



2013 Single Audit of Federal and California Grants

For the Fiscal Year Ended June 30, 2013

CITY OF SANTA ANA, CALIFORNIA



Our purpose is to provide quality service to enhance the safety, livability and prosperity of our community.

CITY OF SANTA ANA, CALIFORNIA

2013
**Single Audit of Federal
and California Grants**

For the Fiscal Year Ended June 30, 2013

Prepared by
Finance & Management Services Agency

Francisco Gutierrez
Executive Director



Single Audit of Federal and California Grants

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MAYOR

Miguel A. Pulido
MAYOR PRO TEM
Sal Tinajero

COUNCILMEMBERS

Angelica Amezcua
P. David Benavides
Michele Martinez
Roman Reyna
Vincent F. Sarmiento



CITY MANAGER
David Cavazos
CITY ATTORNEY
Sonia R. Carvalho
CLERK OF THE COUNCIL
Maria D. Huizar

CITY OF SANTA ANA

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December 04, 2013

Honorable Mayor and members of the City Council:

In accordance with the requirements of the California State law and City Charter, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Santa Ana (the City) for the fiscal year ended June 30, 2013. State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed independent certified public accountants.

The CAFR consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In making these representations, management of the City of Santa Ana has established a comprehensive internal control framework that is designed both to protect the government'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 their benefits, the City of Santa Ana'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 management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

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

Independent Audits

The City's Charter requires an annual audit by a qualified independent certified public accountant. As such, over the past five years the City has retained the services of Macias Gini & O'Connell LLP, a firm of licensed independent certified public accountants to audit its financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City

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for the fiscal year ended June 30, 2013 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 auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Additionally, the City is also required to undergo an annual "Single Audit" in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The standards governing Single Audit engagements require the independent auditor to report not only on 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. Due to the size and complexity of the City's financial systems and the timing of the audit, the Single Audit report is issued separately from the CAFR. The Single Audit reports are finalized during the first calendar quarter and available upon request.

City Profile

The City of Santa Ana provides a full range of municipal services, including police and fire protection; the construction and maintenance of streets and other infrastructure; municipal utilities such as water, sewer, refuse and sanitation; recreational activities; public library and cultural events. Additionally the City is responsible for three other legally separate entities which include the Successor Agency to the Redevelopment Agency, Housing Successor Agency to the Housing Authority and the Santa Ana Financing Authority.

Founded in 1869, Santa Ana is located in Southern California adjacent to the Santa Ana River, 10 miles (16 km) away from the California coast. The city is part of the Greater Los Angeles Area which, according to the U.S. Census Bureau, is the second largest metropolitan area in the U.S., with almost eighteen million people. According to the 2000 U.S. Census, of U.S. cities with more than 300,000 people, Santa Ana is the 4th-most densely populated behind only New York City, San Francisco, and Chicago, and slightly denser than Boston. Santa Ana is 57th most populous in the nation according to the 2011 Census and the 11th largest in the State.

The City of Santa Ana is the 2nd largest City within Orange County occupying 27.2 square miles and serving a population of 329,915. Centrally located within Orange County, the City serves as the governmental center housing State and Federal Offices, County Administration, County Court functions and the Ronald Reagan Federal Court House within its civic center complex. The current Office of Management and Budget (OMB) metropolitan designation for the Orange County Area is Santa Ana–Anaheim–Irvine.

Santa Ana is home to many attractive amenities such as the Main Place shopping mall, the world renowned Bowers Museum, the Discovery Science Center, and the Santa Ana Zoo at Prentice Park which includes a variety of animal exhibits such as Amazon's Edge and The Crean Family Farm. Santa Ana also boasts many unique shops, premier restaurants and artist galleries in the Historic

Downtown Santa Ana area. With all these amenities, Santa Ana was ranked in the top 100 places to live according to a recent survey of 1,700 U.S. cities conducted by Livability.com.

Santa Ana is the corporate headquarters of various companies including Behr Paint, Corinthian Colleges, First American Corporation, MSC Software, URS Corporation, Greenwood & Hall, Ingram Micro, The Orange County Register, SchoolsFirst Federal Credit Union, STEC, TTM Technologies, beverage company Kern's, Harvey's a manufacture of seat-belt purses and Wahoo's Fish Taco. It also houses major regional headquarters for the Xerox Corporation, Psomas, Ultimate Software, and T-Mobile. One of Santa Ana's most notable businesses is the Rickenbacker musical instrument company, whose electric guitars and bass guitars earned fame in the hands of many rock and roll legends.

The City of Santa Ana is one of the first to adopt the council-manager form of government and has operated under this form of government since 1952. Policy-making and legislative authority are vested in a governing City Council consisting of the mayor and six Council members. The City Council, among other things, is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and the City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three Council members elected every two years. The mayor is elected to serve a two-year term. The mayor and all Council members are elected at large.

Budget Planning and Control

The annual budget serves as the foundation for the City's financial planning and control. The City maintains budgetary controls, which are designed to ensure compliance with legal provisions of the annual budget adopted by the City Council. Operating and capital budgets are legally adopted by ordinance and the level of legal budget control is by fund, department (e.g., police), and program (e.g., police patrol).

As means to further its financial planning, the City recently transitioned from a one-year to a two-year budget cycle and prepares a five-year budget forecast. The two-year budget cycle and five-year forecast provide an ability to foresee fiscal issues that may arise in the future and provide sufficient lead time to develop a plan of action to remedy the situation. The process for developing and adopting a two-year budget takes place every other year. During the months of January through April of the two-year budget cycle, the City of Santa Ana agencies submit requests for appropriation to the City Manager which are then used to develop the proposed budget. In addition, under the Sunshine Ordinance, the City is required to conduct two community budget forums to disseminate info and record community input as it relates to the budget.

The City Manager then presents the proposed budget to the Council for review prior to June 15. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than July 31. Upon adoption of the budget, department heads may make appropriation adjustments within a department. Appropriation adjustments between departments; however, require the special approval of the City Council. The Comprehensive Annual Financial Report includes budgetary comparisons for individual governmental funds for which a budget has been adopted. The general fund comparison is presented on page 118 as part of the basic financial statements for the governmental funds. Governmental funds comparison, other than the general fund, with appropriated

annual budgets, is presented in the governmental fund subsection of this report, which starts on pages 119 through 120 as well as on pages 134 through 137.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Santa Ana operates.

Economic base. The City of Santa Ana is located within the Los Angeles-Long Beach-Santa Ana Metropolitan area. The area is the 2nd highest producing metro area in the country as measured by Gross Metropolitan Product. The City of Santa Ana is known as the heart of Orange County and the center of government, commerce and transportation. Santa Ana is home to over 25,700 businesses (as measured by business licenses issued) with the top 25 businesses generating more than 30% of the jurisdiction's total sales/use tax revenue. The City has a solid retail base which is anchored by the Main Place Mall, the Santa Ana Auto Mall and a resurging downtown. The downtown area has recently attracted many new restaurants that surround a cultural artist village component.

In addition, the City's general economic base includes transportation, general retail, business to business food industry and construction. Transportation and general retail make up over 50% of the City's sales tax base. Key elements in enhancing the City's economic base are business attraction and retention program as well as the City's designation to the Enterprise Zone. The City's designation as an Enterprise Zone has provided a competitive edge in maintaining and attracting new businesses to the area. Unfortunately the State will end this program at the end of calendar year 2013. As a means to continue to broaden the City's economic base, the City will embark on a new economic development strategy.

Local economy. Although the City is positioned to prosper given the activity as listed above, the economic recession which began in 2007 did have a dramatic negative impact on state and local governments across the nation. With the housing market sub-prime "bubble" collapse, increased failures of many major financial institutions and resulting limits on borrowing, and increasing unemployment the resulting effect on state and local revenue was dramatic. The City of Santa Ana was no exception. Some improvement in the area of employment has occurred. According to the State of California Employment Development Department (EDD) August 2013 preliminary numbers, California's unemployment rate fell to 8.8%, Orange County was at 6.2%, while Santa Ana which reached a high of 15% in 2010 has dropped to 9.9%. All these events placed pressure on local economic activity. After several years of economic decline, building permit, business license and retail activity are showing signs of modest growth. With what now appears to be an economy that is stabilizing, the City's major local tax revenue sources (sales, property tax and hotel visitors' taxes) are trending upwards.

Overall, there are signs of an economic recovery and as of the end of fiscal year 2011-12 the City has established a new revenue base line. Since the end of the recession, the City has seen gradual improvements in the housing market, lower unemployment levels and modest increase in its major revenue sources. Although modest, these gains are vulnerable to the looming federal shutdown and possible sequestration of funds which may place pressure on a quick recovery and how those local discretionary dollars are spent.

The State of California, although much improved, has used its own budgetary challenges to place pressure upon local city revenues. As an example and in response to their own budgetary challenges, in February 2011 the State eliminated the current funding mechanism for all Redevelopment Agencies. More recently and as stated above, the State has eliminated enterprise zone tax credits which is one of the elements used by many cities for economic development. Curtailing redevelopment and economic development activities has challenged local agencies to change its efforts and strategy in creating jobs and future development projects.

Long-term financial planning

With the collapse of the economy in 2007-2009, ensuring the City's financial stability has become a critical priority with the City developing a short term response and long term financial plan. In response to declining revenues, the City repositioned itself in terms of programs and staffing. From fiscal year 2008-09 thru 2012-13, 735 (41%) full-time positions were impacted either through layoffs, attrition, or un-funding of positions. In addition, the City negotiated various concessions from labor groups, which included furloughs, higher contributions towards pension and health benefit costs, outsourcing, such as the Fire and Medical services and several agencies were combined to gain efficiency.

In fiscal year 2012-13 the City committed to establishing a fundamental strategy of balancing budgets by adopting a formal budget and reserve policy, which provides guidelines for a balanced budget approach, use of one-time funds, and appropriate reserve levels as recommended by the Government Finance Officers Association (GFOA). Continuing with the efforts to improve the City's financial health, the City transitioned from a one-year to a two-year budget cycle. On June 17, 2013, City Council adopted its first ever two-year balanced budget which met all guiding principles as set by the budget and reserve policy. The adoption of the fiscal year 2013-15 budget included a five-year forecast which incorporates revenue, expenditure and reserve levels through fiscal years 2017-18.

Over the next 2013-15 fiscal years, the City will review its debt issuance to determine refinancing opportunities or to reduce annual payments by capitalizing on lower interest rates. The City will continue to review its various funds to ensure adequate reserves and ensure proper reserve levels across all funds. Given that labor comprises over 50% of the General Fund expenses, the organization will continually look for opportunities to contain its compensation structure through higher employee contributions (employees to pick-up higher costs) as it relates to pension and health benefits, conduct a citywide compensations study so that salaries are in alignment with the market, and explore alternative service delivery models that are cost effective and more efficient. In addition, the City will look to ensure that all areas have sound fiscal and legal assessments as it moves to structural stability.

As a means to provide additional services to the community and reduce the burden on City finances, the City will continue to research Federal and State grant opportunities and aggressively apply for programs that are in alignment with City goals. Through the efforts of our departments and the citywide grants task force, the City secured \$63.2 million in competitive grant funding in fiscal year 2013-2014. Also through the efforts of the Santa Ana Police Department, the Department of Homeland Security has awarded the City the Urban Area Security Initiative Grant (UASI) for nine consecutive years. The Santa Ana Police Department UASI grant budget for fiscal year 2013-14 is \$8.9 million. This financial assistance will provide funding to address the unique planning, equipment, training, and exercise needs of large urban areas and to assist the City in building an

enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism.

Although the City recently experienced a modest drop in population that can be attributed to the resulting migration and hardships of the economic recession, the City's population has increased by almost 50% over the last 20 years. As the economy improves, it is anticipated that Santa Ana will continue to experience modest population growth through 2025. To ensure a thriving community the City has always placed emphasis in providing and maintaining a solid infrastructure and essential community facilities. As such, the city strives to ensure proper levels of maintenance for our infrastructure, public buildings, parks and neighborhoods. This is reflected in the \$51.7 million Capital Improvement Program. Fiscal year 2013-2014 includes: \$33.4 million committed for street resurfacing, and reconstruction of damaged curbs, and sidewalks; \$9.4 million for improvements at City parks and public facilities; \$5.4 million for improvements to the water and sewer systems; and \$3.5 million for traffic improvements.

Major Initiatives. The City has embarked on many initiatives that embrace community involvement, increase transparency, support future development, promote innovation and efficiencies, and improve the overall environment of the City. The following are examples of such measures:

- The City of Santa Ana is in the process of developing a five-year Strategic Plan which will provide the vision and goals as well as identify projects and resource needs for the future of the City and community. In addition, the outcome of the Strategic Plan will provide direction on the development of future budgets. To date, the City has conducted a series of community outreach and focus group meetings, met with independent and non-profit organizations as well as community leaders and advocacy groups, and developed a community online survey to ensure the strategic plan reflects community and business needs. The Strategic Plan is schedule to be completed in time for the development of the 2015-17 two-year budget process.
- The City's Finance and Management Services Agency (FMSA) in accordance with the Sunshine Ordinance has increased transparency by promoting community involvement, presented financial and budgetary information at community forums, enhanced its budget website to include all content presented at community budget forums and developed a central repository in which all bids may be accessed. Over the subsequent fiscal years, FMSA will continue to expand upon its transparency measures and promote community involvement.
- The Planning and Building Agency (PBA) is in the initial phases of updating the City's General Plan and Zoning Ordinance. This first phase will be to evaluate the outcome of the City's Strategic Plan and determine how best to include it within the general plan. Based on the outcomes, PBA will begin to explore various approaches for completing the update, including the preparation of a vision document and extensive engagement with the community.
- The Planning and Building Agency (PBA) has launched its online inspection scheduling system where its residents can schedule, view and cancel building inspections online for 24 hours a day and 7 days a week. In addition, PBA has started development on a new online permitting system for several building, electrical,

mechanical and plumbing permits. This new service will allow customers to apply, pay for, and print certain permits directly from their home or business. In conjunction with the recently launched online inspection scheduling system, this new process promises to substantially reduce the need for applicants to come to City hall during the permitting and inspection process.

- The City is developing a comprehensive Climate Action Plan. The goal of the Plan is to create an environmentally friendly future and to make the City a better place in which to live and work. Many of the strategies and measures that will be implemented will reinvest in the community through benefits such as improved air quality, reduced energy and water use, reduced traffic congestion, and other environmental improvements.
- The City has established a Green Facilities and Fleet Management Strategic Plan to transition from fossil fuel vehicles into Hybrid and Alternative Fuel vehicles. The objective is to replace City vehicles with the cleanest and most fuel-efficient vehicles based on the needs of the various City agencies. To accommodate the transition, the City has installed fueling stations for hydrogen and compressed natural gas (CNG) vehicles as well as installed electric vehicle (EV) charging stations in selected areas of the City.

Pension and other post-employment benefits. The City has contracted with the California Public Employee's Retirement System (CalPERS) to provide certain retirement, disability, death and survivor benefits for full-time city employees. The annual actuarial valuation of CalPERS continues to reflect relative stability in the City's and employees' funding of the system. The City's actuarial determined contribution 12-13 effective rate for Safety members and miscellaneous members was 28.480% and 20.099%, respectively. Through labor negotiations, the City has secured all bargaining groups to contribute a portion of the PERS retirement costs on a go forward basis. Contributions vary by labor group and range from 8% to 10.5%.

The City of Santa Ana also provides limited post-retirement health and dental care benefits, also known as Other Post Employee Benefits (OPEB), for certain retirees and their dependents. As of the end of the current fiscal year, there were 244 (excluded Police Officers Association-POA) retired employees receiving these benefits, which are financed on a pay-as-you-go basis. During fiscal years 2011-12 and 2012-13, the City outsourced the Santa Ana Fire Department and sought legal opinion on certain labor groups OPEB liabilities, which resulted in a reduction of \$80 million or 65% in unfunded liabilities. The City will continue to explore possibilities to further reduce any future burdens associated with OPEB.

Additional information on the City of Santa Ana's pension arrangements and post-employment benefits can be found in pages 104 through 111 as well as pages 123 and 124 in the notes to the basic financial statements and required supplementary information, respectively.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Ana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The government has received this prestigious award for thirty five consecutive years. In order to be awarded a Certificate of Achievement, the

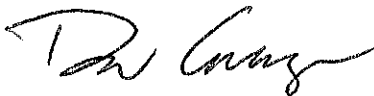
December 04, 2013

government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the staff of the Finance Department, particularly the Accounting Division. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Santa Ana's finances.

Respectfully submitted,



David Cavazos
City Manager



Francisco Gutierrez
Executive Director
Finance & Management Services



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

GFOA Certificate of Achievement

Excellence in Financial Reporting for the Fiscal Year Ended June 30, 2012



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Santa Ana
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, appearing to read 'Jeffrey R. Emswiler'.

Executive Director/CEO

Directory of City Officials
June 30, 2013

Miguel A. Pulido

Mayor

Sal Tinajero

Mayor Pro Tem

Angelica Amezcua

Councilmember

P. David Benavides

Councilmember

Michele Martinez

Councilmember

Roman A. Reyna

Councilmember

Vincent F. Sarmiento

Councilmember

David Cavazos

City Manager

Sonia R. Carvalho

City Attorney

Maria D. Huizar

Clerk of the Council

Nancy Fong

Interim Executive Director

Community Development

Francisco Gutierrez

Executive Director

Finance & Management Services Agency

Edward S. Raya

Executive Director

Personnel Services Agency

Jay M. Trevino

Executive Director

Planning & Building Agency

Carlos E. Rojas

Interim Police Chief

Police Department

Gerardo R. Mouet

Executive Director

Parks, Recreation & Community Service Agency

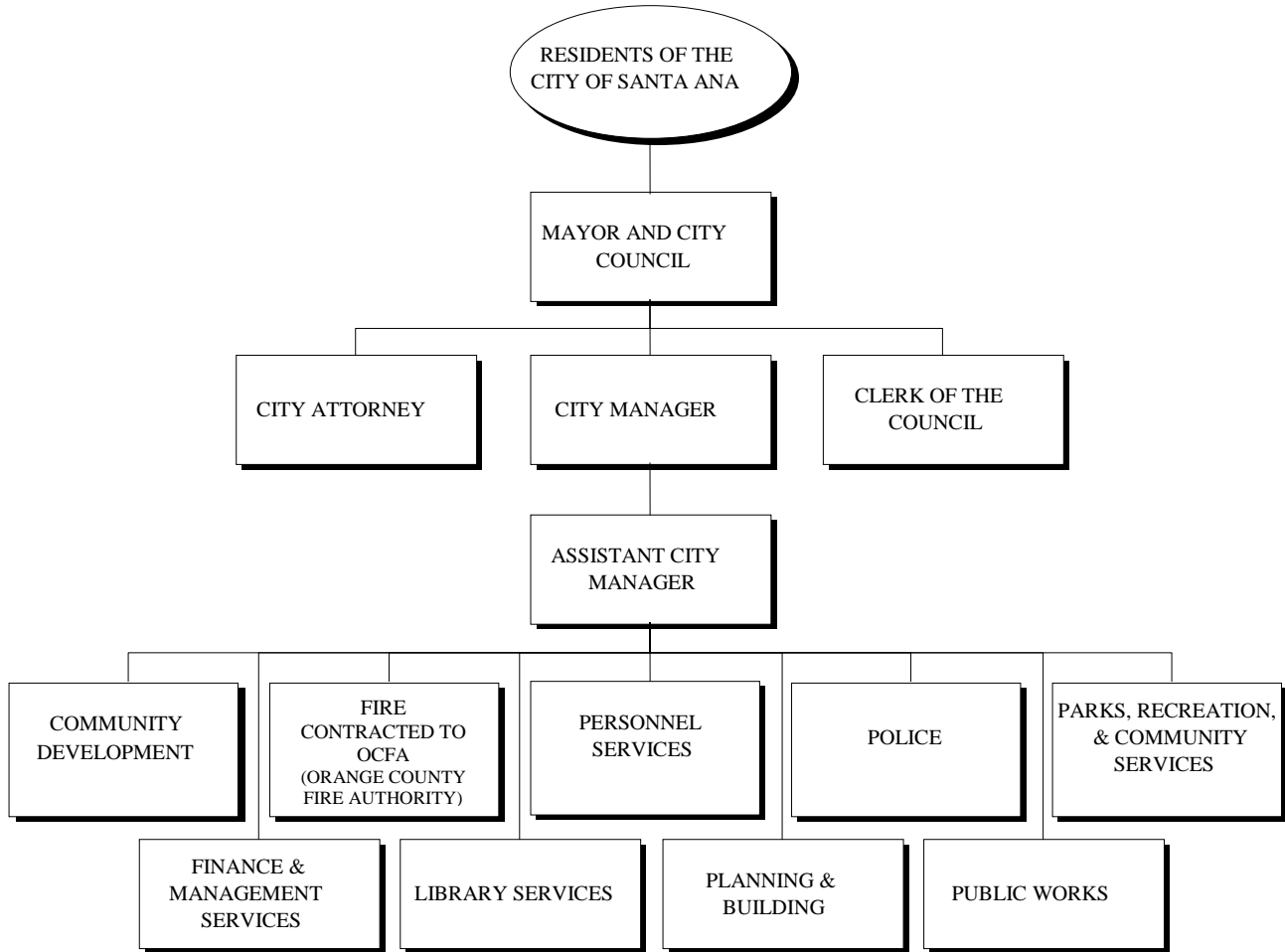
Edwin Galvez

Interim Executive Director

Public Works Agency

Table of Organization

Fiscal Year 2012-2013





CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

Financial Section

SA

The Honorable City Council of
the City of Santa Ana, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Santa Ana, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Santa Ana as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As noted in Note 6 to the basic financial statements, the Successor Agency to the Santa Ana Redevelopment Agency is in the process of resolving the disagreements with the conclusions rendered by the State Department of Finance (DOF) on the amounts due to taxing entities as noted in the Due Diligence Reviews for the Low and Moderate Income Housing Fund (LMIHF) and for the Other Funds and Accounts (OFA). The Successor Agency has contested the DOF's request believing the \$33.2 million and the \$11.2 million from LMIHF and OFA respectively, are related to enforceable obligations. Due to the uncertainties surrounding the ongoing matters with the DOF, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 20–31 and 118–120 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements.

The accompanying supplemental information including the Schedule of Expenditures of Federal Awards and Housing Authority of Santa Ana Supplemental Financial Data Schedules are presented for purposes of additional analysis in accordance with the requirements of the Office of Management and Budget Circular A-133 and the U.S. Department of Housing and Urban Development and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the State of California. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December, 4 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Fini & O'Connell LLP

Newport Beach, California

December 4, 2013, except for our report on the supplementary information, for which the date is March 25, 2014.



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

Management's Discussion and Analysis

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Management's Discussion and Analysis

As management of the City of Santa Ana (City), we offer the readers of the City's financial statements this narrative overview and analysis of financial activities for fiscal year end June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on pages 1-8 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The City of Santa Ana's combined governmental activity and business-type activity assets exceeded its liabilities at the close of the most recent fiscal year by \$1,199,247 (net position). Of this amount, \$101,218 is unrestricted. The City's net investment in capital assets is \$890,196, and \$207,833 is restricted for debt service, capital projects and specific projects and programs. Overall, governmental activities total revenue decreased \$72,381 (19.36%) when compared to the prior year. The City's general revenues (a component of the general activities total revenue) decreased \$23,236 or (12.99%) from fiscal year 2011-12 primarily as a result of the dissolution of Redevelopment and the elimination of Property Tax Increment dollars. Sales tax, Business tax and Hotels visitors' tax revenues increased slightly indicating a modest improvement in the economy. The City's program revenue also decreased \$47,511 (16.84%) in fees and charges for services and experienced the decreases in the grant revenues. However, the City's expenditures were under the revenues 5.97% due to the saving in labor cost and the hiring freeze, which resulted in an increase of total net position by \$23,314.
- As of the close of the current fiscal year, the City of Santa Ana's governmental funds reported a combined ending fund balance of \$135,027, a decrease of \$612 as compared to the prior fiscal year. The decrease was primarily due to the Successor Housing Agency recorded the completion of Housing projects. Total fund balance (nonspendable, assigned, and unassigned) for the general fund totaled \$39,379, representing an increase of \$11,352 (64.2%) when compared to the prior fiscal year. During the budget process for fiscal year 12-13, the City Council adopted a formal Reserve Policy as well as a financial plan in order to achieve and maintain adequate reserve levels. As of June 30, 2013 the unassigned fund balance is \$30,688 or 14.58% of fiscal year 13-14 budgeted operating expenditures (See Note 5H on page 112) and is designated as the City's reserve in accordance with the adopted reserve policy.
- The City experienced a net decrease in its total bonded debt and loans by \$11,275 in the fiscal year under review due to principal repayments of existing debt. (See Note 4D on page 86 through 98).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Santa Ana's basic financial statements. The City of Santa Ana's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Santa Ana's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City of Santa Ana's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Santa Ana is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Santa Ana that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City of Santa Ana include general government, human resources, finance and management services, museum, library, recreation and community services, police, fire, planning and building, public works and community development. The business type activities of the City of Santa Ana include Water, Refuse Collection, Parking, Sanitation, Regional Transportation Center, Sewer and the Federal Clean Water Protection.

The government-wide financial statements include not only the City of Santa Ana itself (known as the *primary government*), but also blended component units. Certain blended component units, although legally separate entities are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Housing Authority, and the Santa Ana Financing Authority (SAFA) are reported as part of the primary government. After the date of the dissolution, the Successor Agency activities are reported in the Santa Ana Redevelopment Agency Private-Purpose Trust Fund, a fiduciary fund. While the Successor Agency is a blended component unit of the City, fiduciary funds are not presented in the government-wide financial statements, as the resources are not available to support City programs. The government-wide financial statements can be found on pages 36-38 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Santa Ana, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City of Santa Ana funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-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 evaluating a government's near-term financing requirements.

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

The City of Santa Ana maintains fifteen 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 the General Fund, Special Revenue Grants Fund, Special Revenue Housing Authority Fund, Special Revenue Gas Tax Fund, Capital Projects Housing Successor Agency, Capital Projects Street Construction, and the Debt Service Santa Ana Financing Authority Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the Supplementary information.

The City of Santa Ana adopts an annual appropriated budget for its General Fund, Housing Authority Special Revenue Fund, Special Gas Tax Fund and other nonmajor Special Revenue Funds, including Sewer Connection Fee, Civic Center and Maintenance, Inmate Welfare Fund and Air Quality Improvement. A budgetary comparison statement has been provided for such funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 43-49 of this report.

Proprietary funds. The City of Santa Ana maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Santa Ana enterprise funds account for Water, Refuse Collection, Parking, Sanitation, Regional Transportation Center, Sewer, and Federal Clean Water Protection. *Internal service funds* are utilized to accumulate and allocate costs internally among the City of Santa Ana's various functions. The City of Santa Ana's internal service funds account for, amongst others, its self insurance, equipment maintenance/replacement, and information systems. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities*, in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, parking and sewer operations which are considered to be major funds of the City of Santa Ana. Remaining nonmajor enterprise funds and all internal service funds are aggregated in a single column in the proprietary fund financial statements, respectively. Individual fund data for the nonmajor enterprise and all internal service funds are provided in the form of *combining statements* in the Supplementary Schedules.

The basic proprietary fund financial statements can be found on pages 51-58 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Santa Ana's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on page 59 to 60 and 167 to 171 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 64-114 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Santa Ana's budgetary information and compliance; the Schedule of Funding Progress for Pensions and OPEB plans. Required supplementary information can be found on pages 118-124 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, enterprise funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information captioned supplementary schedules. Combining and individual fund statements and schedules can be found on pages 128-171 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Santa Ana, assets of the City's governmental activities exceeded liabilities by \$1,199,247 at the close of fiscal year 12-13 as compared to the net position of \$1,175,933 in fiscal year 11-12.

