



**DIEHL, EVANS & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

2121 ALTON PARKWAY, SUITE 100  
IRVINE, CALIFORNIA 92606-4906  
(949) 399-0600 • FAX (949) 399-0610  
[www.diehlevents.com](http://www.diehlevents.com)

MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA  
\*PHILIP H. HOLTkamp, CPA  
\*THOMAS M. PERLOWSKI, CPA  
\*HARVEY J. SCHROEDER, CPA  
KENNETH R. AMES, CPA

\*A PROFESSIONAL CORPORATION

September 2, 2004

**INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and  
Members of City Council  
City of Santa Clarita  
Santa Clarita, California

We have audited the accompany financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Santa Clarita, California, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Santa Clarita's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Santa Clarita, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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OTHER OFFICES AT:

2965 ROOSEVELT STREET  
CARLSBAD, CALIFORNIA 92008-2389  
(760) 729-2343 • FAX (760) 729-2234

613 W. VALLEY PARKWAY, SUITE 330  
ESCONDIDO, CALIFORNIA 92025-2598  
(760) 741-3141 • FAX (760) 741-9890

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004 on our consideration of the City of Santa Clarita's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Santa Clarita's basic financial statements. The introductory section, supplementary information section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Diehl, Evans and Company, LLP*