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**City of
Santa Clarita**

December 7, 2004

Honorable Mayor, City Councilmembers and City Manager:

It is a pleasure to submit for your information the Comprehensive Annual Financial Report of the City of Santa Clarita for the fiscal year ended June 30, 2004. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Organization of the financial report follows the guidelines set forth by the Government Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO). A Certificate of Achievement for Excellence in Financial Reporting is presented by the GFOA and a Certificate of Award for Outstanding Financial Reporting by the CSMFO to those entities whose comprehensive annual financial reports are judged to substantially conform to program standards.

The City of Santa Clarita received both awards for the last fifteen years' financial reports and, in my opinion, the accompanying financial report conforms to the high standards of public financial reporting and will again this year be submitted to both award programs for review. In accordance with the above-mentioned guidelines, the Comprehensive Annual Financial Report is divided into three sections. These are:

Introductory Section

- Letter of Transmittal
- GFOA Certificate of Achievement for Excellence
- Financial reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- The City's Organizational Chart
- Staff Directory



Financial Section

- Independent Auditors' Report
- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Notes to the Basic Financial Statements
- Required Supplementary Information (RSI)
- Combining and Individual Fund Financial Statements and Schedules

Statistical Section

- Pertinent financial and non-financial data that present historical trends and other information about the City

FINANCIAL REPORTING ENTITY

The City of Santa Clarita was officially incorporated on December 15, 1987, after a ballot measure was passed by the City's residents. The City operates under a Council-Manager form of government. The governing Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the government and for appointing the heads of the various departments.

The City of Santa Clarita provides, either directly or under contract with the County of Los Angeles, a full range of municipal services including public safety, construction and maintenance of streets and other infrastructure, public works, parks and recreation, community development, and cultural events. This report includes all funds and account groups of the City of Santa Clarita, the Santa Clarita Redevelopment Agency and the Santa Clarita Public Financing Authority.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In evaluating the City's accounting system needs, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition; and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: 1) the cost of a specific control feature should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits require estimates and judgments by management.

All evaluations of the City's system of internal control will continue to occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City of Santa Clarita maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds, debt service funds, and capital projects funds, are included in the annual appropriated budget. In addition, yearly operating budgets are adopted for the City's proprietary fund types to facilitate management evaluation. The level of budgetary control, that is, the level at which expenditures cannot legally exceed the appropriated amount, is established by function or program within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Open encumbrances are reported as a reserve of fund balance at the end of a fiscal year for all governmental funds. Encumbrances lapse at year end and then are added to the following year's budgeted appropriations.

ECONOMIC CONDITION AND OUTLOOK

Santa Clarita remains a great place to live and work. The City of Santa Clarita currently enjoys a favorable economic environment and local indicators point to continued stability. In fact, the City of Santa Clarita was the fastest growing city among all cities with a population size of 150,000 in Los Angeles County and well exceeded the state's growth rate of 1.4% with an annual population growth in the three percent range. The City was also ranked as the second most desirable location in Los Angeles County for new homebuyers.

Job growth is prolific in Santa Clarita with an eight percent growth translating into 5,700 new jobs created. The types of new jobs include construction, professional and technical, wholesale goods distribution, finance, real estate, administrative, hospitality services and recreation. As a result of the strong labor market, the demand for industrial and office space has accelerated. The City is bringing new jobs through the construction of the Centre Pointe Business Park.

On a long-term basis, the City of Santa Clarita continues to make strides in economic development and business retention, which has already developed a strong and diverse retail base. This retail base has provided the City with its current strong financial position. The City's continued control over expenditure growth has been and will continue to be a key factor in maintaining the City's strong financial position.

CAPITAL IMPROVEMENTS

Santa Clarita's Capital Improvement Program (CIP) is a component of the annual budget process that addresses the City's short- and long-term capital needs. Just as important, the CIP emphasizes a plan of action that effectively maintains the existing infrastructure to a sound physical standard, as well as providing new facilities to support current growth and complement new development. Some of the more significant projects that were set in motion or completed during the 2003-04 fiscal year are as follows:

Completed construction of the Santa Clarita Aquatic Center, which features three pools including an Olympic size 50-meter, a diving pool, and a zero-depth entry pool with a three-story slide. Construction of the new, state-of-the-art Transit Maintenance Facility is

underway. This facility will be used to house and maintain the City's bus fleet and serve as the fleet's automated wash, with diesel and CNG fueling stations.

The City also began construction of the new Community Center located in the Newhall area and the Golden Valley Road/Soledad Interchange, which is the next phase in the City's Cross Valley Connector.

APPROPRIATION LIMIT

In November 1979, the voters of the State of California approved Proposition 4 which created Article XIII B of the State Constitution. Article XIII B was further amended by Proposition III which was approved by the voters in June 1990. Article XIII B established a limit on the amount of tax proceeds which can be appropriated by all entities of government. According to California law, cities must use the 1978-79 appropriations as a base year and modify that figure by the composite consumer price index and population changes that have accrued in subsequent years. Because Santa Clarita was incorporated after 1978-79, the Los Angeles County Local Agency Formation Commission used 1985-86 fiscal-year appropriations at incorporation as the base year on which the City will modify each year. The City has since performed a study to increase the limit, and City appropriations remain below the appropriation limitation and are expected to continue in that respect in the near future.