By far the largest portion of the City of Santa Ana net position reflects its investment in capital assets (e.g., land, rights of way, infrastructure, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Santa Ana uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Santa Ana's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Santa Ana Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 348,826	\$ 351,586	\$ 59,524	\$ 49,527	\$ 408,350	\$ 401,113
Capital assets	944,131	935,381	108,102	110,200	1,052,233	1,045,581
Total assets	<u>1,292,957</u>	<u>1,286,967</u>	<u>167,626</u>	<u>159,727</u>	<u>1,460,583</u>	<u>1,446,694</u>
Long-term liabilities	205,644	211,434	21,076	22,993	226,720	234,427
Other liabilities	26,072	27,460	8,544	8,874	34,616	36,334
Total liabilities	<u>231,716</u>	<u>238,894</u>	<u>29,620</u>	<u>31,867</u>	<u>261,336</u>	<u>270,761</u>
Net position:						
Net investment in capital assets	800,141	787,634	90,055	89,780	890,196	877,414
Restricted	204,518	236,683	3,315	2,322	207,833	239,005
Unrestricted	56,582	23,756	44,636	35,758	101,218	59,514
Total net position	<u>\$ 1,061,241</u>	<u>\$ 1,048,073</u>	<u>\$ 138,006</u>	<u>\$ 127,860</u>	<u>\$ 1,199,247</u>	<u>\$ 1,175,933</u>

An additional portion of the City of Santa Ana's governmental activities net position (19.27%) represents resources that are subject to external restrictions on how they may be used. As of June 30, 2013 the City's governmental activities unrestricted net position is a positive \$56,582 or 5.33% of net position. The government's total net position increased by \$23,314 for the current fiscal year. The largest component of this increase is due primarily to the City's expenditures were under the revenues 5.97% as the results of the saving in labor cost and the hiring freeze.

At the end of the current fiscal year, the City of Santa Ana is able to report positive balances in three categories of net position for its governmental activities. In the business-type activities, the City also has positive balances in the three categories of net position. The same holds true for the prior fiscal year.

Governmental activities. Governmental activities increased the City of Santa Ana's net position by \$13,168, thereby accounting for 56.48 % of the total growth in net position. Key elements related to the increase are as follows:

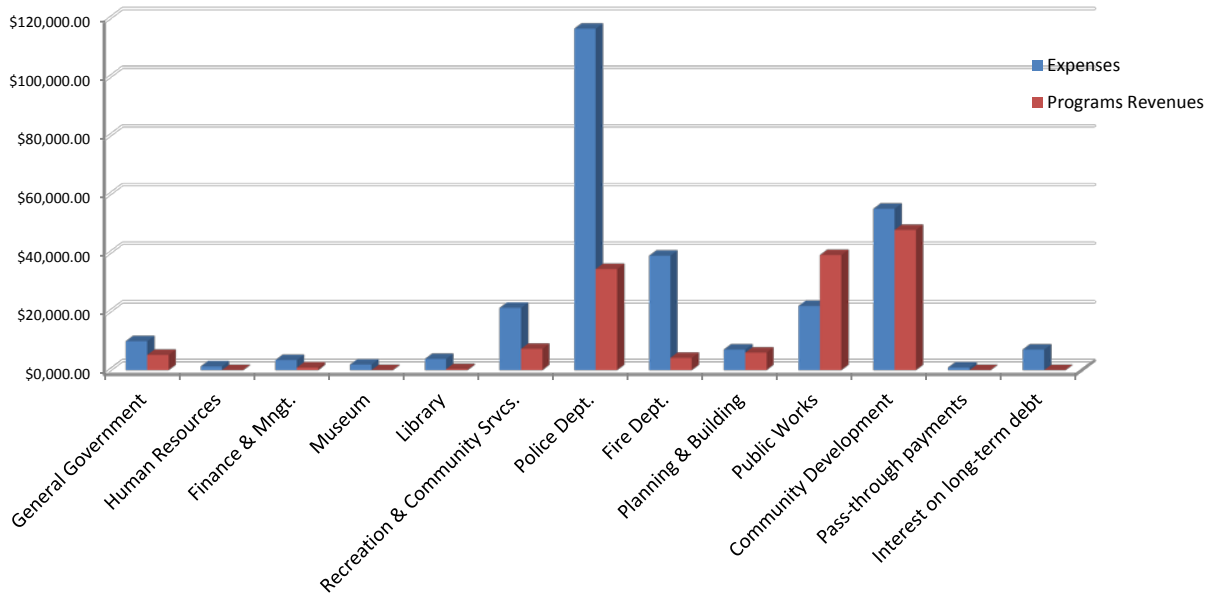
City of Santa Ana's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 51,484	\$ 82,965	\$ 89,212	\$ 86,460	\$ 140,696	\$ 169,425
Operating grants and contribution	64,700	75,051	22	666	64,722	75,717
Capital grants and contribution	29,214	37,001	-	-	29,214	37,001
General revenues:						
Property taxes	62,347	87,190	-	-	62,347	87,190
Sales taxes	40,978	38,744	-	-	40,978	38,744
Hotels visitor's taxes	7,490	7,024	-	-	7,490	7,024
Utility users taxes	24,415	24,367	-	-	24,415	24,367
Business taxes	10,671	10,318	-	-	10,671	10,318
Franchise taxes	9,001	7,460	-	-	9,001	7,460
Other taxes	962	1,401	-	-	962	1,401
Intergovernmental, unrestricted	833	466	-	-	833	466
Investment income	(1,292)	951	(322)	152	(1,614)	1,103
Others	617	863	-	-	617	863
Total revenues	301,420	373,801	88,912	87,278	390,332	461,079
Expenses:						
General government	9,879	7,607	-	-	9,879	7,607
Human resources	1,296	1,396	-	-	1,296	1,396
Finance and management services	3,453	2,361	-	-	3,453	2,361
Museum	1,908	1,949	-	-	1,908	1,949
Library	3,831	3,706	-	-	3,831	3,706
Recreation and community services	21,256	18,247	-	-	21,256	18,247
Police department	116,418	98,802	-	-	116,418	98,802
Fire department	39,026	40,712	-	-	39,026	40,712
Planning and building	7,033	7,610	-	-	7,033	7,610
Public works	21,899	18,538	-	-	21,899	18,538
Community development	55,016	77,219	-	-	55,016	77,219
Pass-through payments to districts and other agencies	915	3,393	-	-	915	3,393
County administrative charge	-	1,547	-	-	-	1,547
Interest on long-term debt	7,027	8,669	-	-	7,027	8,669
Water	-	-	44,527	49,271	44,527	49,271
Parking	-	-	2,756	2,963	2,756	2,963
Refuse	-	-	16,122	16,024	16,122	16,024
Transportation center	-	-	1,317	1,280	1,317	1,280
Sewer	-	-	4,351	4,268	4,351	4,268
Sanitation	-	-	7,913	8,417	7,913	8,417
Federal clean water protection	-	-	1,780	1,637	1,780	1,637
Total expenses	288,957	291,756	78,766	83,860	367,723	375,616
Increase in net position before						
Extraordinary Gain	12,463	82,045	10,146	3,418	22,609	85,463
Extraordinary Gain	705	25,440	-	-	705	-
Increase in net position	13,168	107,485	10,146	3,418	23,314	110,903
Net position beginning	1,048,073	940,588	127,860	124,442	1,175,933	1,065,030
Net position ending	\$ 1,061,241	\$ 1,048,073	\$ 138,006	\$ 127,860	\$ 1,199,247	\$ 1,175,933

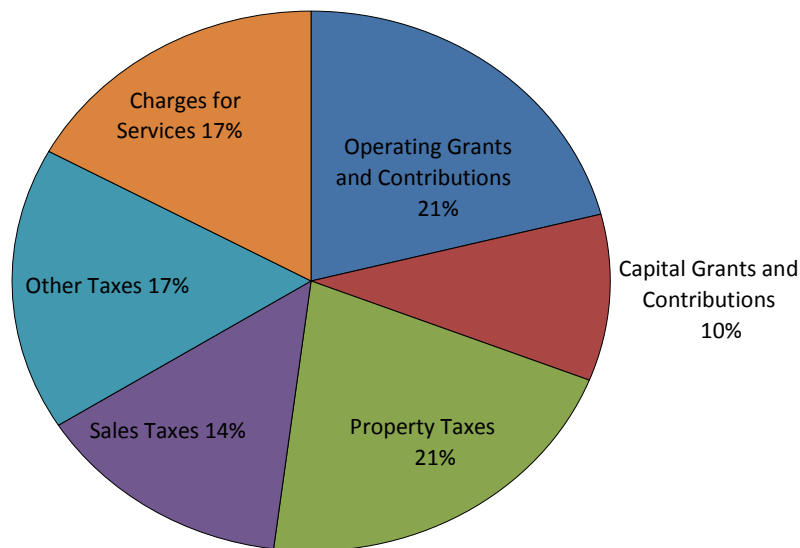
Property taxes decreased by \$24,843 (28.49 %) during the year as the result of the dissolution of the RDA and the resulting decline in property tax revenues known as Redevelopment Tax Increment. Sales tax and Hotel Visitors' tax revenue under the governmental activities increased by \$2,234 (5.77 %) and \$466 (6.63%) respectively showing signs of modest growth. Business tax and Franchise tax also increased 3.43% and 20.66% respectively. Charges for Services decreased by \$31,481 (37.94 %) primary due to the decrease of \$33.7 million in conversion of new loans and notes receivable recorded in the Governmental Activities as deferred revenue because it does not meet the availability criterion. The new loans and notes receivable

decreased in fiscal year 2013 as the result of the dissolution of the RDA. Operating and capital grants and contributions for governmental activities decreased by \$18,138 (34.84 %) primary due to the dynamic of housing market improved and investor competition made it difficult for the Neighborhood Stabilization Program (NSP) and Home grant to acquire additional foreclosed properties at a discount therefore the grants were not expended and the revenue were not received for the current year. The City’s expenditures decrease 0.96% as the results of the saving in labor cost and the hiring freeze.

Expenses and Program revenues - Governmental Activities



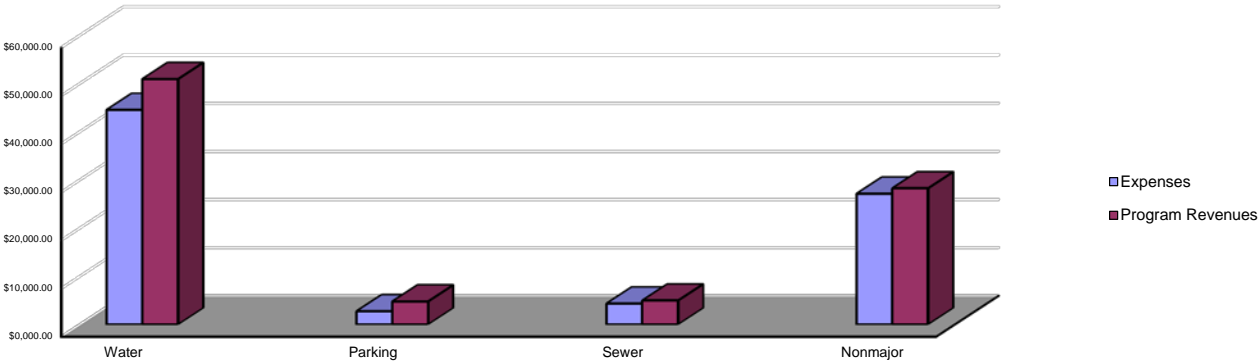
Revenue by Source - Governmental Activities



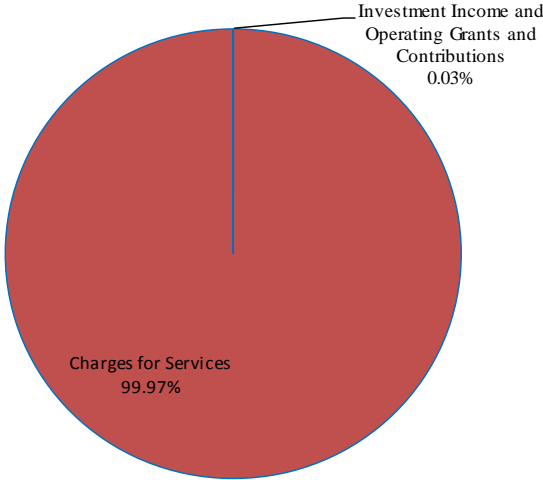
Business-type activities. Business-type activities increased the City of Santa Ana net position by \$10,146 accounting for 43.52 % of the total growth in the government's net position. Key elements of this increase are as follows:

- Charges for services in business-type activities increased by \$2,752 (3.18 %) as compared to the prior fiscal year. The Water Enterprise accounted for an increase of \$1,857, Parking Funds accounted for an increase of \$299, and Sewer Funds accounted for an increase of \$156. The nonmajor enterprise funds accounted for an increase of \$440. The increases in charges for services revenue were primary due to the increase in services demand.
- Investment earnings decrease by \$474 (311.84 %) for business-type activities. The decrease was due to the unrealized loss on the market value of the investment portfolio.
- Total expenses for business-type activities decreased by \$5,094 (6.07 %) as compared to the prior fiscal year. The decrease was primarily due to the saving in labor cost and the hiring freeze during fiscal year 2012-13.

Expenses and Program Revenues –Business-type Activities



Revenue by Source - Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Santa Ana uses fund accounting to ensure a demonstrated compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Santa Ana's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Santa Ana's financing requirements. In particular, *unassigned 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 the end of the current fiscal year, the City of Santa Ana's governmental funds reported combined ending total fund balances of \$135,027 of which \$29,122 constitutes the *unassigned fund balance*. The remainder of the total governmental fund balance is allocated as follows: 1) \$5,424 assigned to contractual obligations and continuing projects; 2) \$6,928 for non-spendable items; and 3) \$93,553 restricted for specific spending.

The General Fund is the chief operating fund of the City of Santa Ana. At the end of the current fiscal year, the fund balance of the general fund was \$39,379 (includes non-spendable amount of \$3,267, assigned amount of \$5,424, and unassigned amount of \$30,688) as compared to \$23,996 in fiscal year 11-12. Significant improvements in the general fund's fund balance were achieved as a result of a combination of modest improvements in the economy and well as the cost reduction strategy implemented over the past three years.

From a revenue perspective, Santa Ana's major revenue sources within the general fund continue to show signs that the economy is improving at a minimum, and experiencing modest growth. In fiscal year 12-13, sales tax and hotel visitors tax increased 4.42% and 2.11% respectively; property taxes increased 15.54% when compared to fiscal year 11-12. In addition, revenues tied to license and permits increased 2.49%.

From an expenditure reduction standpoint, the City responded to the financial challenges by implementing many cost reduction strategies which included; departmental consolidations/reorganizations, maintaining vacancies, reductions in workforce, offering retirement incentives, and achieving major concessions by renegotiating labor group agreements. In addition, on April 20, 2012, the City outsourced its fire services to the Orange County Fire Authority. In fiscal year 12-13 the expenditures for Fire department decreased \$12,376 (23.60%) compared to fiscal year 11-12.

As a measure of General Fund liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures, roughly a 15% to 20% reserve level. The City's unassigned fund balance in the General Fund is approximately 16.13 % of total 13-14 general fund operating expenditures.

The Special Revenue Grants' fund balance is \$7,822 in fiscal year 12-13 as compared to the fund balance of \$5,845 in fiscal year 11-12. The 33.81% increases were primary due to the 57.4% higher grant allocation received for Asset Forfeiture fund in fiscal year 12-13 as compared to fiscal year 11-12.

The Special Revenue Housing Authority's fund balance is \$4,059 in fiscal year 12-13 as compared to the fund balance of \$5,165 in fiscal year 11-12. The 21.42 % decrease was due to the reduction in administrative fee received from grant awards.

The Special Revenue Gas Tax Fund had a decrease in fund balance of \$239 in the current fiscal year. The decrease was primarily due to the spending of proceeds received from the issuance of Gas Tax Revenue Certificates of Participation for the 2007 Local Street Improvement Project.

The Capital Projects Housing Successor Agency fund had a fund balance decrease of \$11,456 in the current year. The decrease was due to the increase in expenditures to complete the Redevelopment Disposition and Development Housing projects.

The Capital Projects Street Construction Fund ended with a fund balance of \$15,457 in fiscal year 12-13 as compared to the fund balance of \$20,453 in fiscal year 11-12. The decrease was primarily due to street grant revenues did not received until fiscal year 13-14.

The Debt Service Santa Ana Financing Authority Fund had a decrease of \$197 in the current year. The decrease was primarily due to the principal and interest payments on the debt.

Proprietary funds. The City of Santa Ana's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Water fund ended the 12-13 fiscal year with total net position of \$79,708 as compared to net position of \$73,316 in fiscal year 11-12. The 8.72 % increase was primarily due to the increase in services demand and the labor cost saving.

The Parking fund ended with total net position of \$12,986 in fiscal year 12-13 as compared to the net position of \$10,970 in fiscal year 11-12. The increase represents the degree to which increases in ongoing revenues have outperformed similar increases in ongoing expenses.

The Sewer fund ended with total net position of \$24,358 in fiscal year 12-13 as compared to the net position of \$23,739 in fiscal year 11-12. The \$619 increase was primarily due to the increase in services demand.

Unrestricted net position related to business-type activities increased \$10,239 (24.83%) at the current fiscal year as compared to \$35,757 in fiscal year 11-12.

General Fund Budgetary Highlights

During the year, there was a \$2,430 increase in appropriations between the original and final amended budget. Following are the main components of the increase (decrease):

- \$1,853 to roll forward 2011-12 active purchase orders and contractual obligations into fiscal year 2012-13 budget.
- \$47 supplemental appropriation to the Parks, Recreation & Community Services Agency in anticipation of the fund received from the Verizon for the cell tower at Jerome Park.
- \$42 supplemental appropriation to the Parks, Recreation & Community Services Agency in anticipation of the fund received from carnival promoters for the 2013 carnival season.
- \$18 supplemental appropriation to the Police department in anticipation of funds received from the Real Estate Fraud Trust to be used to fund overtime for an investigator handling real estate fraud cases.
- \$61 supplemental appropriation to the Police department in anticipation of funds received from the California Endowment Program. The funding provided the Police Department resources to focus on Community Outreach efforts within the Building Healthy Communities Target Area.
- \$409 supplemental appropriation to the Police department in anticipation of fund received from the County of Orange for Assembly Bill 109 for Public Safety Realignment and Postrelease Community Supervision cost reimbursement.

By year-end, General Fund revenues amounted to \$208,808 which is approximately \$9,618 (or 4.83%) higher than final budgeted. The increases were primarily due to favorable variances in residual property taxes distributed from the County of Orange due to the RDA dissolution and the property tax administrative fee refund. The General Fund expenditures were less than budgeted by \$7,174 (or 3.95%). However, unfavorable expenditures variances of \$533 (or 10.16%) primarily were attributed to Public Works expenditures funded by higher than expected revenues.

Capital Asset and Debt Administration

Capital assets. The City of Santa Ana’s investment in capital assets for its governmental and business-type activities was \$1,052,233 (net of accumulated depreciation) as of June 30, 2013. This investment in capital assets includes land, right of way, street trees, buildings, improvements, machinery and equipment, park facilities, streets, and bridges.

City of Santa Ana Capital Assets
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 13,104	\$ 12,399	\$ 7,987	\$ 7,987	\$ 21,091	\$ 20,386
Rights of way	427,898	427,119	-	-	427,898	427,119
Street trees	7,031	7,031	-	-	7,031	7,031
Construction in progress	174,273	150,418	10,982	11,616	185,255	162,034
Building	80,416	86,350	2,559	2,778	82,975	89,128
Improvements	31,938	34,471	71,242	71,918	103,180	106,389
Equipment	9,266	9,310	4,319	4,458	13,585	13,768
Infrastructure	193,623	200,980	10,776	11,192	204,399	212,172
Intangible	5,516	6,140	237	251	5,753	6,391
Library materials	1,066	1,163	-	-	1,066	1,163
Total	\$ <u>944,131</u>	\$ <u>935,381</u>	\$ <u>108,102</u>	\$ <u>110,200</u>	\$ <u>1,052,233</u>	\$ <u>1,045,581</u>

At the end of the current fiscal year, the City’s total assets increased by \$6,652 (0.64 %). The increase is primarily due to the city-wide local streets improvement projects and Water Main improvements. Additional information on the City of Santa Ana’s capital assets can be found in Note 4B on pages 81-83 of this report.

Long-term debt. At the end of the current fiscal year, the City of Santa Ana had total bonded debt and loans outstanding of \$162,377. Of this amount, \$75,563 comprises debt backed by the full faith and credit of the government, \$85,470 represents bonds secured solely by specified revenue sources, \$166 in capitalized lease obligations and \$1,178 in long-term loans.

City of Santa Ana						
Long-term Bonded Debt and Loans						
	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Capital leases	166	1,565	-	-	166	1,565
Certificates-of-participation	72,910	74,510	-	-	72,910	74,510
Revenue bonds	71,785	76,370	13,685	14,565	85,470	90,935
Long-term loans and notes	352	1,709	826	992	1,178	2,701
Refunding certificates of participation	-	-	4,075	5,480	4,075	5,480
Less: Deferred amounts	(244)	(489)	(1,057)	(1,226)	(1,301)	(1,715)
Bond discounts	(877)	(910)	-	-	(877)	(910)
Add: Bond premium	238	477	518	609	756	1,086
Total	\$ 144,330	\$ 153,232	\$ 18,047	\$ 20,420	\$ 162,377	\$ 173,652

At the end of the current fiscal year, Governmental Activities long-term debt decreased by (\$8,902) and Long-term debt associated with Business-type Activities decreased (\$2,373) due to the principal repayment of existing debt. Additional information on the City of Santa Ana’s long-term debt can be found in Note 4D on pages 86 through 98.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Santa Ana is 2.5% (\$508,494). During the current fiscal year, total fund balance in the General Fund was \$39,379 (includes assigned amount of \$5,424 and unassigned amount of \$33,955). The assigned fund balance is of \$5,424 is committed to contractual obligations or assigned to continuing projects and incorporated into the 2013-2014 fiscal year.

As of May 10, 2013, Standard & Poor’s continued to report Santa Ana’s California series 2007 Gas Tax Revenue Certificates of Participation (COPs) and the Police Lease Revenue Bonds are stable at the rating A.

On September 12, 2012 Standard & Poor’s Rating Services removed from CreditWatch its underlying ratings (SPURs) on investment-grade tax allocation bonds (TABs) for various California redevelopment agency (RDA) successor agencies and assigned a stable outlook. Standard & Poor's also affirmed its ratings on the TABs . The 2003 Tax Allocation Bonds Series A, and 2003 Tax Allocation Refunding Bonds Series A and B and 2011 Tax Allocation Bonds Series A are stable at the rating A.

Economic Factors and Next Year's Budget and Rates

- The economy is showing signs of modest growth, which is reflected, in overall General Fund revenue exceeding budget by 4.8%.
- General Fund expenditures came in less than budgeted. The outsourcing fire and related services will continue to generate saving and impact next year’s budget in a positive manner.
- There is a general expectation that the City’s unemployment rate will continue to improve given the City’s positive sales tax, hotel visitor’s tax and business license revenue trends.

The City will continue to build upon its budget and financial policies to ensure future fiscal sustainability. In addition, the City will continue to carry out a work plan to ensure that all financial internal processes undergo an independent assessment as it moves towards financial stability.

Requests for Information

This financial report is designed to provide a general overview of the City of Santa Ana's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director of Finance & Mgmt. Services, City of Santa Ana, 20 Civic Center Plaza, Santa Ana, CA 92701.

CITY OF SANTA ANA, CALIFORNIA

Basic Financial Statements

SA

CITY OF SANTA ANA, CALIFORNIA

Government - wide Financial Statements

SA

Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (Note 4A)	\$ 170,302,208	\$ 44,026,770	\$ 214,328,978
Receivables (net of allowance for uncollectibles):			
Taxes	8,217,856	6,058	8,223,914
Interest	187,838	27,473	215,311
Accounts	4,251,417	15,010,827	19,262,244
Allowance for uncollectible accounts	-	(407,448)	(407,448)
Intergovernmental	10,478,315	-	10,478,315
Loans and notes (Note 4E)	108,990,162	-	108,990,162
Advance to Successor Agency to the Santa Ana Redevelopment Agency	4,751,291	-	4,751,291
Inventory of supplies	743,837	-	743,837
Prepaid items	3,275,886	-	3,275,886
Restricted assets:			
Cash and investments (Note 4A)	8,374,561	860,363	9,234,924
Cash and investments with fiscal agents (Note 4A)	12,591,489	187	12,591,676
Land held for resale	15,067,928	-	15,067,928
Capital assets, undepreciated (Note 4B)	622,306,380	18,969,044	641,275,424
Capital assets, net of accumulated depreciation (Note 4B)	321,824,408	89,132,763	410,957,171
Deferred issuance costs, net	1,593,578	-	1,593,578
Total assets	<u>1,292,957,154</u>	<u>167,626,037</u>	<u>1,460,583,191</u>
Liabilities:			
Accounts payable	12,576,043	6,822,819	19,398,862
Interest payable	63,449	233,171	296,620
Retention payable	394,933	10,752	405,685
Customer's deposits	542,093	1,385,015	1,927,108
Unearned revenue	12,495,193	92,519	12,587,712
Non current liabilities- due within one year (Note 4D)	19,608,597	3,063,979	22,672,576
Non current liabilities- due over one year (Note 4D)	173,116,008	16,449,229	189,565,237
Postemployment benefits obligation (Note 5F)	12,919,619	1,562,687	14,482,306
Total liabilities	<u>231,715,935</u>	<u>29,620,171</u>	<u>261,336,106</u>
Net Position:			
Net investment in capital assets	800,141,314	90,054,622	890,195,936
Restricted for:			
Debt service	8,826,743	-	8,826,743
Capital projects	8,714,580	-	8,714,580
National pollution discharge elimination system	-	3,315,532	3,315,532
Special revenue	60,016,408	-	60,016,408
Special revenue housing authority projects	92,922,117	-	92,922,117
Public works street improvements	34,038,094	-	34,038,094
Unrestricted	56,581,963	44,635,712	101,217,675
Total net position	<u>\$ 1,061,241,219</u>	<u>\$ 138,005,866</u>	<u>\$ 1,199,247,085</u>

See accompanying Notes to the Basic Financial Statements.

Statement of Activities
Year ended June 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 9,878,812	3,477,569	1,717,200	10,486
Human resources	1,296,319	-	-	-
Finance and management services	3,453,249	844,525	34,652	-
Museum	1,907,528	-	-	-
Library	3,831,459	103,909	251,310	-
Recreation and community services	21,254,932	3,206,816	2,899,723	1,168,019
Police department	116,417,920	22,584,537	11,875,989	-
Fire department	39,025,711	3,067,309	1,128,309	-
Planning and building	7,033,078	5,568,852	409,238	-
Public works	21,899,309	11,183,773	32,315	28,029,903
Community development	55,016,312	1,446,525	46,351,672	5,128
Pass-through payments to districts and other agencies	915,143	-	-	-
Interest on long-term debt	7,027,030	-	-	-
Total governmental activities	\$ 288,956,802	51,483,815	64,700,408	29,213,536
Business-type activities:				
Water	44,528,105	51,338,802	-	-
Parking	2,755,850	4,744,200	-	-
Refuse collections	16,121,898	16,650,371	22,157	-
Transportation center	1,316,542	868,766	-	-
Sewer	4,350,966	4,938,812	-	-
Sanitation	7,912,932	7,930,924	-	-
Federal clean water protection	1,780,020	2,740,465	-	-
Total business-type activities	78,766,313	89,212,340	22,157	-
Total	\$ 367,723,115	140,696,155	64,722,565	29,213,536

General revenues:

Property taxes
Sales taxes shared revenue
Hotels visitors' taxes
Utility users taxes
Business taxes
Franchise taxes
Other taxes
Intergovernmental, unrestricted
Investment loss
Other revenues

Total general revenues

Extraordinary gain

Change in net position

Net position - beginning

Net position - ending

See accompanying Notes to the Basic Financial Statements.

