

**THE TRANSIT ENTERPRISE FUND
OF THE CITY OF SANTA CLARITA**

**(AN ENTERPRISE FUND OF THE
CITY OF SANTA CLARITA, CALIFORNIA)**

Financial Report

Year Ended June 30, 2016

**THE TRANSIT ENTERPRISE FUND
OF THE CITY OF SANTA CLARITA**

**(AN ENTERPRISE FUND OF THE
CITY OF SANTA CLARITA, CALIFORNIA)**

Financial Report

Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Enterprise Fund (Transit Fund), an enterprise fund of the City of Santa Clarita, California (the City), as of and for the year ended June 30, 2016, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 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 Fund'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 Fund'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2016, and the changes in its financial position and 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 discussed in Note 1 to the financial statements, the financial statements present only the Transit Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. 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 schedule of proportionate share of the net pension liability, and schedule of contributions 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, 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.



Rancho Cucamonga, California
December 21, 2016

FINANCIAL STATEMENTS

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current assets

Pooled cash and investments	\$ 4,270,156
Accounts receivable	308
Interest receivable	11,646
Prepays	215,582
Due from other governments	2,890,576
Total current assets	<u>7,388,268</u>

Noncurrent assets

Capital assets

Nondepreciable assets	15,089,616
Depreciable assets, net	61,597,644
Total noncurrent assets	<u>76,687,260</u>
Total assets	<u>84,075,528</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>151,201</u>
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LIABILITIES

Current liabilities

Accounts payable	3,163,708
Compensated absences payable	51,460
Total current liabilities	<u>3,215,168</u>

Noncurrent liabilities

Compensated absences payable	30,937
Net pension liability	1,084,341
Total noncurrent liabilities	<u>1,115,278</u>
Total liabilities	<u>4,330,446</u>

DEFERRED INFLOWS OR RESOURCES

Deferred inflows related to pensions	<u>107,260</u>
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NET POSITION

Net investment in capital assets	76,687,260
Unrestricted	3,101,763
Total net position	<u>\$ 79,789,023</u>

See notes to financial statements.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2016**

Operating revenues:	
Metrolink and EZ pass revenues	\$ 201,670
Fixed-route passenger fares	3,474,343
Dial-A-Ride passenger fares	114,249
County of Los Angeles operating assistance	1,819,843
Specialized transit services	947,425
Miscellaneous revenues	988,903
Total operating revenues	<u>7,546,433</u>
Operating expenses:	
Salaries and benefits	1,227,394
Administrative services	1,300,754
Contract transportation services	18,458,987
Insurance	75,550
Supplies, utilities and other	1,581,180
Depreciation	5,483,542
Total operating expenses	<u>28,127,407</u>
Operating loss	<u>(20,580,974)</u>
Nonoperating revenues (expenses):	
Proposition A discretionary	4,879,561
Proposition A specialized transportation	815,312
Proposition C expansion	190,272
Proposition C BSIP	49,389
Proposition C transit mitigation	22,691
Proposition C MOSIP	1,814
Proposition C security allocation	413,726
Measure R bus operations	2,423,492
Intergovernmental revenues	301,642
Transit mitigation fees	55,600
Interest income	59,086
Total nonoperating revenues	<u>9,212,585</u>
Loss before contributions and transfers	<u>(11,368,389)</u>
Capital contributions:	
Federal Transit Administration capital grants	2,771,993
Proposition C MOSIP	732,312
Total capital contributions	<u>3,504,305</u>
Transfers from the City of Santa Clarita	6,590,158
Transfers to the City of Santa Clarita	(199,894)
Change in net position	<u>(1,473,820)</u>
Net position, beginning of year	<u>81,262,843</u>
Net position, end of year	<u>\$ 79,789,023</u>

See notes to financial statements.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**STATEMENT OF CASH FLOWS
JUNE 30, 2016**

