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of pledged revenue/debt	Annual amount of pledged revenue	Annual debt service payments	Debt Service as a percentage of pledged revenues
Tax Increment			
Ocean Park Redevelopment 2002	3,953,132	1,725,998	44%
Earthquake Recovery Project 2006	65,674,456	4,403,981	7%
Line of credit	13,250,221	-	-
Total tax increment	82,877,809	6,129,979	

**REDEVELOPMENT AGENCY OF
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**Notes to Basic Financial Statements
Year Ended June 30, 2010**

(7) Interfund Transactions

Transfers in (out) from other funds at June 30, 2010 are as follows:

Transfers in for debt service payments	
Debt service fund	\$ <u>6,096,843</u>
Transfers out for debt service payments	
Low/Moderate Income Housing Fund	\$ (1,151,490)
Earthquake Recovery Redevelopment Project	(3,609,952)
Ocean Park Redevelopment Project	<u>(1,335,401)</u>
	\$ <u>(6,096,843)</u>

(8) Subsequent events

On September 1, 2010 the Agency entered into a Master Cooperation Agreement with the City of Santa Monica to commit \$5.7 billion to the construction of various projects in support of the Agency's Five-Year Implementation Plan goals of affordable housing, disaster prevention and mitigation, community revitalization, commercial revitalization and institutional revitalization, all in accordance with Section 33445 of the California Redevelopment Community Law. The obligation constitutes indebtedness of the Agency.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Redevelopment Agency of the
City of Santa Monica, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Santa Monica, (Agency), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.



Board of Directors
Redevelopment Agency of the
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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, and Agency's management and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 1, 2010