STATEMENT OF ACTIVITIES

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (4,673,557)	\$ -	\$ (4,673,557)
(1,296,319)	-	(1,296,319)
(2,574,072)	-	(2,574,072)
(1,907,528)	-	(1,907,528)
(3,476,240)	-	(3,476,240)
(13,980,374)	-	(13,980,374)
(81,957,394)	-	(81,957,394)
(34,830,093)	-	(34,830,093)
(1,054,988)	-	(1,054,988)
17,346,682	-	17,346,682
(7,212,987)	-	(7,212,987)
(915,143)	-	(915,143)
(7,027,030)	-	(7,027,030)
\$ (143,559,043)	\$ -	\$ (143,559,043)
-	6,810,697	6,810,697
-	1,988,350	1,988,350
-	550,630	550,630
-	(447,776)	(447,776)
-	587,846	587,846
-	17,992	17,992
-	960,445	960,445
-	10,468,184	10,468,184
\$ (143,559,043)	\$ 10,468,184	\$ (133,090,859)
62,346,898	-	62,346,898
40,977,594	-	40,977,594
7,490,325	-	7,490,325
24,414,675	-	24,414,675
10,671,117	-	10,671,117
9,000,988	-	9,000,988
961,982	-	961,982
833,428	-	833,428
(1,291,758)	(321,929)	(1,613,687)
617,142	-	617,142
156,022,391	(321,929)	155,700,462
704,522	-	704,522
13,167,870	10,146,255	23,314,125
1,048,073,349	127,859,611	1,175,932,960
\$ 1,061,241,219	\$ 138,005,866	\$ 1,199,247,085



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

Fund Financial Statements

SA

Governmental Funds

Major Governmental Funds

GENERAL FUND

The General Fund must be classified as a major fund and is used to account for revenues and expenditures that are not required to be accounted for in another fund.

SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the proceeds of special revenue sources that are restricted by law or administrative action to expenditures for specific purposes. The following have been classified as major funds in the accompanying financial statements:

Grants Fund is a combined report of various grants awarded to the City by the Federal, State, and local governments not otherwise accounted for in the General Fund or Capital Projects Funds. A detailed report by program is available under a separate report meeting the criteria of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, for all grants operated by the City.

Housing Authority Fund accounts for the receipt and disbursement of funds received from the U.S. Department of Housing and Urban Development to provide rental assistance programs for low income residents and senior citizens under Section 8 of the Federal Housing Act of 1937 as amended, and for the receipt of revenues from the issuance of Residential Mortgage Revenue Bonds. The City has elected to treat this fund as a major fund in the accompanying financial statements.

Gas Tax Fund accounts for the receipts and expenditures of money apportioned under Streets and Highway Code Sections 2105, 2106, and 2107 of the State of California.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds. The following Capital Projects Funds have been classified as major funds in the accompanying financial statements:

Capital Project Housing Successor Agency accounts for the receipts and expenditures relating to the Housing Successor Agency in accordance with the California Health and Safety Code.

Street Construction Fund accounts for the receipts and disbursements of funds for right-of-way acquisition, construction and improvements related to the City's street system. These projects are funded by gas taxes, Measure M, Intermodal Surface Transportation Efficiency Act and improvement fees.

DEBT SERVICE FUNDS

The Debt Service Funds account for the servicing of the long-term debt not being financed by proprietary or nonexpendable trust funds. The following Debt Service Fund has been classified as a major fund in the accompanying financial statements:

Santa Ana Financing Authority (SAFA) Fund accounts for the receipt of revenues and payment of debt service related to the Police Administration and Holding Facility Lease Revenue and the 1998 Refunding Revenue Bonds.

Nonmajor Governmental Funds

Other Governmental Funds - These funds constitute all other governmental funds that do not meet the major 10% tests of assets, liabilities, revenues or expenditures for the governmental funds and the 5% test of total assets, liabilities, revenues or expenditures for the total governmental and enterprise funds combined. These funds include other Special Revenue Funds and several Capital Projects Funds, including the Capital Grants Fund.

Balance Sheet
Governmental Funds
June 30, 2013

	General	Special Revenue Grants	Special Revenue Housing Authority	Special Revenue Gas Tax
Assets				
Cash and investments (Note 4A)	\$ 35,045,467	7,089,583	4,142,049	10,054,030
Receivables (net of allowance for uncollectibles):				
Taxes	8,217,856	-	-	-
Interest	35,558	3,862	2,053	9,738
Accounts	3,519,172	668,132	10,250	-
Intergovernmental	1,213,218	3,174,051	-	671,267
Loans and notes (Note 4E)	-	45,863,455	-	-
Prepaid items	3,266,819	-	9,067	-
Advances to other funds (Note 4C)	-	-	-	-
Restricted assets:				
Cash and investments (Note 4A)	-	-	-	8,105,783
Cash and investments with fiscal agents (Note 4A)	171,446	201,643	235,592	4,212,788
Land held for resale	-	-	-	-
Total assets	<u>\$ 51,469,536</u>	<u>57,000,726</u>	<u>4,399,011</u>	<u>23,053,606</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,538,269	3,272,797	94,105	259,676
Interest payable	52,006	-	-	-
Retention payable	-	105,021	-	-
Due to other funds (Note 4C)	-	-	-	-
Unearned revenues	5,284,311	45,801,058	245,842	-
Deposits	296,251	-	-	-
Advances payable to other funds (Note 4C)	2,920,000	-	-	-
Total liabilities	<u>12,090,837</u>	<u>49,178,876</u>	<u>339,947</u>	<u>259,676</u>
Fund balances:				
Nonspendable:				
Prepaid items	3,266,819	-	9,067	-
Surplus property from street projects	-	-	-	-
Restricted for:				
Community development	-	876,160	4,049,997	-
Debt service	-	-	-	-
Public safety	-	7,318,823	-	-
Street projects	-	-	-	22,793,930
Drainage construction	-	-	-	-
Other capital projects	-	-	-	-
Cultural recreation and community services	-	256,708	-	-
Land held for resale	-	-	-	-
Advance to private-purpose trust fund	-	-	-	-
Assigned to:				
Contractual obligations	1,654,659	-	-	-
Continuing projects	3,769,386	-	-	-
Unassigned: (Note 5H)	30,687,835	(629,841)	-	-
Total fund balances	<u>39,378,699</u>	<u>7,821,850</u>	<u>4,059,064</u>	<u>22,793,930</u>
Total liabilities and fund balances	<u>\$ 51,469,536</u>	<u>57,000,726</u>	<u>4,399,011</u>	<u>23,053,606</u>

See accompanying Notes to the Basic Financial Statements.

Capital Projects Housing Successor Agency	Capital Projects Street Construction	Debt Service SAFA	Nonmajor Governmental Funds	Total
9,344,727	18,239,522	524,895	15,873,396 \$	100,313,669
-	-	-	-	8,217,856
4,292	8,956	-	7,990	72,449
-	-	-	-	4,197,554
-	3,957,470	-	1,452,309	10,468,315
63,126,707	-	-	-	108,990,162
-	-	-	-	3,275,886
4,751,291	-	-	-	4,751,291
-	-	-	-	8,105,783
245,898	-	4,613,955	-	9,681,322
11,416,178	3,651,750	-	-	15,067,928
<u>88,889,093</u>	<u>25,857,698</u>	<u>5,138,850</u>	<u>17,333,695 \$</u>	<u>273,142,215</u>
26,040	3,800,397	185,657	436,810 \$	11,613,751
-	-	-	-	52,006
-	259,411	-	30,501	394,933
-	-	-	888,360	888,360
63,126,707	6,340,938	-	1,151,356	121,950,212
-	-	-	-	296,251
-	-	-	-	2,920,000
<u>63,152,747</u>	<u>10,400,746</u>	<u>185,657</u>	<u>2,507,027</u>	<u>138,115,513</u>
-	-	-	-	3,275,886
-	3,651,750	-	-	3,651,750
9,568,877	-	-	965,196	15,460,230
-	-	4,953,193	-	4,953,193
-	-	-	180,032	7,498,855
-	11,805,202	-	-	34,599,132
-	-	-	4,719,532	4,719,532
-	-	-	6,129,401	6,129,401
-	-	-	3,768,276	4,024,984
11,416,178	-	-	-	11,416,178
4,751,291	-	-	-	4,751,291
-	-	-	-	1,654,659
-	-	-	-	3,769,386
-	-	-	(935,769)	29,122,225
<u>25,736,346</u>	<u>15,456,952</u>	<u>4,953,193</u>	<u>14,826,668</u>	<u>135,026,702</u>
<u>88,889,093</u>	<u>25,857,698</u>	<u>5,138,850</u>	<u>17,333,695 \$</u>	<u>273,142,215</u>



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013**

Fund balances of governmental funds		\$ 135,026,702
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. This amount does not include the capital assets of the internal service funds which are reported below.		934,606,702
Long-term liabilities, including bonds payable, loans, capital leases, and compensated absences, are not due and payable in the current period and, therefore are not reported in the governmental funds. This amount does not include the long-term liabilities of the internal service funds which are included below.		
Long-term debt	(154,655,546)	
Compensated absences	<u>(20,107,176)</u>	(174,762,722)
Deferred issuance costs are amortized over the maturity of the debt on the statement of net position.		1,593,578
Accrued interest payable for the current portion of interest due on long-term liabilities is not reported in the governmental funds.		(11,443)
Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis in the governmental funds.		109,267,285
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are unrestricted in the governmental activities in the statement of net position.		<u>55,521,117</u>
Net position of governmental activities		<u>\$ 1,061,241,219</u>

See accompanying Notes to the Basic Financial Statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2013

	General	Special Revenue Grants	Special Revenue Housing Authority	Special Revenue Gas Tax
Revenues:				
Taxes	\$ 155,863,578	-	-	-
License and permits	4,032,104	-	-	-
Intergovernmental	2,565,674	29,157,832	30,167,422	8,061,948
Charges for services	8,320,787	13,109	-	-
Fines and forfeitures	6,934,990	-	-	-
Investment income	(332,600)	36,192	28,606	(234,345)
Cost recoveries	15,291,594	25,951	-	334
Rental income	15,151,127	-	-	-
Miscellaneous	980,962	1,229,591	248,676	-
Total revenues	<u>208,808,216</u>	<u>30,462,675</u>	<u>30,444,704</u>	<u>7,827,937</u>
Expenditures:				
Current:				
General government	8,013,949	-	-	-
Human resources	1,148,897	-	-	-
Finance and management services	3,189,486	-	-	-
Museum	1,474,285	-	-	-
Library	2,706,710	646,149	-	-
Recreation and community services	13,441,222	2,940,442	-	-
Police department	100,380,821	8,541,264	-	-
Fire department	40,061,952	20,000	-	-
Planning and building	5,666,348	942,776	-	-
Public works	5,775,751	-	-	2,472,513
Community development	511,324	10,419,247	31,550,889	-
Pass-through payments to districts and other agencies	-	915,143	-	-
Capital Outlay	244,642	4,061,265	-	-
Debt Service:				
Principal retirement	1,059,556	-	-	1,220,000
Interest and fiscal charges	768,007	-	-	2,964,081
Total expenditures	<u>184,442,950</u>	<u>28,486,286</u>	<u>31,550,889</u>	<u>6,656,594</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,365,266</u>	<u>1,976,389</u>	<u>(1,106,185)</u>	<u>1,171,343</u>
Other financing sources (uses):				
Transfers in (Note 4C)	721,420	-	-	-
Transfers out (Note 4C)	(9,704,318)	-	-	(1,410,346)
Total other financing sources (uses)	<u>(8,982,898)</u>	<u>-</u>	<u>-</u>	<u>(1,410,346)</u>
Net change in fund balances	15,382,368	1,976,389	(1,106,185)	(239,003)
Fund balances - beginning	<u>23,996,331</u>	<u>5,845,461</u>	<u>5,165,249</u>	<u>23,032,933</u>
Fund balances - ending	<u>\$ 39,378,699</u>	<u>7,821,850</u>	<u>4,059,064</u>	<u>22,793,930</u>

See accompanying Notes to the Basic Financial Statements.

GOVERNMENTAL FUNDS

Capital Projects Housing Successor Agency	Capital Projects Street Construction	Debt Service SAFA	Nonmajor Governmental Funds	Total
-	26,250	-	117,872	\$ 156,007,700
-	11,142	-	-	4,043,246
-	14,298,385	-	4,159,305	88,410,566
-	172,767	-	244,967	8,751,630
-	-	-	-	6,934,990
76,091	(53,900)	-	84,243	(395,713)
-	1,410,189	-	528,218	17,256,286
-	166,731	-	-	15,317,858
430,212	62,700	-	14,850	2,966,991
<u>506,303</u>	<u>16,094,264</u>	<u>-</u>	<u>5,149,455</u>	<u>299,293,554</u>
-	-	-	-	8,013,949
-	-	-	141,800	1,290,697
-	-	-	-	3,189,486
-	-	-	-	1,474,285
-	-	-	-	3,352,859
-	-	-	2,553,690	18,935,354
-	-	-	1,718,805	110,640,890
-	-	-	-	40,081,952
-	-	-	232,038	6,841,162
-	2,365,759	-	109,422	10,723,445
11,962,796	-	-	-	54,444,256
-	-	-	-	915,143
-	20,125,215	-	946,757	25,377,879
-	-	4,585,000	-	6,864,556
-	-	4,738,629	-	8,470,717
<u>11,962,796</u>	<u>22,490,974</u>	<u>9,323,629</u>	<u>5,702,512</u>	<u>300,616,630</u>
<u>(11,456,493)</u>	<u>(6,396,710)</u>	<u>(9,323,629)</u>	<u>(553,057)</u>	<u>(1,323,076)</u>
-	1,400,346	9,126,625	577,693	11,826,084
-	-	-	-	(11,114,664)
<u>-</u>	<u>1,400,346</u>	<u>9,126,625</u>	<u>577,693</u>	<u>711,420</u>
(11,456,493)	(4,996,364)	(197,004)	24,636	(611,656)
<u>37,192,839</u>	<u>20,453,316</u>	<u>5,150,197</u>	<u>14,802,032</u>	<u>135,638,358</u>
<u>25,736,346</u>	<u>15,456,952</u>	<u>4,953,193</u>	<u>14,826,668</u>	<u>\$ 135,026,702</u>

**Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2013**

Net change in fund balances-total governmental funds		\$ (611,656)
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 those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlay	25,377,879	
Donated assets	3,727,931	
Depreciation expense	(19,959,622)	
Net of deletion	<u>(47,926)</u>	9,098,262
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		(580,924)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, the governmental funds report the effect of the issuance of long-term debt issuance costs, premiums, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		5,442,929
Accrued interest for long term liabilities including bonds payable. This is the net change in accrued interest for the current period.		1,506,090
The increase in the OPEB obligation is reported in the statement of activities but does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.		(1,177,219)
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.		(1,214,134)
Extraordinary gain due to assets transferred from the Santa Ana Redevelopment Agency Private Trust Fund.		<u>704,522</u>
Change in net position with governmental activities		<u>\$ 13,167,870</u>

See accompanying Notes to the Basic Financial Statements.

Major Enterprise Funds

Enterprise Funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use the full accrual basis of accounting.

Water – For the provision of water services to the residential, commercial and industrial segments of the City.

Parking - For the provision of the parking meter program and the downtown parking structures operations.

Sewer - For the provision of providing cleaning, rehabilitation, and repair of sanitary sewer facilities and removal of sewer main blockages.

Statement of Net Position
Proprietary Funds
June 30, 2013

	Water	Parking
Assets:		
Current assets:		
Cash and investments (Note 4A)	\$ 24,081,543	5,871,137
Receivables:		
Taxes	-	-
Accounts	10,291,955	133,316
Allowance for uncollectible accounts	(301,862)	-
Intergovernmental	-	-
Interest	11,691	4,704
Due from other funds	-	-
Inventory of supplies	-	-
Total current assets	<u>34,083,327</u>	<u>6,009,157</u>
Noncurrent assets:		
Advances to other funds (Note 4C)	-	-
Restricted cash and investments (Note 4A)	860,363	-
Cash and investments with fiscal agent (Note 4A)	186	1
Capital assets (Note 4B):		
Land	603,545	3,591,049
Buildings	223,583	-
Improvements other than buildings	111,966,265	-
Equipment	13,665,126	347,553
Parking structures	-	14,748,556
Construction work in progress	7,947,896	-
Other assets	278,589	-
Less accumulated depreciation	(67,429,791)	(7,571,631)
Total capital assets (net of accumulated depreciation)	<u>67,255,213</u>	<u>11,115,527</u>
Total noncurrent assets	<u>68,115,762</u>	<u>11,115,528</u>
Total assets	<u>102,199,089</u>	<u>17,124,685</u>
Liabilities:		
Current liabilities:		
Accounts payable	5,568,556	46,452
Retention payable	4,043	-
Compensated absences payable (current portion) (Note 4D)	155,115	16,376
Notes payable (current portion) (Note 4D)	172,473	-
Interest payable	216,654	16,517
Deferred Revenue	-	-
Deposits payable	1,374,015	-
Claims payable (current portion) (Note 4D)	-	-
Revenue bonds payable (current portion) (Note 4D)	900,000	-
Certificates of participation payable (current portion) (Note 4D)	-	1,625,000
Total current liabilities	<u>8,390,856</u>	<u>1,704,345</u>
Noncurrent liabilities:		
Compensated absences payable	465,346	49,127
Notes payable	653,038	-
Claims payable	-	-
Postemployment benefits obligation	600,067	69,688
Revenue bonds payable, net of deferred amounts	12,381,809	-
Certificate of participation payable, net of deferred amounts	-	2,314,865
Total noncurrent liabilities	<u>14,100,260</u>	<u>2,433,680</u>
Total liabilities	<u>22,491,116</u>	<u>4,138,025</u>
Net position:		
Net investment in capital assets	53,147,893	7,175,662
Restricted for :		
National pollution discharge elimination system	-	-
Unrestricted	26,560,080	5,810,998
Total net position	<u>\$ 79,707,973</u>	<u>12,986,660</u>

See accompanying Notes to the Basic Financial Statements.

		Business-Type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer	Nonmajor	Total		
6,059,556	8,014,534	\$ 44,026,770	\$	69,988,539
-	6,058	6,058		-
878,103	3,707,453	15,010,827		53,863
(30,891)	(74,695)	(407,448)		-
-	-	-		10,000
5,040	6,038	27,473		57,281
-	-	-		888,360
-	-	-		743,837
<u>6,911,808</u>	<u>11,659,388</u>	<u>58,663,680</u>		<u>71,741,880</u>
-	-	-		2,920,000
-	-	860,363		268,778
-	-	187		2,910,167
-	3,792,491	7,987,085		-
-	8,607,909	8,831,492		-
37,330,206	4,009,534	153,306,005		859,017
102,310	19,592	14,134,581		31,435,282
-	4,817,296	19,565,852		-
2,836,213	197,850	10,981,959		-
-	-	278,589		6,244,193
(21,753,939)	(10,228,395)	(106,983,756)		(29,014,406)
<u>18,514,790</u>	<u>11,216,277</u>	<u>108,101,807</u>		<u>9,524,086</u>
<u>18,514,790</u>	<u>11,216,277</u>	<u>108,962,357</u>		<u>15,623,031</u>
<u>25,426,598</u>	<u>22,875,665</u>	<u>167,626,037</u>		<u>87,364,911</u>
590,680	617,131	6,822,819		962,292
4,790	1,919	10,752		-
60,403	134,612	366,506		417,624
-	-	172,473		-
-	-	233,171		-
-	92,519	92,519		-
-	11,000	1,385,015		-
-	-	-		7,386,057
-	-	900,000		-
-	-	1,625,000		-
<u>655,873</u>	<u>857,181</u>	<u>11,608,255</u>		<u>8,765,973</u>
181,208	403,836	1,099,517		1,252,869
-	-	653,038		-
-	-	-		19,230,453
231,838	661,094	1,562,687		2,594,499
-	-	12,381,809		-
-	-	2,314,865		-
<u>413,046</u>	<u>1,064,930</u>	<u>18,011,916</u>		<u>23,077,821</u>
<u>1,068,919</u>	<u>1,922,111</u>	<u>29,620,171</u>		<u>31,843,794</u>
18,514,790	11,216,277	90,054,622		9,524,086
-	3,315,532	3,315,532		-
5,842,889	6,421,745	44,635,712		45,997,031
<u>24,357,679</u>	<u>20,953,554</u>	<u>138,005,866</u>	\$	<u>55,521,117</u>

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended June 30, 2013

	Water	Parking	Sewer
Operating revenues:			
Charges for services	\$ 50,835,116	2,580,334	4,938,408
Miscellaneous	503,686	2,163,866	404
Total operating revenues	<u>51,338,802</u>	<u>4,744,200</u>	<u>4,938,812</u>
Operating expenses:			
Cost of goods sold	-	-	-
Personal services	3,883,644	692,263	1,750,457
Contractual services	11,027,568	1,269,882	800,738
Materials and supplies	11,430,534	27,229	685,879
Other services and charges	15,215,619	146,068	607,237
Administration	-	-	-
Insurance	-	-	-
Provision for self-insured losses	-	-	-
Depreciation	2,276,297	322,426	506,655
Total operating expenses	<u>43,833,662</u>	<u>2,457,868</u>	<u>4,350,966</u>
Operating income	<u>7,505,140</u>	<u>2,286,332</u>	<u>587,846</u>
Nonoperating revenues (expenses):			
Intergovernmental	-	-	-
Net (decrease) in the fair value of investment	(489,982)	-	-
Investment earnings	70,827	28,058	30,753
Interest expense	(694,443)	(297,982)	-
Loss on disposal of capital assets	-	-	-
Total nonoperating revenues (expenses)	<u>(1,113,598)</u>	<u>(269,924)</u>	<u>30,753</u>
Income (loss) before transfers	<u>6,391,542</u>	<u>2,016,408</u>	<u>618,599</u>
Transfers in (Note 4C)	-	-	-
Transfers out (Note 4C)	-	-	-
Change in net position	6,391,542	2,016,408	618,599
Net position - beginning	<u>73,316,431</u>	<u>10,970,252</u>	<u>23,739,080</u>
Net position - ending	<u>\$ 79,707,973</u>	<u>12,986,660</u>	<u>24,357,679</u>

See accompanying Notes to the Basic Financial Statements.

		Business-Type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds	
Nonmajor		Total			
21,479,802	\$	79,833,660	\$	53,374,621	
6,710,724		9,378,680		3,951,324	
28,190,526		89,212,340		57,325,945	
-		-		1,397,438	
3,960,041		10,286,405		10,557,186	
11,940,151		25,038,339		6,775,761	
101,582		12,245,224		2,470,177	
10,667,168		26,636,092		3,839,323	
-		-		5,872,519	
-		-		17,301,859	
-		-		6,489,492	
454,440		3,559,818		2,199,477	
27,123,382		77,765,878		56,903,232	
1,067,144		11,446,462		422,713	
22,157		22,157		-	
-		(489,982)		(1,255,407)	
38,415		168,053		353,886	
-		(992,425)		(23,906)	
(8,010)		(8,010)		-	
52,562		(1,300,207)		(925,427)	
1,119,706		10,146,255		(502,714)	
-		-		10,000	
-		-		(721,420)	
1,119,706		10,146,255		(1,214,134)	
19,833,848		127,859,611		56,735,251	
20,953,554	\$	138,005,866	\$	55,521,117	

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2013

	<u>Water</u>	<u>Parking</u>
Cash flows from operating activities:		
Receipts from customers	\$ 50,628,917	2,516,272
Receipts from interfund services provided	-	-
Receipts from other operating sources	503,686	2,163,866
Payments to suppliers for goods and services	(38,719,299)	(1,451,688)
Payments from interfund services used	-	-
Payments to employees	<u>(3,671,701)</u>	<u>(658,363)</u>
Net cash provided by operating activities	<u>8,741,603</u>	<u>2,570,087</u>
Cash flows from noncapital financing activities:		
Intergovernment contribution	-	-
Transfer in	-	-
Transfer out	<u>-</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(550,771)	-
Retirement of long-term liabilities	(1,012,991)	(1,405,000)
Interest paid	<u>(705,311)</u>	<u>(257,913)</u>
Net cash provided by (used for) capital and related financing activities	<u>(2,269,073)</u>	<u>(1,662,913)</u>
Cash flows from investing activities:		
Interest received	68,040	27,692
Net (decrease) in the fair value of investment	<u>(489,982)</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(421,942)</u>	<u>27,692</u>
Net increase (decrease) in cash and cash equivalents	6,050,588	934,866
Cash and cash equivalents - beginning	<u>18,891,504</u>	<u>4,936,272</u>
Cash and cash equivalents - ending (Includes restricted assets)	<u>\$ 24,942,092</u>	<u>5,871,138</u>

See accompanying Notes to the Basic Financial Statements.

		Business -Type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer	Nonmajor	Totals		
4,893,987	21,384,641	\$ 79,423,817	\$	-
-	-	-		53,362,839
404	6,710,724	9,378,680		3,909,714
(1,767,777)	(22,403,272)	(64,342,036)		(40,277,719)
-	-	-		(2,024,296)
(1,643,738)	(3,857,144)	(9,830,946)		(12,071,477)
<u>1,482,876</u>	<u>1,834,949</u>	<u>14,629,515</u>		<u>2,899,061</u>
-	114,676	114,676		-
-	-	-		10,000
-	-	-		(501,420)
<u>-</u>	<u>114,676</u>	<u>114,676</u>		<u>(491,420)</u>
(798,018)	(120,900)	(1,469,689)		(1,146,837)
-	-	(2,417,991)		(1,074,235)
-	-	(963,224)		(23,906)
<u>(798,018)</u>	<u>(120,900)</u>	<u>(4,850,904)</u>		<u>(2,244,978)</u>
30,485	37,981	164,198		367,833
-	-	(489,982)		(1,255,407)
<u>30,485</u>	<u>37,981</u>	<u>(325,784)</u>		<u>(887,574)</u>
715,343	1,866,706	9,567,503		(724,911)
<u>5,344,213</u>	<u>6,147,828</u>	<u>35,319,817</u>		<u>73,892,395</u>
<u>6,059,556</u>	<u>8,014,534</u>	<u>\$ 44,887,320</u>	<u>\$</u>	<u>73,167,484</u>

Continued

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2013

	<u>Water</u>	<u>Parking</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,505,140	2,286,332
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,276,297	322,426
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(221,981)	(64,062)
Decrease (increase) in inventory of supply	-	-
Increase (decrease) in accounts payable	(1,049,621)	3,075
Increase (decrease) in compensated absences payable	94,563	18,876
Increase (decrease) in deposits payable	15,782	-
Increase (decrease) in retention payable	4,043	(11,584)
Increase (decrease) in claims payable	-	-
Increase (decrease) in postemployment benefits obligation	117,380	15,024
Net cash provided by operating activities	<u>\$ 8,741,603</u>	<u>2,570,087</u>
Noncash investing, capital, and financing activities:		
(Decrease) in fair value of investments	<u>\$ (489,982)</u>	<u>-</u>

See accompanying Notes to the Basic Financial Statements.