CASH MANAGEMENT

The City operates its pooled idle cash investments under the "Prudent Investor" standard and has adopted a formal investment policy. Such policy affords the City a broad spectrum of investment opportunities, as long as the investment is deemed prudent and is permissible under current effective legislation of the State of California and other regulations. The City recently received a Certificate of Excellence award from the Association of Public Treasurers of the United States and Canada for its Treasurer's Investment Policy. This is the ninth year the City submitted and was successful in receiving this award, which commends the City for enhancing its fiscal responsibility in the management of fiscal funds.

Temporarily idle cash was invested in a variety of investment vehicles, including the State Treasurer's Local Agency Investment Fund, Los Angeles County Pooled Investment Fund, Federal Agency instruments, Bankers' Acceptances, Corporate Notes, and Commercial Paper. The City's diversified investment portfolio allows for flexibility and safety of the total invested funds. The weighted average yield on such investments for the year was 3.52%, with total interest earnings for all funds at \$3,321,238.12.

FIDUCIARY OPERATIONS

The City's agency funds are the Valencia Town Center Community Facilities District No. 2002-1, Golden Valley Assessment District No. 92-2, and Vermont/Everett Improvement Assessment District No. 99-1. The Community Facilities District No. 2002-1 represents bond proceeds as a result of refunding bonds issued from the Community Facilities District 92-1 which initially was from the sale of Special Tax Bonds, Series A. The original bonds were issued to finance a portion of the costs of acquiring certain public infrastructure improvements located within the vicinity of the Valencia Town Center. The

bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982. This fund was established during fiscal year 2002-03. Assessment District No. 92-2 represents bond proceeds from Limited Obligation Improvement Bonds, Series 1996, which were issued to finance the acquisition of certain public improvements in the area of Golden Valley Road. These bonds were issued pursuant to the Improvement Bond Act of 1915. This fund was established during fiscal year 1996-97. And finally, in January 2000, \$790,000 of 1915 Limited Obligation Improvement Bonds for the Vermont/Everett Drive Improvement Assessment District were issued. The debt service on these bonds is paid from property assessments within the district.

RISK MANAGEMENT

The City of Santa Clarita maintains full coverage for all municipal events under its general liability policy. This policy provides a \$400,000 self-insured retention and is layered to a total coverage of \$15 million per occurrence. In addition to general liability, the City maintains individual policies for autos, property, flood, special events, and earthquake damage where appropriate. As a precautionary measure, all employees in a position with significant financial responsibility are independently bonded. The individual bond complements the blanket dishonest bond extended to all employees.

Workers' compensation claims are currently administered through State Fund. Overall, Santa Clarita has continued to maintain an excellent loss history in this area, due to departmental and City-wide safety training sessions.

To protect its self-insured retention, Santa Clarita maintains a comprehensive risk management program, which focuses on detection and prevention of claims through frequent inspection. An annual review of potential hazards is conducted in conjunction with our general liability provider, Insurance Company of Pennsylvania. This early identification of potential hazards, along with departmental daily, monthly, and quarterly inspections, ensures that issues are addressed in a timely manner before injuries occur. In addition, the City has implemented a stringent risk assessment and contract review system, which ensures that all contracts have appropriate indemnification and insurance provisions, thus protecting the City in all events. Finally, the City, as a policy, takes a position to aggressively defend all claims for damages. This fiduciary responsibility is not taken lightly, as is proven in the excellent loss record sustained by the City since incorporation.

INDEPENDENT AUDIT

The City of Santa Clarita's financial statements have been audited by Diehl, Evans & Company, LLP, a firm of licensed certified public accountants. The accounting firm of Diehl, Evans & Company, LLP, Inc. has been selected by the City Council to perform this service. An audit by independent certified public accountants is required annually. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Santa Clarita for the fiscal year ended June 30, 2004, 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 reasonable basis for rendering an unqualified opinion that

the City of Santa Clarita's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The auditors' report on the general purpose financial statements, combining and individual fund statements and schedules, is included in the financial section of this report. In addition, GAAP requires that an objective analysis of the city's financial activities accompany the basic financial statements. This is provided by management in the form of Management's Discussion and Analysis (MD & A), which is located immediately following the auditors' report in the financial section of this report.

AWARDS

I am pleased to report that CSMFO awarded its Outstanding Financial Reporting Award, and the GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting, to the City of Santa Clarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. In order to receive the awards, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

These awards are valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the requirements of the GFOA Certificate of Achievement Program and the CSMFO Outstanding Financial Reporting Award requirements, and we are submitting it to GFOA and CSMFO to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated service of the entire staff of the Finance Division. I would like to express my appreciation to all members of the Division who assisted and contributed to its preparation, in particular, Barbara Boswell, Finance Manager, Renee Bojorquez, Senior Accountant; Mary Ann Ruprecht, Accountant; Carmen Magaña and Jan Downey, Administrative Analysts, and Holly Faulconer, Graphic Designer. I would also like to thank the Mayor, Members of the City Council, and the City Manager, Ken Puskamp, for their continuing efforts in planning and administering the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Darren Hernández,
Director of Administrative Services & City Treasurer

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