Sewer	Nonmajor	Business -Type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
			Total	
587,846	1,067,144	\$	11,446,462	\$ 422,713
506,655	454,440		3,559,818	2,199,477
(44,421)	(95,161)		(425,625)	518,112
-	-		-	88,929
326,077	305,629		(414,840)	60,835
54,726	(21,178)		146,987	(131,292)
-	-		15,782	-
-	-		(7,541)	-
-	-		-	(680,979)
51,993	124,075		308,472	421,266
<u>1,482,876</u>	<u>1,834,949</u>	\$	<u>14,629,515</u>	\$ <u>2,899,061</u>
<u>-</u>	<u>-</u>	\$	<u>(489,982)</u>	\$ <u>(1,255,407)</u>

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Agency</u>	<u>Santa Ana Redevelopment Agency Private-Purpose Trust Fund</u>
Assets		
Current assets:		
Cash and investments (Note 4A)	\$ 27,873,973	\$ 64,811,889
Cash and investments with fiscal agents	-	6,679,284
Receivables:		
Accounts		35,559
Loans and notes	234,333	-
Interest	12,881	16,972
Land held for redevelopment	-	429,700
Nondepreciable capital assets	-	593,919
Deferred issuance costs, net	-	590,227
	<u> </u>	<u> </u>
Total assets	\$ 28,121,187	73,157,550
Liabilities		
Accounts payable	\$ 18,442	\$ 154,378
Interest payable	-	2,574,961
Notes payable	234,333	-
Due to City employees	4,997,657	-
Due to governmental agencies	22,870,755	-
Advance from other funds		4,751,291
Long-term liabilities:		
Due within one year	-	3,844,490
Due in more than one year	-	102,663,185
	<u> </u>	<u> </u>
Total liabilities	\$ 28,121,187	\$ 113,988,305
Net position (deficit)		
Held in trust for other purposes	\$ -	\$ (40,830,755)

See accompanying Notes to the Basic Financial Statements.

Statement of Changes in Fiduciary Net Position
Santa Ana Redevelopment Agency Private-Purpose Trust Fund
Year ended June 30, 2013

Additions:

Property taxes	\$ 19,934,531
Investment earnings	180,155
Other	<u>215,698</u>
Total additions	<u>20,330,384</u>

Deductions:

Program expenses	2,196,451
Administrative expenses	266,148
Payment to Orange County Auditor Controller	10,644,760
Interest and fiscal agency expenses	<u>6,559,260</u>
Total deductions	<u>19,666,619</u>

Extraordinary loss	<u>(704,522)</u>
Change in net position	(40,757)
Net position (deficit) - beginning	<u>(40,789,998)</u>
Net position (deficit) - ending	<u><u>\$ (40,830,755)</u></u>

See accompanying Notes to the Basic Financial Statements.



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

**Notes to the
Basic
Financial Statements**

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Notes to the Basic Financial Statements, JUNE 30, 2013

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Santa Ana (the “City”) was incorporated on June 1, 1886, and operates under a Council/Manager form of government. The Council is composed of an elected Mayor and six Council members. As required by generally accepted accounting principles, these financial statements present the government and its component units for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with the data of the primary government. Each blended component unit as described below has a June 30 year-end. The City has no discretely presented component units.

Blended Component Units

The Successor Agency

The Community Redevelopment Agency (RDA) was originally established in 1973 to eliminate blighted areas through the redevelopment of six project areas under provisions of the California Community Development Law. On June 28, 2011, the Governor of the State of California signed two bills that impacted redevelopment agencies throughout the State, Assembly Bills X1 26 (ABX1 26 -Dissolution bill) and Assembly Bills X1 27 (ABX1 27 - Continuation bill), as part of the 2011-2012 State’s budget package. The California Redevelopment Association (CRA) and League of California Cities filed a lawsuit (CRA v Matosantos) challenging the constitutionality of this legislation. Subsequently on December 29, 2011, the Supreme Court issued its ruling and upheld ABX1 26 but struck down AB1X 27. On January 9, 2012, the City adopted a resolution declaring its intent to serve as the Successor Agency to the RDA (Successor Agency) and designating the Housing Authority of the City of Santa Ana to serve as the Housing Successor Agency.

The City of Santa Ana, serving as the Successor Agency, has assumed the former Agency's assets, rights, and obligations under the California Community Redevelopment Law, subject to some limitations, and is winding down the former Agency's affairs and taking other actions in accordance with the dissolution provisions in Part 1.85 of AB 26. Assembly Bill X1 26 (ABX1 26) gives the Oversight Board authority over the former Redevelopment Agency's financial affairs. The Oversight Board has seven members comprised of the city’s elected council. The Successor Agency is a separate legal entity from the City and its financial data and transactions are included within the Santa Ana Redevelopment Agency Private-Purpose Trust Fund. There is no separate Component Unit Financial Report (CUFR) prepared for the Successor Agency.

Housing Authority of the City of Santa Ana

The Housing Authority (the “Authority”) was established in 1972 pursuant to Housing Authority Laws of California to provide rental assistance programs to low-income families and senior citizens, and to operate a Housing Rehabilitation Loan Program. The Authority is governed by a commission of seven members comprised of the City Council, which designates management and

has full accountability for the Authority's fiscal affairs. The Authority's financial data and transactions are included within the special revenue Housing Authority fund. As it was indicated in the above, on January 9, 2012, the City adopted a resolution designating the Housing Authority of the City of Santa Ana to serve as the Housing Successor Agency. The Housing Successor Agency's financial data and transactions are included within the Capital Projects Housing Successor Agency fund. There is no separate Component Unit Financial Report (CUFR) prepared for the Authority.

Santa Ana Financing Authority

The Santa Ana Financing Authority (SAFA) was organized in August 1993, for the primary purpose of assisting in the financing and refinancing of certain redevelopment activities of the RDA and certain public programs and projects of the City. The City is legally obligated to provide resources in case there are deficiencies in debt service payment and resources are not available from any other remedies. The Financing Authority is administered by a board whose members shall be, at all times, the Mayor of the City and the members of the City Council. The SAFA's board has full accountability for the Financing Authority's fiscal affairs. The SAFA's financial data and transactions are included within the debt service funds and the Water Enterprise Fund. There is no separate Component Unit Financial Report (CUFR) prepared for SAFA.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its blended component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentations

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency funds, however, are unlike all other types of funds, reporting only assets and liabilities. Therefore the agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, utility users taxes, hotel visitors' taxes, interest and business taxes are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant funds received before the revenue recognition criteria have been met are reported as deferred revenues.

The City reports the following major governmental funds:

General Fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Special Revenue Grants Fund. This fund accounts for revenue sources awarded to the City by the Federal, State and local governments not otherwise accounted for in the General Fund or capital projects funds.

Special Revenue Housing Authority Fund. This fund accounts for the receipt and disbursement of funds received from the U.S. Department of Housing and Urban Development to provide rental assistance under Section 8 of the Federal Housing Act as amended. The City has elected to treat this fund as a major governmental fund.

Special Revenue Gas Tax Fund. This fund is used to account for the receipts and expenditures of money apportioned under Streets and Highway Code Sections 2105, 2106 and 2107 of the State of California.

Capital Projects Housing Successor Agency. This fund accounts for the receipts and expenditures relating to the Housing Successor Agency in accordance with the California Health and Safety Code.

Capital Projects Street Construction Fund. This fund is used to account for the receipts and disbursements of funds for right-of-way acquisition, construction and improvements related to the City's street system. These projects are funded by gas taxes, Measure M, Intermodal Surface Transportation Efficiency Act and improvement fees.

Santa Ana (SAFA) Financing Authority Debt Service Fund. This fund accounts for the receipt of revenues and payment of debt service related to the Police Administration and Holding Facility Lease Revenue Bonds.

The City reports the following major proprietary funds:

Water Enterprise Fund. This fund is used to account for the provision of water services to the residential, commercial and industrial segments of the City.

Parking Enterprise Fund. This fund is used to account for the provision of the parking meter program and the downtown parking structures operation of the City.

Sewer Fund. This fund is used to account for the provision of the cost of cleaning, rehabilitating, repairing of sanitary sewer facilities and removing of sewer main blockages.

Additionally, the City reports the following fund types:

Internal Service Funds. These funds account for fleet services, facilities management, equipment maintenance and replacement, the administration of the self-insurance programs, installation and maintenance of all data networking and financial management systems, engineering, designing, project management and construction services, and training and support services provided to other departments or agencies of the City, on a cost reimbursement basis.

Agency Funds. These funds are used to account for money and property held by the City as trustee or custodian. Among the activities are the disposition of funds charged to departments for the payment of salaries and retirement benefits to City employees, deposits made for the account of other governmental agencies, developers, tax increment pass-through and others under the terms of agreements for which the deposits were made.

Santa Ana Redevelopment Agency Private-Purpose Trust Fund. This fund accounts for the receipt of property tax revenues pursuant to the Dissolution Act and the value of assets transferred from the former RDA. The fund accounts for the expenses incurred during the reporting year pursuant to the Recognized Obligation Payment Schedules (ROPS) approved by the State Department of Finance under the Dissolution Act. (AB 26 –Section 34177)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and other enterprise functions, and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds, and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Position/Fund Balance

Cash and Investments. For purposes of the statement of cash flows, the City considered cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling the cash and investments of all funds, including the City's enterprise, internal service, agency funds and private-purpose trust fund. As amounts are available to these funds on demand, all cash and investments are considered to be cash and cash equivalents for statement of cash flows purposes.

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during the fiscal year are recognized as revenue from investment income (governmental funds) and net change in the fair value of investment (proprietary funds). These revenues include interest earnings, changes in fair value, rentals, leases and any gains or losses realized upon liquidation, maturity, or sale of investments.

The City carries certain investments, which include money market securities (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less, at amortized cost.

Cash and investments are pooled to maximize investment yields. The net change in fair value and interest earned on the investments is allocated monthly to the respective funds based on each fund's daily average cash and investments balance.

Cash and Investments with Fiscal Agents. This account includes unexpended bond proceeds and amounts set aside for payment of debt service.

Interagency Receivables and Payables. Interagency current receivables and payables are classified as amounts "due from" and "due to" other funds. Interagency long-term receivables and payables with a repayment schedule are classified as "advances to" and "advances from" other

funds. Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property Taxes. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in September and are payable in two installments due on November 1, and February 1, and are considered delinquent after December 10 and April 10, respectively. The County of Orange, California bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied on the government-wide statements, and to the extent that they result in current receivables within 60 days in the governmental funds financial statements.

The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

Inventories. Inventories of materials and supplies are valued at average cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Land Held for Resale. Land held for resale is carried at the lower of cost or estimated net realizable value, as determined upon the execution of a disposition and development agreement.

Restricted Assets. Certain proceeds of the City’s long-term debt proceeds are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$14,586,217. No interest amount was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Parking Structures	30-50
Building Improvements	20-30
Public domain infrastructure	20-50
Storm Drain Pipe, Catch Basins , Sewer System	75
Water System	50
Vehicles	3-15
Office and Computer Equipment	3-5
Library Materials	6
Intangible	5-20

Arbitrage Liability. Any liability for arbitrated interest is recorded in the fund incurring the liability and interest income is reduced by the amount of liability incurred during the year.

Compensated Absences. It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for unpaid accumulated sick leave is accrued for employees who have attained ten (10) years or more of continuous service equivalent to one-third (1/3) of the total accumulated sick leave benefit credited to the employee, to a maximum of 427 hours for each employee. All vacation, compensated time, and vested sick leave pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example as a result of employee resignations and retirements.

Long-term Obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund type statement of net position or private-purpose trust fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Balance. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013, fund balances for government funds are made up of the followings:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. The City Council adopts a motion to this effect by the affirmative votes of at least two-thirds (2/3) of the members of the city council to commit fund balance by an ordinance prior to the end of the fiscal year. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance* – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The governing council (council) has by resolution authorized the Finance Director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- *Unassigned Fund Balance* – is the residual classification for the General Fund including all amounts not contained in the other classifications and the residual negative fund balance of governmental funds other than the General Fund. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, it is the City’s policies the fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Note 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Position

The "total fund balances" of the City's governmental funds \$135,026,702 differs from "net position" of governmental activities \$1,061,241,219 reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets.

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$	1,317,994,764
Accumulated depreciation		<u>(383,388,062)</u>
Total capital assets, net	\$	<u><u>934,606,702</u></u>

Long-Term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Long-term liabilities of the internal service funds of \$30,881,502 are included in the internal service funds adjustment.

Capitalized lease obligations payable	\$	(166,487)
Certificates of participation		(72,910,000)
Lease revenue bonds payable		(71,785,000)
Long-term loans payable		(352,396)
Compensated absences payable		(20,107,176)
Postemployment benefit obligation		(10,325,119)
Bond premium		(238,350)
Bond discount		877,453
Less: Deferred amount on refunding		<u>244,353</u>
Total governmental activities long-term debt	\$	<u><u>(174,762,722)</u></u>

Deferred issuance costs

Deferred issuance costs are amortized over the maturity of the debt on the statement of net position.

Deferred issuance costs	\$	<u><u>1,593,578</u></u>
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Accrued Interest

Accrued liabilities in the statement of net position differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable.

Accrued interest added	\$	<u><u>(11,443)</u></u>
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities to individual City funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position, because they primarily serve governmental activities of the City.

Internal service - net position	\$ <u>55,521,117</u>
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Deferred Revenues

Various home loans and RDA Housing Rehabilitation loans guaranteed by deeds of trust are not available to pay for current period expenditures and are deferred in the fund statements, but eliminated in the government-wide financial statements.

Net reclassifications	\$ <u>109,267,285</u>
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B. Explanation of Differences between Governmental Funds Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds \$(611,656) differs from the “change in net position” for governmental activities \$13,167,870 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreased by the amount of depreciation expense charged for the year. The effect of changes in internal service funds capital assets of (\$1,052,640) are not reflected in the adjustment below:

Capital outlay	\$ 25,377,879
Donated assets	3,727,931
Depreciation expense	(19,959,622)
Net deletions	<u>(47,926)</u>
Difference	<u>\$ 9,098,262</u>

Long-term Debt Transactions

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Postemployment benefits obligation (less \$421,266 in internal service fund liabilities)	\$ <u>(1,177,219)</u>
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Repayment of debt service is reported as expenditure in governmental funds and, thus has the effect of reducing fund balances because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The effect of changes in internal service funds long-term debt of \$1,074,235 is reflected in the adjustment below:

Principal payments made:

Police administrative and holding facility lease revenue bonds	\$ 4,585,000
Certificates of participation	1,600,000
Long-term loans payable	1,495,610
Capitalized lease obligations	<u>1,398,788</u>
Total principal repayments	<u>9,079,398</u>
Internal service fund activity	(1,074,235)
Deferred issuance costs	(59,021)
Proceeds from long-term loan	(139,112)
Amortization of bonds issued premium	238,354
Amortization of bonds issued discount	(32,498)
Amortization of deferred charges	(244,351)
Net change in compensated absences	<u>(2,325,606)</u>
Net change	<u>\$ 5,442,929</u>

Accrued Interest

Accrued interest for long-term liabilities decreases net position in the government-wide financial statements. This is the net change in accrued interest for the current period.

Accrued interest	\$ <u>1,506,090</u>
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities to individual City funds. The change in the net amount of internal service funds are reported as governmental activities.

Net change in net assets - internal service funds \$ (1,214,134)

Deferred Revenues

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

Revenue adjustment \$ (580,924)

Extraordinary Gain

Extraordinary gain is due to assets transferred from the Santa Ana Redevelopment Agency Private-Purpose Trust Fund. The Oversight Board of the Successor Agency approved a resolution directing the transfer of title to these assets in City service (Governmental Use) to the City in June, 2012. The Quitclaim Deeds were processed and recorded by the County of Orange in July, 2012.

Extraordinary gain \$ 704,522

Note 3. FUND DEFICITS

At June 30, 2013, the deficit of \$935,769 in the nonmajor Capital Grants Capital Projects Fund is due primarily to the deferral of revenues due from granting agencies which did not meet the revenue recognition criteria in accordance with GASB Statement 33. Subsequent collection of the receivables from the granting agencies will reduce the deficits. The deficit of \$1,190,488 in the internal service Engineering and Administrative Services fund is due to a reduction in capital grants for projects and billing revenues received that was less than the engineering and administrative costs for streets improvements. In fiscal year 2014 -15, the Traffic Engineering cost will receive funding assistance from the General Fund.

Note 4. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 214,328,978
Restricted assets:	
Cash and investments	9,234,924
Cash and investments with fiscal agents	12,591,676
Statement of fiduciary net position:	
Cash and investments	92,685,862
Cash and investments with fiscal agents	<u>6,679,284</u>
Total cash and investments	<u>\$ 335,520,724</u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 858,000
Deposits with financial institutions	229,520
Investments	<u>334,433,204</u>
Totals	<u>\$ 335,520,724</u>

Investments Authorized by the California Government Code and the City of Santa Ana's Investment Policy

The table below identifies the investment types that are authorized for the City of Santa Ana (City) by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The investment types that are restricted by the City's investment policy are Reverse Repurchase Agreements, County Pooled Investment Funds, and JPA Pools. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	90 days	30%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	3 years	15%	5%
Mutual Funds investing in eligible securities	Yes	None	20%	10%
Money Market Mutual Funds	Yes	None	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	No	None	None	None
Local Agency Investment Fund (LAIF)	Yes	None	None	None
JPA Pools (other investment pools)	No	None	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Notes	None
Federal Agency Securities	None
Banker's Acceptances	180-365 Days
Certificates of Deposit	None
Commercial Paper	270 days
Municipal Obligations	None
Corporate bonds and notes	3 years
Money Market Mutual Funds	None
State of California Investment Pool	None
Savings Accounts	None
Money Market Deposit Accounts	None
Deposit Accounts	None
Investment Contracts	30 years
Repurchase Agreements	30 days

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 change in market interest rates. In accordance with the City's investment policy that was established by a resolution on June 18, 2012, interest rate risk may be mitigated by structuring the fund so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to the investment of securities, which will reduce the necessity to sell investments for liquidity purposes.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided in the following table reflecting the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be maturing at the next call date:

Investment Type	Total	Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More than 60 Months
Federal Agency Securities	\$ 215,746,960	\$ 39,673,931	\$ 4,992,100	\$ 171,080,929	\$ -
Commercial Paper Discount	50,000,000	50,000,000	-	-	-
Mortgage-backed Securities	259,250	-	-	-	259,250
Local Agency Investment Fund	49,839,167	49,839,167	-	-	-
Held by Fiscal Agent:					
Money Market Funds	11,908,547	11,908,547	-	-	-
Federal Agency Securities	6,679,280	6,679,280	-	-	-
	<u>\$ 334,433,204</u>	<u>\$ 158,100,925</u>	<u>\$ 4,992,100</u>	<u>\$ 171,080,929</u>	<u>\$ 259,250</u>

The City's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments	Fair Value at Year End
Callable agency securities with interest rates that increase in ranges from 2 percent to 7 percent	\$ 24,096,259

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 year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End			
			Aaa	Aa	A-1	Not Rated
Federal Agency Securities	\$ 215,746,960	N/A	\$ 215,746,960	\$ -	\$ -	\$ -
Commercial Paper Discount	50,000,000	N/A	-	-	50,000,000	-
Mortgage-backed Securities	259,250	N/A	-	-	-	259,250
Local Agency Investment Fund	49,839,167	N/A	-	-	-	49,839,167
Held by Fiscal Agent:						
Money Market Funds	11,908,547	A	-	8,998,381	-	2,910,166
Federal Agency Securities	6,679,280	N/A	6,679,280	-	-	-
	<u>\$ 334,433,204</u>		<u>\$ 222,426,240</u>	<u>\$ 8,998,381</u>	<u>\$ 50,000,000</u>	<u>\$ 53,008,583</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal agency securities	\$ 47,175,734
Federal Home Loan Mortgage Corp.	Federal agency securities	18,875,280
Federal National Mortgage Association	Federal agency securities	99,315,310
Federal Farm Credit Bank	Federal agency securities	45,437,667

Investments in any one issuer that represent 5% or more of total investments by reporting unit (governmental activities, major fund, nonmajor fund in the aggregate, etc.) are \$4,613,906, \$6,679,280 that were held by the bonds trustee and \$25 million of cash and investments pool. The amount of \$4,613,906 reported in the Santa Ana Financing Authority Debt Service Fund (a major fund of the City) is held in the form of Money Market fund and \$6,679,280 reported in the Successor Agency to the Santa Ana Redevelopment Private-Purpose Trust fund is held in the form of Federal Agency Security (the issuer). The \$25 million is in the City’s internal investment pool and held in Federal Home Loan Bank in two investments of \$15 million and \$10 million each.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits

made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

For investments identified herein as 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 City.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of June 30, 2013 was approximately \$21 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2013 had a balance of approximately \$58.8 billion, of that amount 1.96% (approximately \$1.15 billion) was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 278 days as of June 30, 2013.

B. Capital Assets. Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,398,937	\$ 704,522	\$ -	\$ 13,103,459
Right of way	427,118,325	780,000	-	427,898,325
Street trees	7,031,327	-	-	7,031,327
Construction in progress	150,417,791	26,973,698	(3,118,220)	174,273,269
Total capital assets not being depreciated	<u>596,966,380</u>	<u>28,458,220</u>	<u>(3,118,220)</u>	<u>622,306,380</u>
Capital assets being depreciated:				
Buildings	198,606,231	-	-	198,606,231
Improvements	74,483,376	-	-	74,483,376
Equipment	54,125,762	2,224,519	(2,327,889)	54,022,392
Infrastructure	391,354,782	3,118,221	(796,550)	393,676,453
Library materials	7,180,285	274,429	(260,483)	7,194,231
Computer software	6,244,193	-	-	6,244,193
Total capital assets being depreciated	<u>731,994,629</u>	<u>5,617,169</u>	<u>(3,384,922)</u>	<u>734,226,876</u>
Less: accumulated depreciation for:				
Buildings	(112,255,664)	(5,934,984)	-	(118,190,648)
Improvements	(40,012,055)	(2,533,627)	-	(42,545,682)
Equipment	(44,816,417)	(2,268,051)	2,327,889	(44,756,579)
Infrastructure	(190,375,310)	(10,426,328)	748,799	(200,052,839)
Library materials	(6,016,850)	(371,690)	260,309	(6,128,231)
Computer software	(104,070)	(624,419)	-	(728,489)
Total accumulated depreciation	<u>(393,580,366)</u>	<u>(22,159,099)</u>	<u>3,336,997</u>	<u>(412,402,468)</u>
Capital assets being depreciated, net	<u>338,414,263</u>	<u>(16,541,930)</u>	<u>(47,925)</u>	<u>321,824,408</u>
Governmental activities capital assets, net	<u>\$ 935,380,643</u>	<u>\$ 11,916,290</u>	<u>\$ (3,166,145)</u>	<u>\$ 944,130,788</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 7,987,085	\$ -	\$ -	\$ 7,987,085
Construction in progress	11,616,037	1,381,193	(2,015,271)	10,981,959
Total capital assets not being depreciated	19,603,122	1,381,193	(2,015,271)	18,969,044
Capital assets being depreciated:				
Buildings	8,831,492	-	-	8,831,492
Water system and other improvements	151,361,389	2,015,271	(70,655)	153,306,005
Equipment	14,091,478	88,497	(45,394)	14,134,581
Parking structures	19,565,852	-	-	19,565,852
Computer software	278,589	-	-	278,589
Total capital assets being depreciated	194,128,800	2,103,768	(116,049)	196,116,519
Less: accumulated depreciation for:				
Buildings	(6,053,548)	(218,482)	-	(6,272,030)
Improvements other than buildings	(79,442,631)	(2,692,560)	70,655	(82,064,536)
Equipment	(9,633,646)	(219,443)	37,385	(9,815,704)
Parking structures	(8,374,295)	(415,403)	-	(8,789,698)
Computer software	(27,858)	(13,930)	-	(41,788)
Total accumulated depreciation	(103,531,978)	(3,559,818)	108,040	(106,983,756)
Capital assets being depreciated, net	90,596,822	(1,456,050)	(8,009)	89,132,763
Business-type capital assets, net	\$ 110,199,944	\$ (74,857)	\$ (2,023,280)	\$ 108,101,807

Governmental activities:

General government	\$ 1,386,351
Museum	435,649
Library	451,279
Recreation and community services	2,216,396
Police	3,932,943
Fire	482,606
Public works	10,765,095
Community development	289,303
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	2,199,477
Total depreciation expense - governmental activities	\$ 22,159,099

Business-type activities:	
Water	\$ 2,276,297
Parking	322,426
Transportation Center	422,193
Sewer	506,655
Sanitation	4,896
Federal Clean Water	<u>27,351</u>
Total depreciation expense - business-type activities	<u>\$ 3,559,818</u>

Successor Agency capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases/</u> <u>Transfers</u>	<u>Ending</u> <u>Balance</u>
Private Trust activities:				
Capital assets, not being depreciated:				
Land	\$ 704,522	\$ -	\$ (704,522)	\$ -
Construction in progress	<u>347,240</u>	<u>246,679</u>	<u>-</u>	<u>593,919</u>
Total capital assets not being depreciated	<u>1,051,762</u>	<u>246,679</u>	<u>(704,522)</u>	<u>593,919</u>
Capital assets being depreciated:				
Equipment	<u>65,058</u>	<u>-</u>	<u>-</u>	<u>65,058</u>
Total capital assets being depreciated	<u>65,058</u>	<u>-</u>	<u>-</u>	<u>65,058</u>
Less: accumulated depreciation for:				
Equipment	<u>(65,058)</u>	<u>-</u>	<u>-</u>	<u>(65,058)</u>
Total accumulated depreciation	<u>(65,058)</u>	<u>-</u>	<u>-</u>	<u>(65,058)</u>
Capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Private-purpose trust capital assets	<u>\$ 1,051,762</u>	<u>\$ 246,679</u>	<u>\$ (704,522)</u>	<u>\$ 593,919</u>

Construction Commitments

The City has active construction projects as of June 30, 2013. The projects include street widening and improvements, various park improvements, improvements to the water system, sewer improvements and storm drain improvements.

Projects:	Spent-to date	Remaining Commitment	Total Project Budget
Street widening and improvements	\$ 175,280,290	\$ 110,177,865	\$ 285,458,155
Park improvements	3,713,614	13,664,948	17,378,562
Water system improvements	8,941,268	7,699,593	16,640,861
Sewer improvements	5,374,442	5,560,099	10,934,541
Other improvements	5,632,980	7,434,047	13,067,027

C. Interfund Receivables, Payables, Transfers, and Advances. The composition of interfund balances as of and for the year ended June 30, 2013 is as follows:

Due To/From Other Funds:

Due To Other Funds (Payable)	<u>Due From Other Funds (Receivable)</u>	
	Internal Service Funds	Total
Nonmajor Governmental Funds	\$ 888,360	\$ 888,360
Total	\$ 888,360	\$ 888,360

The non-major Capital Project Grant Funds and the non-major Special Revenue Civic Center Maintenance Fund received temporary advances from the Liability and Property Insurance, an Internal Service Fund, to cover deficit cash balances in the amount of \$887,042 and \$1,318 respectively. Subsequent collection of the receivables from the granting agencies will repay the advances.

Interfund Transfers:

	Transfers In					Total
	General Fund	Street Construction Capital Projects Fund	SAFA Debt Service Fund	Non-Major Special Revenue Fund	Internal Service Funds	
Transfers Out						
General Fund	\$ -	-	9,126,625	577,693	-	\$ 9,704,318
Special Revenue Gas Tax Fund	-	1,400,346	-	-	10,000	1,410,346
Internal Service Funds	721,420	-	-	-	-	721,420
Total	\$ 721,420	1,400,346	9,126,625	577,693	10,000	\$ 11,836,084

The General Fund received transfers of \$721,420 from Internal Service Funds consisting of: 1) \$305,302 transfers from the Engineering and Administrative Internal Service Fund for its share in the energy conservation capital lease payment; 2) \$196,118 transfers from the Building Maintenance for its share in the City Hall Expansion Certificates of Participation payment; 3) \$220,000 transfers from the Equipment Maintenance and Replacement Fund to General Fund to cover the advance receivable for the construction of the Children’s Zoo.

The SAFA Debt Service Fund received a transfer of \$9,126,625 from the General Fund for payment of the police lease revenue bonds debt service.

The amount of \$1,400,346 was received in the Street Construction Capital Projects Fund from Special Gas Tax Fund to reimburse the Street Construction Fund for eligible street related construction and maintenance costs. The nonmajor Special Revenue Funds received transfers of \$577,693 representing the General Fund’s support for Civic Center and Centennial Park maintenance.

The Engineering and Administrative Services Internal Service Funds received \$10,000 from the Special Revenue Gas Tax Fund representing engineering costs allocated from the State.

Advances To/From Other Funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Internal Service Funds	General Fund	\$ 2,920,000
Capital Projects Housing Successor Agency	Santa Ana Redevelopment Agency Private-Purpose Trust Fund	4,751,291
		\$ <u>7,671,291</u>

The \$2,920,000 represents advances made by the Workers Compensation Fund to the General Fund for the construction of Fire Station #1. The repayment will begin on July 1, 2015 for \$292,000 for ten years.

The advances made from Capital Project Housing Successor Agency to the Santa Ana Redevelopment Agency Private-Purpose Trust Fund of \$4,751,291 were used for ERAF and SERAF payments as mandated by the State to balance the State of California 2005-06 and 2009-10 budgets.

NOTES TO THE BASIC FINANCIAL STATEMENTS

D. Long-Term Liabilities. The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 1,565,275	\$ -	\$ 1,398,788	\$ 166,487	\$ 166,487
Certificates of participation	74,510,000	-	1,600,000	72,910,000	1,675,000
Lease revenue bonds	76,370,000	-	4,585,000	71,785,000	4,685,000
Long-term loans & other payables	1,708,894	139,112	1,495,610	352,396	251,637
Less: Deferred amount of refunding	(488,704)	-	(244,351)	(244,353)	-
Bond discount	(909,951)	-	(32,498)	(877,453)	-
Add: Bond premium	476,702	-	238,352	238,350	-
Total bonds payable, long-term loans and capital leases	<u>153,232,216</u>	<u>139,112</u>	<u>9,040,901</u>	<u>144,330,427</u>	<u>6,778,124</u>
Compensated absences payable	19,583,356	9,984,226	7,789,914	21,777,668	5,444,416
Claims payable - worker's comp	20,362,582	4,219,145	4,523,277	20,058,450	4,200,000
Claims payable - liability insurance	6,934,907	963,081	1,339,928	6,558,060	3,186,057
Governmental activities Long-term liabilities	<u>\$ 200,113,061</u>	<u>\$ 15,305,564</u>	<u>\$ 22,694,020</u>	<u>\$ 192,724,605</u>	<u>\$ 19,608,597</u>
Business-type activities:					
Revenue bonds payable	\$ 14,565,000	\$ -	\$ 880,000	\$ 13,685,000	\$ 900,000
Refunding COP	5,480,000	-	1,405,000	4,075,000	1,625,000
Notes payable	992,102	-	166,591	825,511	172,473
Less: Deferred amounts	(1,225,826)	-	(169,097)	(1,056,729)	-
Add: Bond premium	608,855	-	90,452	518,403	-
Total bonds payable and long-term notes payable	<u>20,420,131</u>	<u>-</u>	<u>2,372,946</u>	<u>18,047,185</u>	<u>2,697,473</u>
Compensated absences payable	1,319,036	538,601	391,614	1,466,023	366,506
Business-type activities Long-term liabilities	<u>\$ 21,739,167</u>	<u>\$ 538,601</u>	<u>\$ 2,764,560</u>	<u>\$ 19,513,208</u>	<u>\$ 3,063,979</u>

Internal service funds predominantly serve the governmental funds. Accordingly, \$26.62 million of claims payable is included as part of the above totals for governmental activities.

At year-end, \$1.67 million of internal service funds compensated absences are included in the above amounts. For governmental activities, claims and judgments and compensated absences are generally liquidated by the General fund.

The following is a summary of changes in long-term liabilities of Successor Agency to the Santa Ana Redevelopment Agency Private-Purpose Trust for the fiscal year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Private-purpose trust activities:					
Tax allocation bonds	\$ 83,730,000	\$ -	\$ 560,000	\$ 83,170,000	\$ 580,000
Tax allocation refunding bonds	19,070,000	-	1,990,000	17,080,000	2,085,000
Long-term loans	6,220,687	-	-	6,220,687	1,170,678
Less: Deferred amount of refunding	(1,377,315)	-	(196,760)	(1,180,555)	-
Bond discount	(320,882)	-	(37,384)	(283,498)	-
Add: Bond premium	1,335,947	-	190,849	1,145,098	-
Total bonds payable, long-term	<u>108,658,437</u>	<u>-</u>	<u>2,506,705</u>	<u>106,151,732</u>	<u>3,835,678</u>
Compensated absences payable	165,616	8,417	138,784	35,249	8,812
OPEB	<u>316,652</u>	<u>4,042</u>	<u>-</u>	<u>320,694</u>	<u>-</u>
Private-purpose trust					
Long-term liabilities	<u>\$ 109,140,705</u>	<u>12,459</u>	<u>\$ 2,645,489</u>	<u>\$ 106,507,675</u>	<u>\$ 3,844,490</u>

A description of each long-term debt obligation follows:

CAPITALIZED LEASE OBLIGATIONS

Outstanding
Balance
June 30, 2013

Energy Conservation Project - In February 24, 2003, the City entered into a lease purchase agreement related to the upgrade of several buildings with lighting and HVAC improvements and direct digital control systems with SunTrust. The minimum lease payments required during the ten and one-half years term of the agreement are \$3,504,024. The lease payments discounted at an estimated interest rate of 3.4252 percent provide a present value of \$2,887,120, which approximates the value of the improvements and is the amount that is capitalized in the City’s capital assets used in the operation of governmental funds. The future minimum lease payments required under the terms of the lease at June 30, 2013 totaled \$166,487.

Total Capitalized Lease Obligations

\$ 166,487

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

Period Ending June 30	Principal	Interest
2014	\$ 166,487	\$ 2,872

Outstanding
Balance
June 30, 2013

CERTIFICATES OF PARTICIPATION (COP)

Certificates of Participation (City Hall Expansion Project). On January 13, 1998, Certificates of Participation amounting to \$12,450,000 were issued by the Santa Ana Financing Authority to finance the construction of an expansion to the City of Santa Ana City Hall building. Certificates totaling \$4,435,000 mature serially on January 1, beginning 2000 through 2014 in amounts ranging from \$215,000 to \$400,000 and pay interest at rates varying from 4.5% to 4.7%. \$1,315,000 term certificates are due on January 1, 2017; \$980,000 term certificates are due on January 1, 2019; and the balance of \$5,720,000 term certificates are due on January 1, 2028.

The City is required under the lease agreement (between the City and Authority) to make lease payments every year for the use and occupancy of the building, in an amount sufficient to pay the annual principal and interest on the Certificates. Payment of principal and interest represented by the Certificates is guaranteed by a municipal bond insurance policy issued by Financial Security Assurance Inc. (FSA). A reserve fund surety bond was issued by FSA in lieu of the reserve requirement of \$796,705.

\$8,415,000

Gas Tax Revenue Certificates of Participation (2007 Local Street Improvement Project). On December 1, 2007, Certificates of Participation amounting to \$68,010,000 were issued by the Santa Ana Financing Authority to finance the Street Improvement Project. Certificates totaling \$32,365,000 mature serially on January 1, beginning 2011 through 2029 in amounts ranging from \$400,000 to \$2,340,000 and pay interest at rates varying from 4% to 5%. \$10,970,000 term certificates are due on January 1, 2033; \$13,145,000 term certificates are due on January 1, 2037; \$7,515,000 term certificates are due on January 1, 2039; and the balance of \$4,015,000 term certificates are due on January 1, 2040.

The City is required under the 2007 Installment Sale Agreement (between the City and Authority) to make Installment Sale Payments from the revenues solely received from the State in accordance with Street and Highways Code Sections 2105, 2106 and 2107 in an amount sufficient to pay the annual principal and interest certificates.

These revenues have been pledged until fiscal year 2040. Total debt service amount for the certificates of participation is \$112,215,121. Pledged gas tax revenues recognized during the fiscal year ended June 30, 2013 was \$8.0 million as against the total debt service payment of \$4.2 million. At June 30, 2013, the reserve balance is \$4,212,788.

\$64,495,000

Total Certificates of Participation

\$72,910,000

COP debt service requirements to maturity are as follows:

Year Ending June 30	CITY HALL EXPANSION		STREET IMPROVEMENT		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 400,000	\$ 386,105	\$ 1,275,000	\$ 2,911,681	\$ 1,675,000	\$ 3,297,786
2015	420,000	366,835	1,325,000	2,857,681	1,745,000	3,224,516
2016	435,000	346,742	1,380,000	2,794,681	1,815,000	3,141,423
2017	460,000	325,710	1,450,000	2,723,932	1,910,000	3,049,642
2018	480,000	303,620	1,525,000	2,649,556	2,005,000	2,953,176
2019-2023	2,755,000	1,150,208	8,710,000	12,161,099	11,465,000	13,311,307
2024-2028	3,465,000	422,412	10,740,000	10,072,650	14,205,000	10,495,062
2029-2033	-	-	13,415,000	7,323,513	13,415,000	7,323,513
2034-2038	-	-	16,820,000	3,843,484	16,820,000	3,843,484
2039-2040	-	-	7,855,000	381,844	7,855,000	381,844
Total	\$ 8,415,000	\$ 3,301,632	\$ 64,495,000	\$ 47,720,121	\$ 72,910,000	\$ 51,021,753

LEASE REVENUE BONDS

Police Lease Revenue Bonds. On March 23, 1994, the Santa Ana Financing Authority (SAFA) issued the Police Administration and Holding Facility Lease Revenue Bonds in the amount of \$107.4 million to provide funds for the construction and equipping of a police administration and holding facility. The bonds were issued in the following portfolio mix: \$1.47 million Capital Appreciation Bonds with accreted values of \$270,000 due July 1, 2001, \$770,000 due July 1, 2002 and \$1,285,000 due July 1, 2003; \$17.63 million of Current Interest Serial Bonds are due in amounts ranging from \$1.82 million starting July 1, 2004 to \$3.61 million ending in July 1, 2009; \$21.2 million of Auction Inverse Rate Securities Term Bonds (AIRS), due in amounts ranging from \$3.8 million starting in July 1, 2011, to \$4.7 million ending July 1, 2014; \$28.5 million of noncallable Premium Serial Bonds due in amounts ranging from \$5.03 million starting July 1, 2015 to \$6.41 million ending July 1, 2019 and \$38.6 million of noncallable Premium Term Bonds due in amounts ranging from \$6.815 million starting July 1, 2020, to \$8.7 million ending July 1, 2024.

On February 4, 2004, the SAFA issued the Lease Revenue Refunding Bonds, Series 2004A to partially refund \$17,620,000 of the Lease Revenue Bonds, Series 1994A representing the Current Interest Serial Bonds maturing in July 1, 2004 through July 1, 2009, and fully refund \$21,200,000 of AIRS Term Bonds maturing July 1, 2010 through July 1, 2014. The face value of the Lease Revenue Refunding Bonds, Series 2004A was \$38,845,000. The refunding was issued with interest rates ranging from 2.5% to 5%.

Outstanding
Balance
June 30, 2013

The bonds are payable from revenues of the Financing Authority, consisting principally of base rental payments by the City pursuant to a lease agreement between the City and the Authority. The City agreed to make all base rental payments sufficient to permit the Authority to pay principal and interest on all the bonds described in the preceding paragraph. These revenues are pledged until fiscal year 2024. The amount in the reserve account at June 30, 2013 is approximately \$4.6 million. Payment of principal and interest on the bonds is covered by a municipal bond insurance policy issued by Municipal Bond Investors Assurance Company (MBIA).

Total Lease Revenue Bonds

\$71,785,000

Combined lease revenue bonds debt service requirements to maturity are as follows:

Period Ending		Principal		Interest
June 30		Principal		Interest
2014	\$	4,685,000	\$	4,381,150
2015		5,030,000		4,193,750
2016		5,345,000		3,879,375
2017		5,680,000		3,545,313
2018		6,035,000		3,190,313
2019-2023		36,325,000		9,799,689
2024		8,685,000		542,813
Total	\$	<u>71,785,000</u>	\$	<u>29,532,403</u>

Outstanding
Balance
June 30, 2013

LONG-TERM LOANS AND OTHER PAYABLE

Santa Ana Fire’s Employees Termination Benefits. On April 20, 2012, the City of Santa Ana executed an agreement with the Orange County Fire Authority (OCFA) for the purposes of outsourcing fire and emergency medical services. At the time of outsourcing, the City completed negotiations delineating the terms and conditions applicable to Firemen’s Benevolent Association (FBA) members in a Memorandum of Understanding (MOU). In the MOU the City agreed to provide a stipend to all sworn employees to receive a base pay rate so that when considered with their applicable OCFA bonus pay(s) their compensation is as close as possible to their current Santa Ana compensation (salary plus bonuses). The stipend shall expire at the earlier of two years from the date of transition or the date the employee is moved to the OCFA top step. The monthly stipend for fiscal year 2012-13 is \$20,045 and the unpaid balance as of June 30, 2013 is \$233,506.

\$233,506

Period Ending	<u>Principal</u>
<u>June 30</u>	
2014	<u>\$ 233,506</u>
Total	<u><u>\$ 233,506</u></u>

Southern California Edison On-Bill Financing Program. On August 2011, the Council approved the installation of energy-efficient LED street lights on Main Street and Edinger Avenue. The project was funded through Southern California Edison’s On-Bill Financing Program. Through this program, the City received zero percent financing for approved energy reduction projects for \$139,122. The costs are repaid from energy savings over a period of ten years. For fiscal year 2012-13, the total energy savings is \$20,222 and the unpaid balance as of June 30, 2013 is \$118,890.

\$118,890

Period Ending	<u>Principal</u>
<u>June 30</u>	
2014	\$ 18,131
2015	18,131
2016	18,131
2017	18,131
2018	18,131
2019-20	<u>28,235</u>
Total	<u><u>\$ 118,890</u></u>

Total Long-Term Loans and Other Payable

\$352,396

Outstanding
Balance
June 30, 2013

Compensated Absences. Accrued vacation (\$13,765,022) represents total vested vacation benefits for all City employees in the governmental funds. Sick leave benefits (\$8,012,646) are payable to employees for illnesses during employment; or upon termination after 10 years, the employee is entitled to payment equal to 1/3 of up to 200 days of accrued sick leave. The sick leave liability included herein represents those amounts payable to employees with over 10 years of employment as of June 30, 2013. Also included herein is \$1,670,493 representing accrued vacation and sick leave benefits for employees, in the Internal Service Funds.

\$21,777,668

WATER REVENUE BONDS

On February 5, 2004, the City through the Santa Ana Financing Authority (SAFA) issued the Water Revenue Refunding Bonds, Series 2004 with a face value of \$20,110,000 with maturities starting Sept. 1, 2005 through September 1, 2025 at interest rates ranging from 2% to 5%. The proceeds of the 2004 Bonds were used to current refund the 1994 Bonds. The remaining proceeds were to be used to purchase the Reserve Surety Bond, finance certain capital improvements to the Water System and to pay costs of issuance. The 2004 Bonds are payable solely from installment payments made by the City from Net System Revenues pursuant to the installment Purchase Agreement. These revenues have been pledged until fiscal year 2025. Total debt service amount for the bonds is \$18.01 million. Pledged revenue recognized during the fiscal year ended June 30, 2013 was \$9.8 million as against total debt payment of \$1.52 million. Payment of principal and interest represented by the bonds is covered against nonpayment by a municipal bond insurance policy issued by the Municipal Bond Investors Assurance Corporation with principal offices at Armonk, New York, NY 10504.

\$13,685,000

Water revenue bonds debt service requirements to maturity are as follows:

Period Ending	Principal	Interest
<u>June 30</u>		
2014	\$ 900,000	\$ 609,494
2015	930,000	578,031
2016	965,000	544,266
2017	1,000,000	507,775
2018	1,040,000	462,775
2019-2023	6,010,000	1,480,662
2024-2025	2,840,000	143,750
Total	<u>\$ 13,685,000</u>	<u>\$ 4,326,753</u>

Among other provisions of the bond resolutions, the city covenants that revenue from the water utility operation will be sufficient to provide net revenues of at least 1.20 times the principal and interest (or minimum term bond payment of the bonds as they become due and payable). The City has complied with such covenant as noted in the following analysis:

Operating revenue	\$ 51,338,802
Operating expenses (net of depreciation expense of \$ 2,276,297)	<u>41,557,365</u>
Net revenue	9,781,437
Amount required for payment of principal and interest payable for the year ended June 30, 2014 (\$1,509,494 x 1.20)	<u>1,811,393</u>
Excess of net revenue over amount required	<u>\$ 7,970,044</u>

CERTIFICATES OF PARTICIPATION (COP) – PARKING FUND

On April 2, 2003, Certificates of Participation 2003 Series A amounting to \$16.985 million were issued to current refund the \$16,875,000 City of Santa Ana Certificates of Participation (Parking Facilities Refunding Project) Series 1993A, the \$1,945,000 City of Santa Ana Certificates of Participation (Commercial Facilities Refunding Project), Series 1993B and the \$5,005,000 City of Santa Ana Certificates of Participation (Mass Commuting Facility Refunding Project), Series 1993C. The Certificates mature serially through June 1, 2016 in amounts ranging from \$555,000 to \$1,895,000 and pay interest at rates varying from 2.5% to 5%. The City has covenanted in the Lease Agreement to make the Lease Payments for the Leased Property as provided for therein. Payments of the principal and interest are insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation. The balance outstanding as of June 30, 2013 is \$4,075,000.

COP debt service requirements to maturity are as follows:

Year Ending			
June 30	Principal	Interest	
2014	\$ 1,625,000	\$ 198,200	
2015	1,895,000	116,950	
2016	<u>555,000</u>	<u>22,200</u>	
 Total	 <u>\$ 4,075,000</u>	 <u>\$ 337,350</u>	

NOTES PAYABLE

The City of Santa Ana (“The City”) and the Orange County Water District (OCWD), in order to increase the pumping capacity and to optimize participation in the Metropolitan Water District Seasonal Storage Program and to sustain adequate water deliveries during drought and emergency conditions, had entered into an agreement for the acquisition, construction, installation and operation of certain well facilities, particularly described as Wells 35, 37 and 38.

The agreement was entered into on June 19, 1991 and amended on May 11, 1995. After the project was completed, the City executed a promissory note in favor of OCWD for \$2,857,558, at an interest rate of 3.50 percent, payable semi-annually in the amount of \$99,935 beginning March 15, 1998 and ending September 15, 2017. The balance of the note as of June 30, 2013 is \$825,511. The note is a liability of the City’s Water Enterprise Fund.

Water notes payable debt service requirements to maturity are as follows:

June 30	Principal	Interest
2014	\$ 172,473	\$ 27,397
2015	178,562	21,307
2016	184,867	15,003
2017	191,393	8,476
2018	98,216	1,719
Total	\$ 825,511	\$ 73,902

TAX ALLOCATION BONDS

The proceeds of the Tax allocation bonds and Tax allocation refunding bonds were used to fund certain redevelopment activities of benefit to public properties within the Agency’s Santa Ana South Main Street Redevelopment Project Area.

2003A Tax Allocation Bonds. The Community Redevelopment Agency of the City of Santa Ana issued the South Main Street Redevelopment Project Tax Allocation Bonds in the amount of \$20.945 million on May 14, 2003 to fund redevelopment activities of benefit to the RDA’s Santa Ana South Main Street Redevelopment Project. Bonds totaling \$13,295,000 mature serially on September 1 beginning 2004 through 2024 in amounts ranging from \$475,000 to \$910,000 and pay interest at rates varying from 1.10 percent to 4.5 percent. \$4,075,000, 4.50 percent term bonds mature on September 1, 2028 while \$3,575,000, 4.50 percent bonds mature on September 1, 2031.

As of February 1, 2012, the principal balance of \$16,940,000 and the interest of \$8,525,051 for bonds debt service requirements to maturity were transferred to the Community Development Agency (Successor Agency) and are recorded in the Santa Ana Redevelopment Agency Private-Purpose Trust Fund.

Outstanding
Balance
June 30, 2013

2003A Tax allocation bonds debt service requirements to maturity are as follows: \$16,380,000

Period Ending June 30	Principal	Interest
2014	\$ 580,000	\$ 691,660
2015	605,000	670,620
2016	625,000	648,168
2017	650,000	624,255
2018	675,000	598,405
2019-2023	3,815,000	2,544,433
2024-2028	4,765,000	1,604,812
2029-2032	4,665,000	431,437
Total	\$ <u>16,380,000</u>	\$ <u>7,813,790</u>

2003B Tax Allocation Refunding Bonds. On May 14, 2003 the Redevelopment Agency issued the South Main Street Redevelopment Project Tax Allocation Refunding Bonds, Series 2003B in the amount of \$34,145,000 to current refund the 1993 South Main Tax Allocation Refunding Bonds. The bonds mature serially starting on September 1, 2003 through 2019 in amounts ranging from \$1,820,000 to \$2,820,000 and pay interest at rates varying from 2 percent to 5 percent.

As of February 1, 2012, the principal balance of \$19,070,000 and the interest of \$4,063,500 for bonds debt service requirements to maturity were transferred to the Community Development Agency (Successor Agency) and are recorded in the Santa Ana Redevelopment Agency Private-Purpose Trust Fund. \$17,080,000

2003B Tax allocation refunding bonds debt service requirements to maturity are as follows:

Period Ending June 30	Principal	Interest
2014	\$ 2,085,000	\$ 801,875
2015	2,200,000	694,750
2016	2,310,000	582,000
2017	2,430,000	463,500
2018	2,550,000	339,000
2019-2020	5,505,000	278,625
Total	\$ <u>17,080,000</u>	\$ <u>3,159,750</u>

Payment of the principal and interest on both Series A and B bonds is guaranteed by Financial Guaranty Insurance Company (FGIC) under a Municipal Bond New Issue Insurance Policy. As of March 25, 2009, Moody's withdrew the credit rating of FGIC.

2011A Tax Allocation Bonds (Merged Project Area).

The 2011A Tax Allocation Refunding Bonds were issued in the amount of \$66,790,000 on January 25, 2011 to provide funding for the defeasance and refinancing of the 1998 Santa Ana Financing Authority Refunding Revenue Bonds series A, B, C, and D (SAFA), and for the financing of \$6.1 million in redevelopment activities, including certain public parking and infrastructure improvements. The SAFA bonds were an obligation of the City, the proceeds from which were used to purchase the 1989 Tax Allocation Refunding Bonds Series A, B, C and E (1989). The 1989 bonds were an obligation of the Community Redevelopment Agency of the City (Agency), and this transaction resulted in the retirement of those bonds. The 2011 bonds mature serially starting on September 1, 2017 through 2028, in amounts ranging from \$805,000 to \$10,820,000, and pay interest at rates varying from 5% to 6.75%.

The 2011 bonds are an obligation of the Agency and are secured by a first pledge of and lien on tax revenues, taxes which constitute supplemental subventions payable by the State to the Agency, taxes which constitute amounts to be paid by the Agency pursuant to certain pass-through agreements described in the official statement, except and to the extent such amounts so payable are payable on a basis subordinate to the payment of the 2011 bonds and any parity debt, taxes which constitute amounts payable by the Agency under former Section 33676 of the Redevelopment Law for payments to affected taxing entities, taxes to the extent required for the payment of debt service on the 2003 Bonds, and taxes pledged and annually allocated to the South Main Street Redevelopment Plan. The economic gain on refunding was \$1.98 million.

Outstanding
Balance
June 30, 2013

As of February 1, 2012, the principal balance of \$66,790,000 and the interest of \$51,523,713 for bonds debt service requirements to maturity were transferred to the Community Development Agency (Successor Agency) and are recorded in the Santa Ana Redevelopment Agency Private-Purpose Trust Fund.

\$66,790,000

2011A Tax allocation bonds debt service requirements to maturity are as follows:

Period Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ 4,209,850
2015	-	4,209,850
2016	-	4,209,850
2017	-	4,209,850
2018	805,000	4,189,725
2019-2023	22,270,000	18,539,381
2024-2028	40,010,000	7,620,313
2029	3,705,000	125,044
Total	\$ <u>66,790,000</u>	\$ <u>47,313,863</u>

The 2003 Bonds Series A, 2011A Bonds and 2003 Refunding Bonds Series B are not a debt of the City of Santa Ana, the State of California, nor any of its political subdivisions, and neither the City, the State nor any of its political subdivision is liable therefore, not in any event shall the bonds be payable out of funds or properties other than those of the Successor Agency as set forth in the bond indenture.

ABx1 26 (the "Dissolution Act") was enacted in late June 2011 as part of the fiscal year 2011-12 state budget package and was held by the California Supreme Court to be largely constitutional on December 29, 2011. Under the Dissolution Act, each of California's redevelopment agencies was dissolved as of February 1, 2012. On January 9, 2012, the City adopted a resolution declaring its intent to serve as the Successor Agency and designating the Housing Authority of the City of Santa Ana to serve as the Successor Housing Agency. Pursuant to ABx1 26, prior to the dissolution, on August 24, 2011, the Dissolved RDA prepared initial Enforceable Obligation Payment Schedule (the "EOPS") and subject to update by the Successor Agency. The Successor Agency is required to submit an Oversight Board approved Recognized Obligation Payment Schedule (ROPS) to the County Auditor Controller (CAC) and the Department of Finance (DOF) no fewer than 90 days prior to the semiannual RPTTF property fund (Redevelopment Property Tax Trust Fund) distribution (or October 4 for the January 2 distribution and March 3 for the June 1

Outstanding
Balance
June 30, 2013

distribution) (Section 34177(m)). The distribution revenues have been pledged until the year 2031 for the 2003 Series A bonds, 2019 for the 2003 Series B bonds and 2029 for 2011A Bonds in accordance with EOPS and ROPS. The information of EOPS and ROPS are found on the City’s website at

<http://www.ci.santa-ana.ca.us/cda/oversight.asp>

Total Tax Allocation Bonds and Refunding Bonds \$100,250,000

Santa Ana Venture Loan. In April 1984, the Redevelopment Agency entered into a participation agreement with the Santa Ana Venture, a joint venture between JMB/ Federated Realty Association and Henry Segerstrom (the “Participants”), to provide for the rehabilitation and redevelopment of the Main Place project. This agreement provided for the Redevelopment Agency to acquire land within the project area and to sell it to the Participants subject to restrictive terms, conditions, and provisions set forth in the agreement. To fund the Redevelopment Agency’s acquisition of land and other related costs above the funding level made available by the Agency the Participants agreed to advance the Participant’s purchase price and to make available an unsecured loan of up to \$13.5 million to the extent total Agency costs exceeded \$29 million. The loan accrues interest at 10 percent per annum and is to be repaid solely from the annual tax increment accruing to the Agency from the project site, each year that the increment is in excess of the tax increment accruing in fiscal year 1984. As of June 30, 2013, the unpaid accrued interest for the Santa Ana Venture Loan is \$653,075. The outstanding principal balance at June 30, 2013, is \$6,220,687. As of February 1, 2012 the principal balance of \$6,220,687 was transferred to the Successor Agency to the Community Development Agency and is recorded in the Santa Ana Redevelopment Agency Private-Purpose Trust Fund.

\$ 6,220,687

- E. Other Bond and Loan Programs.** The City has entered into a number of bond and loan programs to provide low interest financing for various residential and commercial developments within the City. Although the City has arranged these financing programs, these debts are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, nor any political subdivision of the City, is pledged to repay the indebtedness. Generally, the bond or loan holders may look only to assets held by trustees for security on the indebtedness. Accordingly, since these debts do not constitute obligations of the City, they are not reflected as a liability in the accompanying statement of net assets. A short description of each program follows:

Residential Mortgage Revenue Bond Programs:

Through June 30, 2013, the City and the Housing Authority of the City of Santa Ana issued residential mortgage revenue bonds totaling \$71,619,404. The proceeds of these bonds were used to purchase mortgage loans made to homeowners and developers for the purpose of financing single-family and multi-family dwellings.

The bonds, secured by first trust deeds and private mortgage insurance, are as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Amount</u>
February 14, 1996	Variable	\$ 7,900,000
July 1, 2001	4.00-6.50%	3,640,000
November 1, 2001	6.05%	3,306,000
December 23, 2004	Variable	5,225,000
June 25, 2002	6.00%	1,035,778
November 1, 2003	5.24%	5,100,000
May 1, 2006	5.88%	7,343,904
November 16, 2006	Variable	8,140,000
May 1, 2007	5.21%	8,858,276
May 1, 2007	Variable	6,399,746
July 1, 2009	Variable	4,055,000
October 31, 2011	5.85%	10,615,700
		<u>\$ 71,619,404</u>

The bonds are payable solely from payments made on the mortgage loans, proceeds of the bonds, and other amounts held in funds or accounts established by the trustee pursuant to the indentures.

California Municipal Finance Authority (CMFA):

The CMFA issued \$8,000,000 in variable rate revenue bonds on behalf of Goodwill Industries of Orange County, California, a nonprofit public benefit corporation. The proceeds will finance acquisition, construction and improvement of various Goodwill facilities. The City has no financial or legal liability for the project or repayment of the bonds and does not constitute any type of indebtedness for the City.

Industrial Development Bond (IDB) Program:

The IDB Program encourages industrial and commercial development by arranging financing and assisting in the acquisition and development of authorized projects. The chief goals of the IDB Program are the creation and retention of jobs, and expansion of the tax base. The City has three avenues through which developers can pursue IDB financing: City Charter Authority, Health Facility Revenue Bonds, and Industrial Development Authority. This program has resulted in the retention or creation of 8,200 jobs in the City. As of June 30, 2013, seven issues totaling \$25,524,000 are outstanding (unaudited):

<u>Issuing Authority</u>	<u>Number of Issues</u>	<u>Amount</u>
City Charter Authority	2	\$ 6,418,000
Industrial Development Authority	<u>5</u>	<u>19,106,000</u>
	<u>7</u>	<u>\$25,524,000</u>

Commercial Rehabilitation Loan Program:

Housing Rehabilitation Loan Programs. The City and the Authority have established a number of housing rehabilitation loan programs using Community Development Block Grant (CDBG) funds as authorized by the U.S. Department of Housing and Urban Development (HUD).

To implement these programs, the City and the Authority have entered into agreements with various lending institutions to provide funding for loans at below-market rates of interest. The property owners' notes and deeds of trust are pledged as collateral for the loans.

In addition to loans made available by the lending institutions, the City and the Authority have elected to make other direct deferred payment rehabilitation loans available from CDBG funds, and from funds borrowed from the State Department of Housing and Community Development. Under the program, loans made using CDBG funds accrue interest at rates varying from 0 to 6 percent and are due when the property is sold. Funds borrowed from the state are loaned to participants at an annual rate of 3 percent and become due in five years.

The City accounts for these programs in the Housing Rehabilitation Loan Program Agency Fund where amounts due as Notes Payable to other governmental agencies of \$234,333 are reflected at June 30, 2013.

The Fund's primary assets consist of the non-interest bearing deposits pledged as collateral, and participant note receivables, which originated from City and/or State funds. Loans to participants made by the outside lending institutions are not reflected in the financial statements.

Self-Funding Residential Rehabilitation Loan Program. During April 1983, the City Council implemented a self-funding residential loan program to replace the aforementioned interest rate buy-down programs implemented through banks and savings and loan associations. The program makes direct loans to qualifying persons for both single-family and multiple units in amounts up to \$30,000 at 5 to 8 percent interest amortized over 15 years for single-family units, and up to \$40,000 for 1 to 3 multiple units amortized over 10 years. Generally, all loans are due upon sale and are secured by a deed of trust. The program is funded by CDBG, HOME, other grant funds and property tax increment revenues prior to the Dissolution Act. At June 30, 2013 loans totaling \$45,863,455 and \$63,126,707 were recorded as "loans and notes receivable" in the Special Revenue Grants Fund and Capital Projects Housing Successor Agency fund, respectively.

F. Commitments

On October 27, 2005, the Santa Ana Financing Authority entered the Lease Agreement with the City of Santa Ana to lease the City's property at the blocks A, B, C and D on Ross Street (Site) for construction of the three-level parking facility. The term of the Site lease commenced on October 27, 2005 and shall end on May 1, 2046. Under the lease, the Authority agreed to advance rental payment in the amount of \$5,970,000 to the City.

On October 27, 2005, the Authority re-leased the Site to the City and assigned its right to receive lease payment and its right to enforce payment of the Lease Payments to All Points Public Funding, LLC. The term of the lease Agreement commenced on October 25, 2005, and shall end on May 1, 2026, unless such term is extended until there has been deposited with the assignee an amount sufficient to pay all obligations due under the Lease Agreement. In no event shall the term of the lease Agreement extend beyond May 1, 2046.

On March 30, 2007, both parties, the Santa Ana Financing Authority and the City of Santa Ana amended the October 27, 2005 Lease and Release Agreements. The amended term of the Site lease commenced on October 27, 2005 and shall end on May 1, 2026 or may be extended for a certain period, but in no event shall the term of the Lease Agreement extend beyond May 1, 2036. Under the amended Lease and Release Agreements, the Authority agreed to advance rental payment in the amount of \$8,470,000 to the City. On March 30, 2007, the Santa Ana Financing Authority and All Points Public Funding, LLC amended the Assigned Agreement to the lease amount of \$8,470,000.

The amended Lease Payment schedule was computed at 4.78% per annum on \$8,470,000 as follows. The future minimum lease payments required under the term of the lease at June 30, 2013 totaled \$6,525,363.

Period Ending June 30	Principal Component	Interest Component	Total Lease Payment
2014	\$ 372,181	\$ 307,640	\$ 679,821
2015	390,192	289,630	679,822
2016	409,073	270,749	679,822
2017	428,868	250,953	679,821
2018	449,622	230,200	679,822
2019-2024	2,596,308	802,800	3,399,108
2025-2026	1,879,119	160,346	2,039,465
	\$ 6,525,363	\$ 2,312,318	\$ 8,837,681

Note 5. OTHER INFORMATION

A. Risk Management. The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. In July 1975, the City established three separate Internal Service Funds for the administration of the City’s self-insurance programs and the payment of health and dental benefits (Employee Group Insurance Fund), workers’ compensation (Workers Compensation Fund) and liability claims (Liability and Property Insurance Fund). The City’s Liability and Workers’ compensation programs are self-administered (staffed by City employees). The City’s claim staff estimate total losses for each claim and determine reserve requirements for the Liability and Workers’ Compensation claims programs.

Under these programs, the City is self-insured for workers’ compensation up to \$1,000,000 each occurrence with Statutory Coverage. Furthermore, the City is a member of the Big Independent Cities Excess Pool (BICEP), a public entity risk pool established to pool resources, share risks, and purchase excess insurance. BICEP’s excess liability program began October 1, 1988. Each BICEP member city assumes the first \$1 million of each occurrence. All BICEP members share the risk for the first layer of claims between \$1 million to \$2 million. Reinsurance and excess insurance covers amounts from \$2 million to \$52 million maximum. All BICEP members participate from \$.01 to 27 million and some members, like Santa Ana, participate in excess insurance purchase above \$27 million, in this case to \$52 million. In 1993, the City became a charter member of the Public Entity Property Insurance Program (PEPIP). Current PEPIP limits are \$1 billion per occurrence for “all risks” and \$82.5 million for flood coverage. The City carries commercial insurance to cover claims of employees participating in the dental program.

Also the City has contracted with the California Public Employees Retirement System (CalPERS) Health Insurance Program to cover claims of employees participating in the HMO plans contracted by CalPERS. Settled claims have not exceeded commercial coverage during the last three years.

All funds of the City participate in the program and make payments to the Liability and Property Insurance Fund and the Workers Compensation Fund based on actuarial estimates of the amounts needed to pay prior and current claims in the liability and workers' compensation programs.

In the health and dental programs, contributions to the Employee Group Insurance Internal Service Fund represent estimated premiums payable to CalPERS and the dental insurance carriers.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The losses include an estimate of claims that have been incurred but not reported. The effects of specific incremental claim adjustment expenditures/expenses, salvage, and subrogation, and other allocated and unallocated claim adjustment expenditures/expenses are included. At June 30, 2013, the outstanding losses for the workers' compensation and liability programs are reported at their discounted present value. The outstanding losses are discounted at a 2.0 percent annual interest rate to reflect future investment earnings. The present value computations were performed by an independent casualty actuary, in connection with their actuarial study of the City's self-insured workers' compensation and liability programs undertaken as of June 30, 2013. Changes in the balances of claims liabilities since July 1, 2011 resulted from the following:

	<u>Workers'</u>	<u>Liability</u>	<u>Total</u>
	<u>Compensation</u>		
Net Unpaid Claims - July 1, 2011	\$ 19,465,111	\$ 4,812,648	\$ 24,277,759
Claims and Changes in Estimate	8,213,560	4,432,170	12,645,730
Claims Payments	<u>(4,994,849)</u>	<u>(2,062,224)</u>	<u>(7,057,073)</u>
Unpaid Claims - June 30, 2012	22,683,822	7,182,594	29,866,416
Less Discount Taken	<u>(2,321,240)</u>	<u>(247,687)</u>	<u>(2,568,927)</u>
Net Unpaid Claims - June 30, 2012	<u>\$ 20,362,582</u>	<u>\$ 6,934,907</u>	<u>\$ 27,297,489</u>

	<u>Workers'</u>		
	<u>Compensation</u>	<u>Liability</u>	<u>Total</u>
Net Unpaid Claims - July 1, 2012	\$ 20,362,582	\$ 6,934,907	\$ 27,297,489
Claims and Changes in Estimate	6,547,095	1,192,852	7,739,947
Claims Payments	<u>(4,523,277)</u>	<u>(1,339,928)</u>	<u>(5,863,205)</u>
Unpaid Claims - June 30, 2013	22,386,400	6,787,831	29,174,231
Less Discount Taken	<u>(2,327,950)</u>	<u>(229,771)</u>	<u>(2,557,721)</u>
Net Unpaid Claims - June 30, 2013	<u>\$ 20,058,450</u>	<u>\$ 6,558,060</u>	<u>\$ 26,616,510</u>

B. Related Party Transactions. As explained in Note 1A, this report includes the accounts of the Successor Agency to the Community Redevelopment Agency, the Housing Authority, and the Financing Authority, each of which is considered component units of the primary government. Each of these component units are operated by City employees, some of whom provide services for (or exert management influence over) more than one of these component units. Charges to these units for labor, materials and overhead are made directly at the City's standard rate per formal agreements with the City. Real property transfers are executed at appraised value usually net of cost incurred by the acquiring unit.

C. Contingent Liabilities.

Commitments and Contingencies. Numerous claims and suits have been filed against the City in the normal course of business. To the extent that information available indicates that it is probable a liability has been incurred as of June 30, 2013 and where the amount of loss could be reasonably estimated, the obligation has been accrued as an expense of the City's self-insurance program (see Note 5A).

Federally Assisted Programs. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Joint Ventures. The Orange County Civic Center Authority (the "OCCCA") was created in January 1966 under a Joint Exercise of Powers Agreement between the City of Santa Ana and the County of Orange. The purpose of the OCCCA is to provide, through the issuance of revenue bonds, financing necessary to construct a county courthouse and certain City buildings, located on land contributed to the OCCCA by the County and the City. Upon completion of construction, the OCCCA leased the facilities to the County, the City and the State of California. The City took title to its City Hall facilities when it exercised an early defeasance of the corresponding revenue bonds in FY 93-94. The Authority is governed by a five-member board to which the Orange County Board of Supervisors and the Santa Ana City Council each appoint two members. These four members select the fifth member. The City and the County have contracted with the OCCCA to administer the Civic Center parking lot and the Parking/Maintenance Fund. Parking revenue is retained by the OCCCA and must be used to pay the parking lot concessionaire, to pay any taxes related to the parking lot, and to reimburse the City for the cost of maintaining the Civic Center. No provision has been made for disposition of

excess funds remaining after authorized expenditures have been made.

The Agreement specifies a term of existence of 50 years; however, the Agreement cannot be terminated until all revenue bonds issued and interest thereon has been paid in full or are adequately provided. Upon termination of the Agreement, title to all properties of the OCCCA shall be conveyed to the State, the County and the City, as applicable. Audited financial information of the OCCCA is available at the office of the Auditor-Controller, County of Orange, Finance Building, 630 North Broadway P.O. Box 567, Santa Ana, California 92702-0567.

The Countywide Public Financing Authority (“CPFA”) was created under a Joint Powers Agreement (the “Agreement”), dated June 19, 1996, by and among the cities of Brea, Buena Park, Fullerton, Garden Grove, Orange, Santa Ana, Seal Beach, Stanton and Tustin (collectively, the “Members”). The purpose of this Agreement is to provide for the financing of public capital improvements for, and working capital requirements of, the Members through the acquisition by CPFA of such public capital improvements and/or the purchase by the CPFA of obligations of a Member pursuant to Bond Purchase Agreements and/or the lending of funds by CPFA to a Member and/or the leasing of public capital improvements to a Member.

E. Defined Benefit Pension Plan.

(A) *Plan Description.* The City of Santa Ana contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) *Funding Policy.* Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. As an employer, the City is required to contribute an actuarially determined percentage rate of annual covered payroll. The fiscal year 2012-13 rate was 28.480% for the safety employees and 20.099% for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

The funded status of the plan (in thousands) based on the June 30, 2012, actuarial valuation is as follows:

<u>Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Actuarial Accrued Liability % of Payroll</u>
<u>Miscellaneous Plan</u>					
\$ 670,676	\$ 547,676	\$ 123,000	81.70%	\$ 55,797	220.40%
<u>Safety Plan</u>					
\$ 886,484	\$ 766,597	\$ 119,887	86.50%	\$ 36,443	329.00%

The Schedule of Funding Progress presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(C) *Annual Pension Cost and Net Pension Obligation.* For fiscal year 2012-13, the City’s annual pension cost of \$21,081,285 for CalPERS was equal to the City’s required and actual contributions. For fiscal year 2012-13, total member’s contribution to CalPERS, including contributions on behalf of employees, was \$28,744,375. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.75% to 14.45% that vary by duration of service, age and type of employment. Also included is an inflation component of 3% and payroll growth of 3.25%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The assumptions used for determining the contribution requirements are the same as the assumptions used in the calculation of the funded status. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends by June 30, 2037.

Three-year trend information for CalPERS (dollar amount in thousands):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/11	\$ 22,059	100%	-
06/30/12	23,318	100%	-
06/30/13	21,081	100%	-

F. Retirement Health Benefits.

1. Retirement Health Benefit Subsidy Plan

(A) *Plan Description.* During fiscal year 2001-02, the City established the post employment health benefits to cover the Police Management Association (PMA), the Fire Management Association (FMA), the Santa Ana City Employee’s Chapter 1939/SEIU Local 721 (SEIU), the Mid/Administrative Managers’ Association (SAMA). These plans are single-employer defined benefit plans and do not issue separate financial statements. These plans are considered the Subsidy Plan. Additionally, effective October 1, 2006, the City also expanded the contribution to the Police Officers Association (POA) Medical Insurance Trust Fund for their postemployment health benefits. The POA has the full fiscal obligation of the plan; therefore, the Medical Insurance Trust Fund is not an OPEB obligation of the City under GASB 45. On April 20, 2012, the City contracted with the Orange County Fire Authority to provide firefighting and related services which resulted in the plan termination for the FMA employees and retirees.

(B) *Eligibility.* Employees are eligible for retiree health benefits if they retire from the City within 120 days of separation and are at age 50 with at least 5 years of service, and are eligible for a PERS pension. Membership of the plan consisted of the following at June 30, 2013:

	<u>SEIU</u>	<u>PMA</u>	<u>SAMA</u>	<u>CASA</u>
Retirees and beneficiaries receiving benefits	179	22	33	10
Terminated plan members entitled to but not yet receiving benefits	-	1	6	2
Active plan members	386	16	42	44
Total	565	39	81	56

(C) *Funding Policy.* The City has annually made available an amount equal to a negotiated percent of the respective bargaining units’ salary base. For fiscal year 2013, the negotiated percentage is 1.75% for SAMA, CASA; 1% for SEIU; 0.75% for POA and 1.25% for PMA. Eligibility and benefits varies depending upon the pertinent provisions as embodied in each bargaining unit’s Memorandum of Understanding (MOU) with the City.

(D) *Annual Pension Cost and Funded Status.* Contributions made by the City to each respective bargaining unit in fiscal year 2012-13 and the respective units’ balances available for benefits (not held in an irrevocable trust) at June 30, 2013 were as follows:

	<u>Contribution</u>	<u>Balance in Agency Fund</u>
POA	\$ 360,042	\$ N/A ⁽¹⁾
PMA	26,321 ⁽²⁾	159,033
SEIU	281,393	434,508
SAMA	106,292	560,630
CASA	62,735	272,908
Total	<u>\$ 836,783</u>	<u>\$ 1,427,079</u>

(1) POA manages the Retirees Benefits fund and it is not part of the City Retiree Health Insurance Subsidy Agency Fund.

(2) Starting from 7/1/2012, PMA established a Retiree Health Savings Plan with ICMA-RC.

The actuarial valuation for subsidy plan involves (1) estimates of the value of reported amounts and assumptions about the probability of events far into the future, and (2) actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

2. Public Employees Medical & Hospital Care Act (PEMHCA)

In addition to the negotiated contribution as mentioned above, the City contracted CalPERS Health Benefits under PEMHCA to provide Health Care coverage to the retirees. The PEMHCA benefits are applied to all employee groups other than POA and City Council. Firefighters (FBA, FMA) joined PEMHCA on 1/1/98. All other employee groups (excluding POA) joined PEMHCA on 1/1/99.

(A) *Eligibility.* Employees are eligible for PEMHCA benefits if they retire from the City on or after age 50 with at least 5 years of service or disability, and are eligible for a PERS pension.

(B) *Funding Method and Funded Status.* The City selected “unequal” PEMHCA method for the contribution. Under this method, the City offered a lesser contribution for retirees than for active employees. The City paid \$112 per active employee for PEMHCA minimum. Beginning 2008, Assembly Bill 2544 changed the computation for annual increases to annuitant health care under the unequal method. Under the new provisions, the City increases annuitant health care contribution equal an amount not less than 5 percent of active employees contribution times number of year in the PEMHCA. The annual increase in minimum PEMHCA contribution to CalPERS will continue until the time that the City contribution for retirees equals the City contribution paid for active employees. The maximum adjustment to the minimum contribution is \$100 per annuitant per month. During fiscal year 2012-13, the total City’s PEMHCA contribution for retirees is \$398,099.

The actuarial valuation for the PEMHCA plan involves (1) estimates of the value of reported amounts and assumptions about the probability of events far into the future, and (2) actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Premium rates and increases

The minimum CalPERS rates for PEMHCA for 2013 is \$108 monthly under the unequal contributions provision based on year entering the plan with a 4.5% increase assumptions. The Medical Trend Rates are as follows:

<u>Year</u>	<u>Rate</u>
2010	10%
2011	9%
2012	8%
2013	7%
2014	6%
2015+	5%

3. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. The ARC unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period of the unfunded actuarial liability ends by June 30, 2043. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

CITY OF SANTA ANA

(Dollar amounts in thousands)	PMA	FBA	FMA	SEIU	SAMA	CASA	Total PEMHCA
PEMHCA							
Annual required contribution	\$ 57	\$ 120	\$ 5	\$ 908	\$ 118	\$ 81	\$ 1,289
Interest on net OPEB obligation	10	71	2	172	19	16	290
Adjustment to annual required contribution	(9)	(64)	(2)	(155)	(17)	(15)	(262)
Annual OPEB cost (expense)	58	127	5	925	120	82	1,317
Contribution made	(20)	(108)	(1)	(226)	(36)	(7)	(398)
Increase (decrease) in net OPEB obligation	38	19	4	699	84	75	919
Net OPEB obligation - beginning of year	245	1,667	53	4,057	448	382	6,852
Net OPEB obligation - end of year	\$ 283	\$ 1,686	\$ 57	\$ 4,756	\$ 532	\$ 457	\$ 7,771

(Dollar amounts in thousands)	PMA	FBA	FMA	SEIU	SAMA	CASA	Total Subsidy Plan
SUBSIDY PLAN							
Annual required contribution	\$ 39	\$ -	\$ -	\$ 999	\$ 214	191	\$ 1,443
Interest on net OPEB obligation	2	-	-	196	32	26	256
Adjustment to annual required contribution	(2)	-	-	(176)	(29)	(24)	(231)
Annual OPEB cost (expense)	39	-	-	1,019	217	193	1,468
Contribution made	(26)	-	-	(281)	(106)	(63)	(476)
Increase (decrease) in net OPEB obligation	13	-	-	738	111	130	992
Net OPEB obligation - beginning of year	53	-	-	4,605	760	622	6,040
Net OPEB obligation - end of year	\$ 66	\$ -	(1)	\$ 5,343	\$ 871	752	\$ 7,032

(1) On April 20, 2012 the City contracted with the Orange County Fire Authority to outsource firefighting and related services which cause the subsidy plan to terminate

(Dollar amounts in thousands)	TOTAL OPEB	Subsidy Plan	Total OPEB
Annual required contribution	\$ 1,289	\$ 1,443	\$ 2,732
Interest on net OPEB obligation	290	256	546
Adjustment to annual required contribution	(262)	(231)	(493)
Annual OPEB cost (expense)	1,317	1,468	2,785
Contribution made	(398)	(476)	(874)
Increase (decrease) in net OPEB obligation	919	992	1,911
Net OPEB obligation - beginning of year	6,852	6,040	12,892
Net OPEB obligation - end of year	\$ 7,771	\$ 7,032	\$ 14,803

The required contribution was determined as part of the June 30, 2013 actuarial valuation. The actuarial assumptions for both PEMHCA and Subsidy plans included (a) 4.25% investment rate of return, not pre-funded, assets in City investment fund, (b) projected annual salary aggregate increases 3.25%. Also included is an inflation component of 3.25% and payroll growth of 3.25%. The actuarial accrued liability (AAL) and normal cost is under the entry age normal actuarial method. The Health Care Cost Trend Rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of plan participants. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

NOTES TO THE BASIC FINANCIAL STATEMENTS

(Dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
POA	06/30/11	\$ 3,928	9.7%	\$ 14,371
PMA	06/30/11	93	38.7%	249
FBA	06/30/11	1,782	25.5%	4,355
FMA	06/30/11	47	55.3%	203
SEIU	06/30/11	2,323	21.2%	7,008
SAMA/CASA	06/30/11	601	22.1%	1,839
Total		\$ 8,774	17.3%	\$ 28,025
POA	06/30/12	\$ (14,001) ⁽¹⁾	-2.6%	\$ -
PMA	06/30/12	94	47.9%	298
FBA	06/30/12	(2,225) ⁽²⁾	-20.8%	1,667
FMA	06/30/12	(132) ⁽²⁾	-13.6%	53
SEIU	06/30/12	1,840	10.1%	8,662
SAMA/CASA	06/30/12	587	36.5%	2,212
Total		\$ (13,837)	-9.4%	\$ 12,892
POA	06/30/13	\$ - ⁽¹⁾	0.0%	\$ -
PMA	06/30/13	97	47.4%	349
FBA	06/30/13	127 ⁽²⁾	85.0%	1,686
FMA	06/30/13	5 ⁽²⁾	20.0%	57
SEIU	06/30/13	1,944	26.1%	10,099
SAMA	06/30/13	337	42.1%	1,403
CASA	06/30/13	275	25.5%	1,209
Total		\$ 2,785	31.4%	\$ 14,803

(1) POA has full fiscal obligations of the plan and it is not an OPEB obligation of the City under GASB 45.

(2) On April 20, 2012, the City contracted with the Orange County Fire Authority to outsource firefighting and related services which caused the subsidy plan to terminate.

Funded Status as of June 30, 2013 is as follows (Dollar amounts in thousands):

	(a) Entry Age Normal	(b) Actuarial Value of Assets	(a)-(b)=(c) Unfunded Actuarial Liability (UAAL)	(b)/(a) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL As a % of Covered Payroll
POA	06/30/13 \$ - ⁽¹⁾	-	\$ -	0%	\$ -	0.0%
PMA	06/30/13 2,041	-	2,041	0%	2,415	84.5%
FBA	06/30/13 3,135 ⁽²⁾	-	3,135	0%	18,924	16.6%
SEIU	06/30/13 29,698	-	29,698	0%	34,514	86.0%
FMA	06/30/13 125 ⁽²⁾	-	125	0%	728	17.2%
SAMA	06/30/13 5,625	-	5,625	0%	6,302	89.3%
CASA	06/30/13 3,614	-	3,614	0%	5,499	65.7%
Total	\$ 44,238	\$ -	\$ 44,238	0%	\$ 68,382	64.7%

(1) POA has full fiscal obligations of the plan and it is not an OPEB obligation of the City under GASB 45.

(2) On April 20, 2012, the City contracted with the Orange County Fire Authority to outsource firefighting and related services which caused the subsidy plan to terminate.

The Schedule of Funding Progress presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for the benefits.

G. Supplementary Retirement Plan

- (A) *Plan Description.* On April 18, 2011, the City adopted a resolution authorizing the implementation of a Public Agency Retirement Services (PARS) for twenty-five POA retirees. On August 24, 2011, City amended the resolution to allow the incumbent POA President to participate under the plan. The plan provides a stipend for twenty-six POA retirees that were denied reportable compensation under the California Public Employee Retirement System (CalPERS) for salary increases they received in exchange for participating in an unpaid furlough program. The plan is a defined benefits pension plan.
- (B) *Eligibility.* POA members who retired from July 1, 2009 to December 31, 2010 and participated in an unpaid furlough program. Additionally, one POA President who retired prior to December 31, 2011 was eligible under supplementary retirement plan.
- (C) *Funding Policy.* The City has made available an annual amount of \$121,517 to the plan in accordance with the payment terms defined by the plan. This annual amount is subject to an annual compounding cost of living adjustment of two percent (2%) per year. For Fiscal year 2012-13, the City’s annual PARS contribution was \$121,517.

The funded status of the plan (in thousands) based on actuarial valuation for 2013 and the preceding year is as follows:

Actuarial Valuation Date	(a) Actuarial Accrued Liability (AAL)	(b) Market Value of Plan Assets	(c) Unfunded Actuarial		Amortization Payment of UAL
			Accrued Liability (UAAL)	(b)/(a) Funded Ratio	
06/30/12 ⁽¹⁾	\$ 1,702	\$ 57	\$ 1,645	3.3%	\$ 135 ⁽³⁾
06/30/13	1,699	58 ⁽²⁾	1,641	3.4%	139 ⁽⁴⁾

(1) The City of Santa Ana implemented Supplementary Retirement Plan for twenty-six POA retirees during the fiscal year ended June 30, 2012. Information prior to 2012 is not available.

(2) Market Value of Plan Assets does not include contributions made after June 30, 2013.

(3) 20-Year Level Dollar amortization with beginning-of-year payments.

(4) 19-Year Level Dollar amortization with beginning-of-year payments.

The actuarial assumptions for the Supplementary Retirement Plan for twenty-six (26) POA retirees included:

Interest Rate	6%
Mortality	
Males	1983 GAM Males
Females	1983 GAM Females
Cost of Living	2% Compounding

Three-year trend information for the Supplementary Retirement Plan for twenty-six POA retirees (dollar amount in thousands):

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/2011	\$ 124	100%	-
6/30/2012	124	100%	-
6/30/2013	122	100%	-

H. General Fund Reserve

On June 4, 2012, the City Council approved the City’s reserve policies. In order to ensure a continued orderly operation of City Government and to address any unforeseen economic occurrences, the City shall establish two General Fund Reserve Accounts: An Unassigned Reserve Account and an Economic Uncertainty Reserve Account.

The City will maintain under the Unassigned Reserve Account designation a minimum reserve level of between 5 and 15% of recurring General Fund operating expenditures. At no time is it permissible for the reserve requirement to fall below 5%. Upon attainment of 15%, the City shall consider and if approved continue to strive for an overall goal of 20% Unassigned Reserve Account. Such reserves shall not be used to fund any form of operating expenditures or to cover any budgetary shortfall other than to preserve ongoing cash flow needs for the City. If at any point in time it is deemed that the City budget is performing at a structural deficit, the use of the Unassigned Reserve Account to balance the budget is strictly prohibited unless approved by two thirds of the City Council. If approved, a corresponding plan to replenish the reserves must be adopted by the same vote.

Upon fulfillment of achieving a minimum Unassigned Reserve Account of 10%, the City shall consider the establishment of a reserve account for Economic Uncertainty. The reserve for Economic Uncertainty is established to offset any major variations in tax receipts as well as fees and charges or unforeseen cost increases. The City maintains a minimum reserve level of 1 to 10% of recurring General Fund revenues with an objective of attaining a maximum goal of 10%. The Economic Uncertainty Reserve can be used upon approval by two thirds vote from the City Council in the situation where that negative variations in projected revenues from the largest revenue sources defined as Sales tax, Property tax, Property tax in Lieu, Utility Users tax, Business Tax, and Hotel Visitors tax exceed 2% with no corresponding General Fund expenditure offset and that a structural deficit exists in the budgeted forecast of the upcoming fiscal year.

The Unassigned Reserve Account for \$26,842,243 and the Economic Uncertainty Reserve for \$3,845,592 are reported as unassigned fund balance in the General Fund.

I. Net Position Designations

As of June 30, 2013, the following business-type activities funds of the City had designations of unrestricted net position as follows:

	Business-Type Activities Enterprise Funds				
	Water	Parking	Sewer	Nonmajor	Total
Designated for authorized projects	\$ 7,281,820	\$ -	\$ 784,912	\$ -	\$ 8,066,732
Designated for subsequent year expenditures	7,476,774	4,201,351	3,310,170	624,708	15,613,003
Designated for bond resolutions requirement	1,811,393	-	-	-	1,811,393
Designated for account receivable	9,990,093	-	-	-	9,990,093
Undesignated	-	1,609,647	1,747,807	5,797,037	9,154,491
Total unrestricted net position	<u>\$ 26,560,080</u>	<u>\$ 5,810,998</u>	<u>\$ 5,842,889</u>	<u>\$ 6,421,745</u>	<u>\$ 44,635,712</u>

Note 6: SUBSEQUENT EVENTS – SUCCESSOR AGENCY TO THE SANTA ANA REDEVELOPMENT AGENCY (SUCCESSOR AGENCY)

Due Diligence Reviews

Assembly Bill 1484 (AB 1484), a trailer bill to the State's 2012-2013 Budget Act, requires Successor Agencies to determine the unencumbered cash available for distribution to taxing entities through an Agreed-Upon Procedures Report, or Due Diligence Review (Review). The Review takes place in two phases. The first Review determines the amounts available for distribution from the assets transferred from the Low and Moderate Income Housing Fund (LMIHF) assets that are held by the Successor Agency. The second Review determines amounts available for distribution from the assets transferred from all other funds of the former Redevelopment Agency, excluding the LMIHF assets that are held by the Successor Agency.

The results of the first Review identified potentially \$30.5 million in cash and investments transferred from the former LMIHF to the Capital Projects Housing Successor that did not qualify as housing assets and were consequently deemed as available for distribution to the taxing entities. As a result, the Successor Agency reverted such assets to the Santa Ana Redevelopment Agency Private-Purpose Trust Fund as of June 30, 2012. Within the scope of AB 1484, the Successor Agency is allowed to request to retain the assets transferred to satisfy obligations listed on their Recognized Obligation Payment Schedule, or ROPS, for the period July 1, 2012 through June 30, 2013. Management requested to retain the entire \$30.5 million in cash and investments to pay certain obligations listed on their ROPS.

Pursuant to Health and Safety Code 34179.6 (d), the State Department of Finance (State) is authorized to adjust the results of the Review's stated balance of LMIHF available for distribution to the taxing entities. Based on the State's review on April 8, 2013, they made certain adjustments to the amounts owed and requested the Successor Agency to pay \$33.2 million.

The results of the second review identified potentially \$10.6 million unencumbered in cash and investments transferred from the former Redevelopment Agency to the Other Funds and Accounts (OFA).

Pursuant to Health and Safety Code 34179.6 (d), the State Department of Finance (State) is authorized to adjust the results of the Review's stated balance of the OFA available for distribution to the taxing entities. Based on the State's review on May 8, 2013, they made certain adjustments to the amounts owed and requested the Successor Agency to pay \$21.8 million. On May 15, 2013, the \$10.6 million was remitted to the Orange County Auditor Controller (CAC).

The Successor Agency has contested the State's request believing the \$33.2 million and the \$11.2 million (\$21.8 million - \$10.6 million) from LMIHF and OFA respectively, are related to enforceable obligations. On April 29, 2013, the Successor Agency joined with certain developers to file a Motion for Temporary retained Order (TRO), Preliminary Injunction and/or Stay. On August 5, 2013, the State demanded the payment of \$2.58 million of the \$33.2 million. On August 15, 2013, the City submitted the TRO Preliminary Injunction and/or Stay motion with the Supreme Court of the State of California. On the same day, the Supreme Court of the State of California denied the motion and the City made the \$2.58 million payment to Orange County on September 4, 2013. The ultimate outcome related to the balance of the amounts in question surrounding these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.

Recognized Obligation Payments Schedule

On September 26, 2013, the Successor Agency submitted their ROPS 13-14B covering enforceable obligations payable January 1, 2014 through June 30, 2014. Subsequently, the State has reviewed and approved the ROPS 13-14B with the exception of certain items listed, which the State has determined do not meet the definition of an enforceable obligation as noted in the Health and Safety Code. The Successor Agency disagrees with the conclusions rendered on the obligations in question including the Prior Period Adjustment amount of \$2.2 million and has requested a meet and confer with the State to resolve such issues. Due to uncertainties surrounding the results of the meet and confer, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

Required Supplementary Information

SA

**General Fund
Budgetary Comparison Schedule
Year ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 144,406,503	144,406,503	155,863,578	\$ 11,457,075
License and permits	4,262,440	4,262,440	4,032,104	(230,336)
Intergovernmental	2,139,000	2,547,975	2,565,674	17,699
Charges for services	8,753,102	8,753,102	8,320,787	(432,315)
Fines and forfeits	7,395,437	7,395,437	6,934,990	(460,447)
Investment income	206,800	206,800	(332,600)	(539,400)
Cost recoveries and donations	15,642,187	15,810,381	15,291,594	(518,787)
Rental income	15,061,810	15,061,810	15,151,127	89,317
Miscellaneous	745,656	745,656	980,962	235,306
Total revenues	198,612,935	199,190,104	208,808,216	9,618,112
Expenditures:				
General Government:				
City Council	335,805	335,805	265,596	70,209
Clerk of the Council	607,215	610,011	574,132	35,879
City Attorney	2,173,520	2,196,177	1,949,321	246,856
City Manager	1,726,325	1,726,325	1,541,903	184,422
Nondepartmental	3,604,685	3,894,660	3,682,997	211,663
Total General Government	8,447,550	8,762,978	8,013,949	749,029
Human Resources	1,275,574	1,276,320	1,148,897	127,423
Finance and Management Services	3,647,556	3,649,066	3,189,486	459,580
Museum	1,482,130	1,482,130	1,474,285	7,845
Library	2,814,080	2,857,617	2,706,710	150,907
Recreation and Community Services	14,356,842	14,717,553	13,441,222	1,276,331
Police Department	102,368,677	103,120,875	100,380,821	2,740,054
Fire Department	40,493,840	40,498,591	40,061,952	436,639
Planning and Building	7,284,130	7,552,730	5,666,348	1,886,382
Public Works	4,972,100	5,243,245	5,775,751	(532,506)
Community Development	1,031,260	1,132,394	511,324	621,070
	179,726,189	181,530,521	174,356,796	7,173,725
Capital Outlay	1,854,103	2,164,517	244,642	1,919,875
Debt Service:	-	-	-	-
Principal retirement	1,110,911	1,110,911	1,059,556	51,355
Interest and fiscal charges	743,418	743,418	768,007	(24,589)
Total expenditures	191,882,171	194,312,345	184,442,950	9,869,395
Excess (deficiency) of revenues over (under) expenditures	6,730,764	4,877,759	24,365,266	19,487,507
Other financing sources (uses):				
Transfers in	611,921	611,921	721,420	109,499
Transfers out	(9,588,105)	(9,588,105)	(9,704,318)	(116,213)
Total other financing sources (uses)	(8,976,184)	(8,976,184)	(8,982,898)	(6,714)
Net change in fund balance	(2,245,420)	(4,098,425)	15,382,368	19,480,793
Fund balance - beginning	23,996,331	23,996,331	23,996,331	-
Fund balance - ending	\$ 21,750,911	19,897,906	39,378,699	\$ 19,480,793

See accompanying Notes to Required Supplementary Information.

Special Revenue Housing Authority Fund
Budgetary Comparison Schedule
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 30,274,095	30,274,095	30,167,422	\$ (106,673)
Investment income	25,000	25,000	28,606	3,606
Miscellaneous	154,000	154,000	248,676	94,676
Total revenues	<u>30,453,095</u>	<u>30,453,095</u>	<u>30,444,704</u>	<u>(8,391)</u>
Expenditures:				
Current:				
Community development	<u>30,862,135</u>	<u>30,904,836</u>	<u>31,550,889</u>	<u>(646,053)</u>
Total expenditures	<u>30,862,135</u>	<u>30,904,836</u>	<u>31,550,889</u>	<u>(646,053)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(409,040)</u>	<u>(451,741)</u>	<u>(1,106,185)</u>	<u>(654,444)</u>
Net change in fund balance	<u>(409,040)</u>	<u>(451,741)</u>	<u>(1,106,185)</u>	<u>(654,444)</u>
Fund balance - beginning	<u>5,165,249</u>	<u>5,165,249</u>	<u>5,165,249</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,756,209</u>	<u>4,713,508</u>	<u>4,059,064</u>	<u>\$ (654,444)</u>

See accompanying Notes to Required Supplementary Information.

**Special Revenue Gas Tax Fund
Budgetary Comparison Schedule
Year ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 9,255,465	9,255,465	8,061,948	\$ (1,193,517)
Investment income	43,000	43,000	(234,345)	(277,345)
Cost recoveries and donations	-	-	334	334
Total revenues	<u>9,298,465</u>	<u>9,298,465</u>	<u>7,827,937</u>	<u>(1,470,528)</u>
Expenditures:				
Current:				
Public works	3,040,395	3,040,395	2,472,513	(567,882)
Debt Service:				
Principal retirement	1,220,000	1,220,000	1,220,000	-
Interest and fiscal charges	<u>2,990,985</u>	<u>2,990,985</u>	<u>2,964,081</u>	<u>26,904</u>
Total expenditures	<u>7,251,380</u>	<u>7,251,380</u>	<u>6,656,594</u>	<u>(540,978)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,047,085</u>	<u>2,047,085</u>	<u>1,171,343</u>	<u>(875,742)</u>
Other financing sources (uses):				
Transfers out	<u>(2,047,085)</u>	<u>(2,047,085)</u>	<u>(1,410,346)</u>	<u>636,739</u>
Total other financing sources (uses)	<u>(2,047,085)</u>	<u>(2,047,085)</u>	<u>(1,410,346)</u>	<u>636,739</u>
Net change in fund balance	-	-	(239,003)	(239,003)
Fund balance - beginning	<u>23,032,933</u>	<u>23,032,933</u>	<u>23,032,933</u>	<u>-</u>
Fund balance - ending	<u>\$ 23,032,933</u>	<u>23,032,933</u>	<u>22,793,930</u>	<u>\$ (239,003)</u>

See accompanying Notes to Required Supplementary Information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION, YEAR ENDED JUNE 30, 2013

A. Budgetary Information

The City and its component units' fiscal year begins on July 1 of each year and ends the thirtieth day of June the following year. On or before the fifteenth of June of each year, the City Manager submits to the City Council a proposed budget for the next ensuing fiscal year based on a detailed financial plan prepared by the heads of the various offices, agencies and departments of the City and its component units. Upon receipt of the proposed budget, the Council may make modifications with the affirmative vote of at least a majority of its members. Before adoption of the budget, the Council holds a public hearing wherein the public is given an opportunity to be heard, after which the Council may make any revisions deemed advisable. On or before the thirty-first day of July, the City Council adopts the budget as amended by the affirmative vote of at least a majority of its members. Upon final adoption, the budget is in effect for the ensuing fiscal year and becomes the authority for the various offices, agencies, and departments to expend subject to controls established by the City Charter. At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by affirmative vote of at least two-thirds of the members so as to authorize the transfer of unused balances appropriated for one purpose to another purpose, or to appropriate available revenue not included in the budget. Where appropriations are made to offices, departments, or agencies for more than one activity or program, "appropriations" are considered in the aggregate with respect to total expenditures authorized for that office, department or agency within each fund, limited to purposes for which the revenues of such funds are to be spent. The City Manager is authorized to make revisions among the items included in such appropriations if, in his opinion, such revisions are necessary and proper. Budgetary control exists at the department level. Council action is necessary for transfers between departments/agencies or transfers between funds. During the fiscal year, all budget and supplemental amendments were necessary and made in a legally permissible manner.

Annual budgets are legally adopted for the General Fund, Proprietary Funds, and certain Special Revenue Funds including Special Gas Tax, Sewer Connection Fee, Civic Center and Maintenance, Housing Authority, Inmate Welfare, and Air Quality Improvement. The budgetary control for the Special Revenue Funds is under the department in charge. The Public Works Department is responsible for the budget of the Special Gas Tax and Sewer Connection Fee funds. The Recreation and Community Services Department is responsible for the Civic Center and Maintenance fund. Housing Authority and the Air Quality Improvement funds were managed by the Community Development and the Planning and Building Department. The Police Department is responsible for the budget of the Inmate Welfare Fund. In addition, project and grant-length budgets are approved for the Special Revenue Grants Fund and Capital Projects Funds as a planning device and for financial and management control purposes, but are not required to be legally adopted by the City Council. The Asset Forfeiture Funds are not annually budgeted, per guidance from the Federal Department of Treasury, Executive Office of Asset Forfeiture. Monthly budgetary reports are prepared to effect control through fiscal management. Furthermore, although budgets are legally adopted for the Proprietary Funds of the City, there is no legal requirement for the fiscal year results to be reported to City Council. Therefore, no budgetary reporting for the Proprietary Funds has been presented in the accompanying financial statements. The City Council approved supplemental appropriations during the year in the General Fund and in other funds, but they were not considered material.

Budgets are prepared on a modified accrual basis. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. All annual appropriations lapse at fiscal year-end to the extent that they have not been expended or lawfully encumbered. Expenditures may not legally exceed

appropriations at the departmental level in the governmental funds, except that certain Special Revenue Funds and Capital Projects Funds are maintained at the project level.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes; and if proceeds of taxes exceed allowed appropriations, the excess must be returned to the taxpayers through revised tax rates or fee schedules within the next two years. For the fiscal year ended June 30, 2013, proceeds of taxes did not exceed related appropriations.

Budgetary Compliance. The total expenditures/expenses were within the legal prescribed limits as approved by the City Council. Public Works expenditures were funded by higher than expected revenues.

**Required Supplementary Information
Miscellaneous and Safety Plans
Schedule of Funding Progress
June 30, 2013**

(in thousands)

Plan	Actuarial Valuation Date	(a)	(b)	(c)	(b)/(a)	(d)	(c)/(d)
		Entry Age Normal Actuarial Accrued Liability (AAL)		Actuarial Value of Assets		Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
Miscellaneous Safety	06/30/10	\$ 609,179	\$ 506,240	\$ 102,939	83.1%	\$ 66,693	154.3%
	06/30/10	811,956	716,735	95,221	88.3%	60,380	157.7%
Miscellaneous Safety	06/30/11	642,850	529,201	113,649	82.3%	60,016	189.4%
	06/30/11	859,019	748,394	110,625	87.1%	59,969	184.5%
Miscellaneous Safety	06/30/12	670,676	547,676	123,000	81.7%	55,797	220.4%
	06/30/12	886,484	766,597	119,887	86.5%	36,443	329.0%

**Required Supplementary Information
OPEB Schedule of Funding Progress
June 30, 2013
(in thousands)**

	Actuarial Valuation Date	(a) Entry Age Normal Actuarial Accrued Liability (AAL)	(b) Actuarial Value of Assets	(a)-(b)=(c) Unfunded/ Actuarial Accrued Liability (UAAL)	(b)/(a) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL As a % of Covered Payroll
POA	06/30/11	49,545	-	49,545	0%	62,009	79.9%
PMA	06/30/11	1,856	-	1,856	0%	2,463	75.4%
FBA	06/30/11	28,007	-	28,007	0%	26,007	107.7%
SEIU	06/30/11	34,261	-	34,261	0%	55,640	61.6%
FMA	06/30/11	918	-	918	0%	841	109.2%
SAMA/CASA	06/30/11	8,133	-	8,133	0%	10,604	76.7%
Total		\$ 122,720	\$ -	\$ 122,720	0%	\$ 157,564	77.9%
POA	06/30/12	- (1)	-	-	0%	-	0.0%
PMA	06/30/12	2,003	-	2,003	0%	2,339	85.6%
FBA	06/30/12	3,097 (2)	-	3,097	0%	18,328	16.9%
SEIU	06/30/12	28,381	-	28,381	0%	33,428	84.9%
FMA	06/30/12	120 (2)	-	120	0%	705	17.0%
SAMA/CASA	06/30/12	8,980	-	8,980	0%	11,430	78.6%
Total		\$ 42,581	\$ -	\$ 42,581	0%	\$ 66,230	64.3%
PMA	06/30/13	2,041	-	2,041	0%	2,415	84.5%
FBA	06/30/13	3,135 (2)	-	3,135	0%	18,924	16.6%
SEIU	06/30/13	29,698	-	29,698	0%	34,514	86.0%
FMA	06/30/13	125 (2)	-	125	0%	728	17.2%
SAMA	06/30/13	5,625	-	5,625	0%	6,302	89.3%
CASA	06/30/13	3,614	-	3,614	0%	5,499	65.7%
Total		\$ 44,238	\$ -	\$ 44,238	0%	\$ 68,382	64.7%

(1) POA has full fiscal obligations of the plan and it is not an OPEB obligation of the City under GASB 45.

(2) On April 20, 2012, the City contracted with Orange County Fire Authority to provide firefighting and related services caused the subsidy plan terminated.



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA, CALIFORNIA

Schedules of Grant Activity

For the Fiscal Year Ended June 30, 2013

SA

CITY OF SANTA ANA

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013**

Federal Grantor / Pass Through Entity / Program Title	Direct or Pass Through	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Awards Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development					
Community Development Block Grant Cluster:					
Community Development Block Grant	Direct	14.218	B-10-MC-06-0508	\$ 2,397,881	\$ -
		14.218	B-11-MC-06-0508	5,539,172	2,601,221
		14.218	B-12-MC-06-0508	71,466	-
Neighborhood Stabilization Program 1	Direct	14.218	B-08-MN-06-0522	2,359,047	-
Neighborhood Stabilization Program 3	Direct	14.218	B-11-MN-06-0522	271,548	-
Subtotal Community Development Block Grant Cluster				<u>10,639,114</u>	<u>2,601,221</u>
Emergency Shelter/Solutions Grant	Direct	14.231	E-11-MC-06-0508	187,776	187,776
		14.231	E-12-MC-06-0508	423,933	337,691
				<u>611,709</u>	<u>525,467</u>
ARRA - Homelessness Prevention and Rapid Re-Housing	Direct	14.257	S-09-MY-06-0508	<u>15,541</u>	<u>10,000</u>
Section 8 Housing Choice Vouchers	Direct	14.871	SF-503 Voucher	<u>31,511,421</u>	<u>-</u>
Housing Opportunities for Persons with AIDS Program (HOPWA)	Direct	14.241	CA-H11-F0-06	568,737	13,421
		14.241	CA-H12-F0-06	692,020	692,020
				<u>1,260,757</u>	<u>705,441</u>
Home Investment Partnerships Program	Direct	14.239	M-94-MC-06-0535	989,130	-
		14.239	M-95-MC-06-0535	1,094,949	-
		14.239	M-96-MC-06-0535	994,890	-
		14.239	M-97-MC-06-0535	1,315,499	-
		14.239	M-98-MC-06-0535	1,495,622	-
		14.239	M-99-MC-06-0535	2,196,695	-
		14.239	M-00-MC-06-0535	2,124,890	-
		14.239	M-01-MC-06-0535	2,148,499	-
		14.239	M-02-MC-06-0535	2,055,043	-
		14.239	M-03-MC-06-0535	2,684,857	-
		14.239	M-04-MC-06-0535	2,815,756	-
		14.239	M-05-MC-06-0535	2,450,363	-
		14.239	M-06-MC-06-0535	2,376,379	-
		14.239	M-07-MC-06-0535	3,170,517	-
		14.239	M-08-MC-06-0535	1,887,398	-
		14.239	M-09-MC-06-0535	2,545,036	-
		14.239	M-10-MC-06-0535	1,363,215	-
		14.239	M-11-MC-06-0535	288,921	-
		14.239	M-12-MC-06-0535	187,954	-
				<u>34,185,613</u>	<u>-</u>
ARRA - Neighborhood Stabilization Program 2	Direct	14.256	B-09-LN-CA-0047	<u>5,214,736</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>\$ 83,438,891</u>	<u>\$ 3,842,129.00</u>

See accompanying Notes to the Schedules of Expenditures of Federal and State Awards.

(Continued)

CITY OF SANTA ANA

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013 (Continued)**

Federal Grantor / Pass Through Entity / Program Title	Direct or Pass Through	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Awards Expenditures	Amount Provided to Subrecipients
U.S. Department of Labor					
Workforce Investment Act Cluster:					
CA Employment Development Department:	Pass Through				
Adult		17.258	K178681	\$ 1,086	\$ -
Adult		17.258	K282505	303,306	-
Adult		17.258	K386318	827,295	-
				<u>1,131,687</u>	<u>-</u>
Dislocated Worker		17.260	K282505	136,761	-
Dislocated Worker		17.260	K386318	991,700	-
Rapid Response		17.260	K282505	1,810	-
Rapid Response		17.260	K386318	214,077	-
				<u>1,344,348</u>	<u>-</u>
Youth		17.259	K282505	1,130,115	822,776
Youth		17.259	K386318	314,395	5,159
				<u>1,444,510</u>	<u>827,935</u>
Subtotal Workforce Investment Act Cluster				<u>3,920,545</u>	<u>827,935</u>
H-1B Job Training Grant	Direct	17.268	HG-22593-12-60-A-6	750,898	600,176
Total U.S. Department of Labor				<u>\$ 4,671,443</u>	<u>\$ 1,428,111</u>
U.S. Department of Transportation					
Highway Planning and Construction Cluster:					
CA Department of Transportation:	Pass Through				
Highway Bridge Replacement and Rehabilitation		20.205	BRLS-5063(089)	\$ 1,113,455	\$ -
Regional Surface Transportation		20.205	STPL-5063(128)	3,814,583	-
		20.205	STPL-5063(136)	161,114	-
				<u>3,975,697</u>	<u>-</u>
Demonstration Sec 117		20.205	DEMO 5063(145)	53,081	-
		20.205	DEMO 5063(146)	8,350	-
				<u>61,431</u>	<u>-</u>
				<u>5,150,583</u>	<u>-</u>
CA Department of Parks and Recreation:	Pass Through				
National Recreational Trails Program		20.219	C8528002	72,137	-
		20.219	C8526005	32,611	-
				<u>104,748</u>	<u>-</u>
Subtotal Highway Planning and Construction Cluster				<u>5,255,331</u>	<u>-</u>

See accompanying Notes to the Schedules of Expenditures of Federal and State Awards.

(Continued)

CITY OF SANTA ANA

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013 (Continued)**

Federal Grantor / Pass Through Entity / Program Title	Direct or Pass Through	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Awards Expenditures	Amount Provided to Subrecipients
CA Department of Transportation: SAFETEA-LU	Pass Through	20.318	C-0-1812	62,905	-
Highway Safety Improvement Program		20.200	HSIPL-5063(129)	287,897	-
		20.200	HSIPL-5063(130)	241,965	-
		20.200	HSIPL-5063(139)	111,950	-
		20.200	HSIPL-5063(140)	4,771	-
		20.200	HSIPL-5063(141)	20,143	-
		20.200	HSIPL-5063(142)	68,948	-
National Safe Route to School		20.200	SRTSLNI-5063(144)	45,185	-
				<u>780,859</u>	<u>-</u>
CA Office of Traffic Safety: Sobriety Checkpoint	Pass Through	20.600	SC13385	116,060	-
Selective Traffic Enforcement		20.600	20365	112,687	-
Selective Traffic Enforcement		20.600	PT1387	115,177	-
				<u>343,924</u>	<u>-</u>
Orange County Transportation Authority Federal Transit Admin Grant Program 5307	Pass Through	20.507	C-1-3099	11,612	-
Total U.S. Department of Transportation				<u>\$ 6,454,631</u>	<u>\$ -</u>
U.S. Department of Justice					
Federal Equitable Sharing (Asset Forfeiture)	Direct	16.922	-	<u>\$ 1,344,595</u>	<u>\$ -</u>
CA Office of Emergency Services OES-Anti-Gang Initiative 2010	Pass Through	16.609	US10057948	473	-
OES-Anti-Gang Initiative 2011		16.609	US11067948	23,327	-
				<u>23,800</u>	<u>-</u>
County of Orange Sheriff's Department: Byrne Justice Assistance Grant 2009	Pass Through	16.738	2009-DJ-BX-0033	5,651	-
Byrne Justice Assistance Grant 2010		16.738	2010-DJ-BX-0324	166,778	-
Byrne Justice Assistance Grant 2011		16.738	2011-DJ-BX-2532	18,800	-
Anti Drug Abuse Program		16.738	BSCC 652-12-12	600,913	-
				<u>792,142</u>	<u>-</u>
County of Orange Sheriff's Department: ARRA - Byrne Justice Assist Grant 2009	Pass Through	16.804	2009-SB-B9-0271	82,515	-
ARRA - Community Oriented Policing Services	Direct	16.710	2009-RJ-WX-0014	1,513,669	-
Total U.S. Department of Justice				<u>\$ 3,756,721</u>	<u>\$ -</u>

See accompanying Notes to the Schedules of Expenditures of Federal and State Awards.

(Continued)

CITY OF SANTA ANA

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013 (Continued)**

Federal Grantor / Pass Through Entity / Program Title	Direct or Pass Through	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Awards Expenditures	Amount Provided to Subrecipients
U.S. Department of Homeland Security					
Homeland Security Grant Program Cluster:					
CA Office of Emergency Services:					
Urban Area Security Initiative 2009	Pass Through	97.067	2009-0019	\$ 78	\$ -
Urban Area Security Initiative 2010	Pass Through	97.067	2010-0085	2,401,594	-
Urban Area Security Initiative 2011	Pass Through	97.067	2011-SS-0077	2,182,596	915,143
Urban Area Security Initiative 2012	Pass Through	97.067	2012-SS-00123	122,000	-
Subtotal Homeland Security Grant Program Cluster				<u>4,706,268</u>	<u>915,143</u>
CA Office of Emergency Services:					
Interoperable Emergency Comm 2010	Pass Through	97.055	2010-IP-T0-0016	<u>866,210</u>	<u>-</u>
Total U.S. Department of Homeland Security				<u>\$ 5,572,478</u>	<u>\$ 915,143</u>
U.S. Department of Health and Human Services					
County of Orange Social Services Agency:					
Vocational Training & Work Experience	Pass Through	93.558	WAM-0811	<u>\$ 585,252</u>	<u>\$ -</u>
U.S. Institute of Museum and Library Services					
CA State Library:					
Library Services & Technology Act 2010	Pass Through	45.310	LS-00-10-0005-10	\$ 131	\$ -
Library Services & Technology Act 2011	Pass Through	45.310	LS-00-11-0005-11	3,112	-
Library Services & Technology Act 2012	Pass Through	45.310	LS-00-12-0005-12	1,359	-
				<u>4,602</u>	<u>-</u>
Laura Bush IMLS Seeds to Trees	Direct	45.313	RE-03-10-0066-10	<u>334,613</u>	<u>-</u>
Total U.S. Institute of Museum and Library Services				<u>\$ 339,215</u>	<u>\$ -</u>
Total Expenditures of Federal Awards				<u>\$ 104,818,631</u>	<u>\$ 6,185,383</u>

See accompanying Notes to the Schedules of Expenditures of Federal and State Awards.

CITY OF SANTA ANA

**Schedule of Expenditures of State Awards
For the Fiscal Year Ended June 30, 2013**

<u>Grantor / Program Title</u>	<u>Program Identification Number</u>	<u>State Awards Expenditures</u>
CA Department of Conservation		
Recycling & Litter Reduction	Not applicable	\$ <u>81,634</u>
CA Department of Resources Recycling and Recovery		
Oil Payment Program	OPP1	\$ 432
Oil Payment Program	OPP2	11,625
Beverage Container Payment Program	FY 10/11	16,164
		\$ <u>28,221</u>
CA Department of Public Health		
Safe Drinking Water, Water Quality & Supply - Prop 84	84-11C63	\$ 125,319
Safe Drinking Water, Water Quality & Supply - Prop 84	84-11C64	104,623
		\$ <u>229,942</u>
CA Department of Parks and Recreation		
2000 Parks Bond Act: Riparian and Riverine Habitat Conservation	C2030010 Various	\$ 66,716 115,671
Statewide Park Program - Prop 84	C6904046	238,410
		\$ <u>420,797</u>
CA Resources Agency		
California River Parkways Grant - Prop 50	R81777-0	\$ <u>223,947</u>
CA Department of Finance		
Supplemental Law Enforcement Services Fund	FY 2010-2011	\$ 18,136
Supplemental Law Enforcement Services Fund	FY 2011-2012	377,042
		\$ <u>395,178</u>
CA Department of Transportation		
Bicycle Transportation Act	BTA-1112-12-ORA-10	\$ 28,377
Safe Route to School	SR2SL-5063(135)	14,583
		\$ <u>42,960</u>
CA Environmental Protection Agency		
CUPA Grant 2010	G10-UPA-86	\$ <u>20,000</u>
CA Office of Emergency Services		
OES - Gang Reduction	GR 10 02 7948	\$ <u>128,712</u>
CA State Library		
Public Library Fund	Not applicable	\$ <u>142,323</u>
Total Expenditures of State Awards		\$ <u><u>1,713,714</u></u>

See accompanying Notes to the Schedules of Expenditures of Federal and State Awards.

**Notes to the Schedules of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2013**

1. REPORTING ENTITY

The accompanying Schedules of Expenditures of Federal and State Awards (Schedules) present the activities of all Federal and State financial assistance programs of the City of Santa Ana, California (City). Federal financial assistance received directly from Federal agencies, as well as Federal financial assistance passed through other agencies, is included in the Federal schedule. State financial assistance received from State of California agencies is reported in the State schedule. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedules of Expenditures of Federal and State Awards present only a selected portion of the operations of the City, they are not intended to, and do not, present the financial position or changes in financial position of the City.

2. BASIS OF ACCOUNTING

The accompanying Schedules are presented using the modified accrual basis of accounting, which is described in the notes to the City's basic financial statements. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

3. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

Information in the accompanying Schedules agree with or have been reconciled to the information reported in the City's Basic Financial Statements.

4. SUBRECIPIENTS

During the fiscal year ended June 30, 2013, the City made payments of federal awards to subrecipients totaling \$6,185,383.

5. LOANS OUTSTANDING

The City participates in certain federal loan programs which have continuing compliance requirements imposed by the federal government.

Program Title	CFDA No.	Current Year Loan Expenditures	Total Loans Outstanding as of June 30, 2013
Community Development Block Grant Cluster - Neighborhood Stabilization Program 1	14.218	\$ -	\$ 2,387,137
Home Investment Partnerships Program	14.239	170,512	33,696,542
ARRA - Neighborhood Stabilization Program 2	14.256	-	4,288,201

CITY OF SANTA ANA

**Supplemental Information - Housing Authority of the City of Santa Ana
Financial Data Schedule of Assets, Liabilities and Equity
June 30, 2013**

Line Item No.	Account Description	Housing Choice Vouchers	Total
<u>Assets</u>			
Current Assets:			
111	Cash - Unrestricted	\$ 999,846	\$ 999,846
113	Cash - Other Restricted	911,674	911,674
115	Cash - Restricted for payment of Current Liabilities	58,898	58,898
100	Total Cash	<u>1,970,418</u>	<u>1,970,418</u>
Receivables:			
122	Accounts Receivable - HUD Other Projects	-	-
128	Fraud Recovery	16,015	16,015
128.1	Allowance for Doubtful Accounts - Fraud	(5,765)	(5,765)
129	Accrued Interest Receivable	844	844
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>11,094</u>	<u>11,094</u>
142	Prepaid Expenses and Other Assets	9,067	9,067
150	Total Current Assets	<u>1,990,579</u>	<u>1,990,579</u>
Noncurrent Assets:			
Fixed Assets:			
164	Furniture, Equipment & Machinery - Administration	-	-
166	Accumulated Depreciation	-	-
160	Total Fixed Assets, Net of Accumulated Depreciation	<u>-</u>	<u>-</u>
174	Other Assets	-	-
180	Total Non-Current Assets	<u>-</u>	<u>-</u>
190	Total Assets	<u>\$ 1,990,579</u>	<u>\$ 1,990,579</u>
<u>Liabilities and Equity</u>			
Liabilities:			
312	Accounts Payable - HUD PHA Programs <=90 days	\$ 6,594	\$ 6,594
322	Accrued Compensated Absences - Current Portion	21,877	21,877
331	Accounts Payable - HUD PHA Programs	-	-
342	Deferred Revenues	10,250	10,250
345	Other Current Liabilities	58,898	58,898
346	Accrued Liabilities - Other	-	-
310	Total Current Liabilities	<u>97,619</u>	<u>97,619</u>
Noncurrent Liabilities:			
353	Noncurrent Liabilities - Other	176,694	176,694
354	Accrued Compensated Absences - Non Current	65,632	65,632
350	Total Noncurrent Liabilities	<u>242,326</u>	<u>242,326</u>
300	Total Liabilities	<u>339,945</u>	<u>339,945</u>
Equity:			
509.2	Fund Balance Reserved	744,296	744,296
511.2	Unreserved, Designated Fund Balance	-	-
512.2	Unreserved, Undesignated Fund Balance	906,338	906,338
513	Total Equity/Net Assets	<u>1,650,634</u>	<u>1,650,634</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 1,990,579</u>	<u>\$ 1,990,579</u>

CITY OF SANTA ANA

**Supplemental Information - Housing Authority of the City of Santa Ana
Financial Data Schedule of Revenue, Expenses and Changes in Equity
Year Ended June 30, 2013**

Line Item No.	Account Description	Housing Choice Vouchers	Total
Revenues			
70600	HUD PHA Operating Grants	\$ 30,167,422	\$ 30,167,422
71100	Investment Income - Unrestricted	6,066	6,066
71400	Fraud Recovery	37,316	37,316
71500	Other Revenue	234,098	234,098
72000	Investment Income - Restricted	9,865	9,865
70000	Total Revenue	<u>30,454,767</u>	<u>30,454,767</u>
Expenses			
Administrative:			
91100	Administrative Salaries	962,196	962,196
91200	Auditing Fees	20,809	20,809
91400	Advertising and Marketing	2,585	2,585
91500	Employee Benefit Contributions - Administrative	258,199	258,199
91600	Office Expenses	272,636	272,636
91800	Travel, Training & Transportation	3,064	3,064
91810	Allocated Overhead	130,218	130,218
91000	Total Operating - Administrative	<u>1,649,707</u>	<u>1,649,707</u>
Tenant Services:			
92100	Tenant Services - Salaries	80,436	80,436
92300	Employee Benefit Contributions - Tenant Services	36,752	36,752
92500	Total Tenant Services	<u>117,188</u>	<u>117,188</u>
General Expenses:			
96200	Other General Expenses	679,543	679,543
96210	Compensated Absences	-	-
96000	Total Other General Expenses	<u>679,543</u>	<u>679,543</u>
96900	Total Operating Expenses	<u>2,446,438</u>	<u>2,446,438</u>
97000	Excess of Operating Revenue over Operating Expenses	28,008,329	28,008,329
97300	Housing Assistance Payments	29,062,907	29,062,907
97350	HA Portability-In	186,100	186,100
90000	Total Expenses	<u>31,695,445</u>	<u>31,695,445</u>
10093	Transfers between Program & Project-In	-	-
10094	Transfers between Program & Project-Out	-	-
10000	Excess (Deficiency) of Operating Revenues Over (Under) Expenses	<u>\$ (1,240,678)</u>	<u>\$ (1,240,678)</u>
Memo Account Information:			
11030	Beginning Equity	\$ 2,891,312	\$ 2,891,312
11040	Prior Period Adjustments and Equity Transfers	-	-
11050	Changes in Compensated Absence Balance	(21,080)	(21,080)
11090	Changes in Allowance for Doubtful Accounts-Dwelling Units	(16,460)	(16,460)
11100	Changes in Allowance for Doubtful Accounts-Other	(5,926)	(5,926)
11200	Unit Months Available	31,896	31,896
11210	Number of Unit Months Leased	32,439	32,439
11170	Administrative Fee Equity	906,338	906,338
11180	Housing Assistance Payments Equity	744,296	744,296
	<i>Line 11170 & 11180</i>	<u>\$ 1,650,634</u>	<u>\$ 1,650,634</u>
	<i>Line 513</i>	<u>1,650,634</u>	<u>1,650,634</u>
		<u>\$ -</u>	<u>\$ -</u>

The Honorable City Council of
the City of Santa Ana, California

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited, in accordance with the 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, 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 Ana, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated December 4, 2013. Our report included an emphasis of a matter regarding the Successor Agency to the Santa Ana Redevelopment Agency's process of resolving the disagreements with the conclusions rendered by the State Department of Finance (DOF) on the amounts due to taxing entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as finding 2013-001, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, 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. 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*.

We noted certain matters that we reported to management of the City in a separate letter dated December 4, 2013.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Jini & O'Connell LLP

Newport Beach, California

December 4, 2013

The Honorable City Council of
the City of Santa Ana, California

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited City of Santa Ana, California's (City) 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 the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-002 through 2013-007. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-002 through 2013-007, that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Fini & O'Connell LLP

Newport Beach, California
March 25, 2014



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I - Summary of Auditor's Results

A. Financial Statements:

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

a. Material weakness(es) identified? Yes

b. Significant deficiency(ies) identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

B. Federal Awards:

Internal control over major programs:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified not considered to be material weakness? Yes

Type of auditor's report issued on compliance for major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510? Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of the Program or Cluster</u>
CFDA No. 14.218	Community Development Block Grant Cluster
CFDA No. 14.871	Section 8 Housing Choice Vouchers
CFDA No. 14.239	Home Investment Partnerships Program
CFDA No. 14.256	Neighborhood Stabilization Program 2
CFDA No. 16.710	Public Safety Partnership and Community Policing
CDDA No. 20.205, 20.219	Highway Planning and Construction Cluster
CDDA No. 16.804	Justice Assistant Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? No

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II - Financial Statement Findings

Finding 2013 – 001: System Access (Material Weakness)

Criteria:

Information Technology (IT) general controls should ensure that only authorized individuals have access to the City of Santa Ana's (City) IT network, applications and data. One of the primary means of controlling user access is through appropriate user accounts and passwords to ensure that only authorized individuals are able to access the City's data.

Condition Found and Context:

During our review of the City's IT general controls, we noted that whereas the City does have controls over setting up user access and creating new users, there are instances where the deactivation of user accounts is not timely for separated employees. For example, of the 147 separations during the fiscal year, we noted 47 accounts that were still active even though those users were no longer employees of the City. For those 47 active accounts for separated employees, 28 accounts were accessed subsequent to their separation. The remaining 19 accounts were accessed prior to or on the individual's separation date; however, their accounts were still active.

Based on our discussion with management, there were instances where accesses to the separated employee's computers were to obtain necessary information to continue City operations. However, there is no written documentation to justify such access after an employee's termination date to support appropriate activity.

Cause:

There is a delay in communication of an employees' change in status (i.e. separation) between the City's human resources department and the IT Services Division.

Effect:

Such delay in communication resulted in the continued active status of terminated employees.

Recommendation:

We recommend that the City enhance their internal controls to ensure that the human resources department provides timely information to the IT Services Division related to employee terminations so that the employee's IT access can be deactivated in a timely manner. Also, we recommend that the documentation for any special access to a terminated employee's account be reviewed and documented by management to ensure appropriate access.

Views of Responsible Officials and Planned Corrective Action:

Human Resources department will provide Information Services Division with a notice of all pending separations each pay period. Also, Information Services Division will develop an interagency City-wide policy to comply with the audit recommendation and coordinate with the individual departments to confirm restricted access of separations.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section III - Federal Award Findings and Questioned Costs

Reference Number: 2013-002

Federal Program Title(s): Housing Choice Voucher Program

Federal Catalog Number(s): 14.871

Federal Agency: Department of Housing and Urban Development

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): SF-503 Voucher 2012

Category of Finding: Special Tests and Provisions – Housing Quality Standards

Criteria:

The Public Housing Authority must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

Condition Found and Context:

During our testwork, we noted that for 12 out of 60 projects selected for review, the on-site inspections were not completed within the required timeframe based on the numbers of units within the project. The required inspections were ultimately completed and did not identify non-compliance with property standards.

Cause:

While processes are in place to ensure that the inspections take place, the internal controls were not operating effectively. Based on our discussions with management, the annual housing quality inspections were not performed within the required timeframes due to the change in the City's internal procedures to ensure the compliance.

Effect:

As a result, inspections were completed within 1 to 4 months after the due date.

Questioned Costs:

Not applicable.

Recommendation:

We recommend that the Community Development Agency of the City of Santa Ana enhance their existing policies and procedures to ensure that the on-site inspections of assisted housing units are performed in a timely manner to determine compliance with housing quality standards.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Views of Responsible Officials and Planned Corrective Action:

Santa Ana Housing Authority has implemented changes to the annual certification process. The HQS inspections are no longer tied to the annual income certification process and are tracked separately.

Reference Number: 2013-003

Federal Program Title(s): Community Development Block Grant

Federal Catalog Number(s): 14.218

Federal Agency: Department of Housing and Urban Development

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): B-12-MC-06-0508 2012

Category of Finding: Special Tests and Provisions - Rehabilitation

Criteria:

In accordance with the OMB Circular A-133 compliance supplement, “grantees need to ...[verify] through a review of documentation that the grantee inspects the rehabilitation work upon completion to assure that it is carried out in accordance with contract specifications, and that NSP projects were carried out in accordance with rehabilitations standards.”

Condition Found and Context:

During our testwork, we noted that of the 14 rehabilitation projects during the fiscal year, we selected 4 to ensure that the City inspected the rehabilitation work upon completion. We noted that for 2 of the 4 projects, the City did not maintain the certificate of completion for the rehabilitation work performed.

Cause:

While processes are in place to ensure that rehabilitation projects are reviewed, internal controls were not operating effectively. Based on our discussion with Community Development Block Grant management, a shortage of personnel resulted in their inability to perform the required inspections of rehabilitation projects.

Effect:

Noncompliance with the aforementioned requirement results in the risk that rehabilitation inspections were not carried out in accordance with rehabilitations standards.

Questioned Costs:

Not Applicable.

Recommendation:

We recommend that management enhance internal controls to ensure that required inspections of rehabilitation projects are performed in accordance with the federal guidelines. In addition, we recommend that management retain the certificate of completion as evidence of such inspections.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Views of Responsible Officials and Planned Corrective Action:

The Community Development Agency will take necessary steps to allocate the appropriate level of staff to ensure that rehabilitation projects are inspected as required, and that the documentation to demonstrate compliance is completed and filed.

Reference Number: 2013-004

Federal Program Title(s): Community Development Block Grant

Federal Catalog Number(s): 14.218

Federal Agency: Department of Housing and Urban Development

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): B-11-MC-06-0508 2011

Category of Finding: Subrecipient Monitoring

Criteria:

In accordance with OMB A-133; Subpart D-Federal Agencies and Pass-through Entities; §_400 "A pass-through entity is responsible for: [. .. J(d)(2) advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (d)(3) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and the performance goals are achieved; (d)(4) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient 's fiscal year have met the audit requirements of this part for that fiscal year."

Condition Found and Context:

During our test work over subrecipient monitoring, we noted that management did not obtain and review the Single Audit Report as required.

Cause:

The subrecipient monitoring is performed by the City's program staff charged with ensuring subrecipient compliance. However, due to the personnel changes within the department during the year ended June 30, 2013, subrecipient monitoring was not performed.

Effect:

Noncompliance with the aforementioned requirement results in the risk that the City is funding organizations who are not complying with program requirements to achieve the program objectives in accordance with laws, regulations, and contract provisions.

Questioned Costs:

Not applicable.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Recommendation:

We recommend the City develop a policy and implement a procedure that includes review documentation and certification to 1) ensure the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved, 2) ensure the required Single Audit is completed within nine months of the end of the subrecipient's audit period if the subrecipient expends \$500,000 or more in Federal awards during the year ended, 3) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 4) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Views of Responsible Officials and Planned Corrective Action:

The City has already taken steps to fill the vacancy of the position that is primarily responsible for complying with all CDBG subrecipient monitoring requirements. The Community Development Agency will ensure that new program staff follow and utilize the CPD Monitoring Handbook 6509.2, Exhibit 3-18 tool to be in compliance with the monitoring requirements and recommendations stated above.

Reference Number: 2013-005

Federal Program Title(s): Housing Choice Voucher Program

Federal Catalog Number(s): 14.871

Federal Agency: Department of Housing and Urban Development

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): SF-503 Voucher 2012

Category of Finding: Special Tests and Provisions – Lead Based Paint Disclosure

Criteria:

In accordance with 24 CFR Part 35.88, the “seller or lessor shall provide the purchaser or lessee with an Environmental Protection Agency (EPA) approved lead hazard information pamphlet in the ported tenant’s file”

Condition Found and Context:

During our testwork, we noted that of the 29 portability tenants, we reviewed 5 tenant files for compliance with the lead-based paint requirement and noted the files did not contain the required lead-based paint disclosure provided to the families.

Cause:

Based on our discussion with management, City personnel assumed that the portability tenants were provided the lead-based paint disclosure from their former housing authority.

Effect:

Noncompliance with the aforementioned requirement results in the risk that the City is not making the required disclosures to portability tenants.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Questioned Costs:

Not Applicable.

Recommendation:

We recommend that City management enhance their internal controls to ensure that all portability tenants receive the required lead based paint disclosure.

Views of Responsible Officials and Planned Corrective Action:

A checklist for moves has been developed to ensure that all lead-based paint forms required for moves are in the file. All portability files will be reviewed to ensure that lead-based forms are in the file.

Reference Number: 2013-006

Federal Program Title(s): Public Safety Partnership and Community Policing

Federal Catalog Number(s): 16.710

Federal Agency: Department of Justice

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): 2009-RJ-WX-0014 2009

Category of Finding: Reporting

Criteria:

The reporting compliance requirement in accordance with Section 1512 of the American Recovery and Reinvestment Act of 2009 (Recovery Act) requires the recipients to submit information on the projects and activities funded by the Recovery Act no later than the 10th day after the end of each calendar quarter.

Condition Found and Context:

During our review over reporting, we were not able to verify the submission date of the March and June 2013 quarterly American Recovery and Reinvestment Act (ARRA) reports. The City did not maintain any documentation of timely submission of these quarterly reports as required under ARRA.

Cause:

Management does not have a process in place to maintain documentation supporting the submission of quarterly reports subject to ARRA requirements.

Effect:

As a result, we were unable to confirm the submission of the March and June 2013 quarterly ARRA reports.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Questioned Costs:

Not applicable.

Recommendation:

We recommend the City develop and implement a procedure to maintain documentation supporting their submission of ARRA reports to ensure compliance with program requirements.

Views of Responsible Officials and Planned Corrective Action:

Police Fiscal has created a master calendar of all programmatic and financial grant reporting requirements. Police Fiscal will begin keeping an electronic copy of the Recovery Act reports in the grant file so that they can be made available to Finance staff and the auditors.

Reference Number: 2013-007

Federal Program Title(s): Community Development Block Grants

Federal Catalog Number(s): 14.218

Federal Agency: Department of Housing and Urban Development

Pass-Through Entity: N/A

Federal Award Number(s) and Year(s): B-12-MC-06-0508 2012

Category of Finding: Reporting

Criteria:

As required by the Federal Funding Accountability and Transparency Act (“Transparency Act” or “FFATA”) and subsequent OMB guidance, information on the first-tier subawards related to federal contracts and grants and the executive compensation of awardees must be made publicly available. Under the FFATA (Pub. L.No.110-252), an awardee should report the required information on the federal sub-award reporting system (FSRS) the first-tier awards by the end of the month following from the date of the funds are obligated.

Condition Found and Context:

During our testwork, we noted that management did not include on the FSRS the sub-award report required to be made under the Transparency Act. Management obligated the funds to three sub-recipients on August 8, 2012. Each sub-recipient was awarded an amount greater than \$25,000. The City submitted the sub-award report in February 2013, five months after the required due date of September 30, 2012.

Cause:

Under Part 4 of the 2013 OMB A-133 Compliance Supplement each first-tier sub-award obligation of \$25,000 or more in federal funds made after October 10, 2010 is required to be reported on the FSRS by the end of the month following the date the funds were obligated. Such requirement was introduced during fiscal year 2011. As such, management was not aware of the new submission requirement under the Transparency Act.

CITY OF SANTA ANA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Effect:

The late submission of the report could delay the public disclosure of first-tier subawards and executive compensation.

Questioned Costs:

Not applicable.

Recommendation:

We recommend that management develop procedures to identify all reporting requirements for federal grants received and ensure that all reports are submitted in a timely manner.

Views of Responsible Officials and Planned Corrective Action:

Program staff first became aware of the FFATA requirement in January 2013 when the Single Audit for the fiscal year ending June 30, 2012 was in progress. As soon as the prior year finding was determined, staff took the necessary actions to report on all sub-awards obligated prior to January 2013. Management will continue to ensure that staff submits the required information to FSRS in a timely manner in the future.

CITY OF SANTA ANA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

Section II – Financial Statement Findings

Item 2012 – 01 Compliance with the City of Santa Ana Investment Policy and California Government Code Section 53601

Comment

During our review of the Treasurer's Report for the quarters ended March 31, 2012 and as of June 30, 2012, we noted the City's commercial paper investment exceeded by the maximum percentage amount allowed by 4.29% or \$14,600,998 and 4.82% or \$16,163,655, respectively.

Recommendation

We recommend that management monitor new and continuing investments to ensure that the City complies with both the City's investment policy and the California Government Code, Section 53601.

Status of Corrective Action

The finding was corrected. As a result of the dissolution of redevelopment agencies, the City was required to close its Redevelopment Local Agency Investment Fund (LAIF) account. These funds were then transferred to the City. In anticipation of a potential payment of the demand amount by the Department of Finance, these funds were maintained in commercial paper causing the investment to exceed the allowable limits. The portfolio has since then been brought forth into compliance. In order to monitor and ensure that limits are maintained under the state and local investment policy, a matrix table which identifies the distribution of investment types as authorized by the California Government Code (or the City's investment policy if more restrictive) has been incorporated in the Treasury Report for Management review.

In addition, a formal Investment Committee was formed that includes Executive Director of Finance, Assistant Executive Director, Treasury Manager, Accounting Manager, Treasury Supervisor and Senior Accounting Assistant to further review the investment activities of each month.

Section III – Federal Award Findings and Questioned Costs

Item 2012-02 Reporting

Federal Agency: Department of Housing and Urban Development
Federal Program Title(s): Community Development Block Grants
Federal Catalog Number(s): 14.218

Comment

Management did not submit on the FSRS the sub-award report required to be made under the Transparency Act. Management obligated the funds to three sub-recipients on August 31, 2011. Each sub-recipient was awarded an amount greater than \$25,000. The City submitted the sub-award report in February 2013, seventeen months after the required due date of September 30, 2011.

Recommendation:

We recommend that management develop procedures to identify all reporting requirements for federal grants received and ensure that all reports are submitted in a timely manner.

CITY OF SANTA ANA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

Status of Corrective Action

The finding corrective action is in progress.

Item 2012-03 Allowable costs/costs principles

Federal Agency: Department of Transportation

Federal Program Title(s): Highway Planning and Construction Program

Federal Catalog Number(s): 20.205, 20.219

Comment

Out of the 37 employee time cards reviewed, 2 time cards were not signed and approved by the supervisor prior to processing. While the time cards did not evidence supervisor approval, the hours charged to the federal award were for allowable activities.

Recommendation

We recommend that management appoint an alternate supervisor to review and approve the time cards of employees charging hours to a federal award, prior to the retirement or departure of their predecessor.

Status of Corrective Action

The finding was corrected. The management of the City's Public Works Agency revised the Payroll Policy. The policy was communicated to all Public Works staff that handles payroll. Language was inserted into the revised policy that state management will appoint an appropriate staff member in the event of a retirement, resignation or departure of a supervisor to review and approve the timesheets of the supervisor's employees charging hours to projects. In the event of a division manager vacancy, the Public Works Director will serve as the individual who will review and approve timesheets prior to processing by the Senior Accounting Assistant. On September 5, 2013, the City received the letter from the Department of Transportation stating the finding is resolved.



CITY OF SANTA ANA, CALIFORNIA
Single Audit
Annual Financial Report



CITY OF SANTA ANA
CALIFORNIA

2013 Single Audit of Federal and California Grants

20 Civic Center Plaza, Santa Ana, California 92701 (714) 647-5434