Cash flows from operating activities:	
Cash received from customers and users	\$ 6,557,222
Cash payments to suppliers of goods and services	(21,514,402)
Cash payments to employees	(1,253,472)
Cash received from other sources	988,903
Net cash used for operating activities	<u>(15,221,749)</u>
Cash Flows from noncapital financing activities:	
Cash transfers out to the City of Santa Clarita	(199,894)
Cash transfers in from the City of Santa Clarita	6,590,158
Federal and state funding received	8,980,968
Net cash provided by noncapital financing activities	<u>15,371,232</u>
Cash flows from capital and related financing activities:	
Federal and state capital contributions	3,504,305
Acquisition of capital assets	(3,674,931)
Net cash used for capital and related financing activities	<u>(170,626)</u>
Cash flows from investing activities:	
Interest received	<u>56,189</u>
Net increase in cash and cash equivalents	<u>35,046</u>
Pooled cash and cash equivalents	
Beginning of year	4,235,110
End of year	<u>\$ 4,270,156</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (20,580,974)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,483,542
Pension Expense	106,537
Changes in operating assets and liabilities:	
(Increase) in accounts receivable	(308)
Decrease in prepaids	125,202
(Decrease) in accounts payable and accrued liabilities	(223,133)
Increase in compensated absences	7,146
Payments related to deferred outflows for contributions subsequent to the measurement date	<u>(139,761)</u>
Total adjustments	<u>5,359,225</u>
Net cash used in operating activities	<u>\$ (15,221,749)</u>

See notes to financial statements.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business: The financial statements of the Transit Enterprise Fund (Transit Fund) of the City of Santa Clarita, California (City) are intended to present the financial position and results of the bus line services operation. The financial statements of the Transit Fund are included as a business-type (enterprise fund) activity in the basic financial statements of the City.

A summary of the Transit Fund’s significant accounting policies is as follows:

The accounting policies of the Fund are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to proprietary activities of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial presentation: The financial statements of the Fund include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The financial statements are prepared using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recorded in the period in which the liability is incurred.

Operating revenues and expenses result from the local public transit services for the local, commuter, Dial-A-Ride and Access Services, Inc., specializing in transit operations and maintenance. The operating revenues consist of charges to customers and users for the transit services provided. Operating expenses include the costs of providing these services, administrative expenses, and depreciation expense. All revenues and expenses not meeting these definitions and which are not capital in nature are reported as non-operating revenues and expenses.

The Transit Fund recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Non-exchange transactions occur when the Fund receives value from another party without giving equal or nearly equal value in return. Various intergovernmental revenues and most donations are examples of non-exchange transactions. Under the terms of grant agreements, the Fund has an enforceable claim with other governmental agencies when specific program expenses are incurred. The Fund has an enforceable claim to local funding allocations when the allocations are determined by the other governmental agencies on an annual basis.

Pooled cash and investments: The Transit Fund’s cash balance was pooled with various other City funds for deposit and investment purposes. The City’s treasury is responsible for the cash management of the Transit Fund’s cash balance. Cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition, and the Transit Fund’s participation in the City investment pool are considered to be cash and cash equivalents. Each City fund owns a share of pooled cash and investments and interest income was apportioned based on its average month-end cash balances in proportion to the total of the pooled cash and investments.

Prepays: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

***NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

Administrative services: The Transit Fund has no direct employees, as all personnel-related services are provided by vendors through transportation service contracts or through City employees. Costs for such City employees, including the allocation of accrued compensated absences liabilities and pension costs, are allocated to the Fund based on an approved cost allocation plan.

Grants: Grant revenues and receivables are recorded when earned on grants that have been approved and funded by the grantor, and when eligibility requirements for the grant have been met. Grant sources include Federal Transit Administration grants.

Capital assets: Capital assets include land, site improvements, buildings and improvements, and vehicles and equipment. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 (\$25,000 for site improvements and building improvements and \$100,000 for infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 asset lives are not capitalized.

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

Site improvements	5-25 years
Building and improvements	5-50 years
Equipment	5-25 years

Pension: The Transit Fund reports a proportion of the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, of the collective net pension liability of the City of Santa Clarita. All amounts and disclosures are presented on a cost-sharing perspective where the Transit Fund is a participant in the City’s plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees Retirement System (CalPERS) plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position: Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows, and is classified into three categories:

- **Net investment in capital assets:** This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, and excludes unspent debt proceeds.
- **Restricted:** Represents the net position that is constrained for use by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.
- **Unrestricted net position:** This amount represents the residual of amounts not classified in the other two categories and represents the net position available for the City.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Transit Fund’s policy is to apply restricted resources first.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

***NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

Employee compensated absences: It is the City’s policy to permit employees to accumulate earned but unused vacation (compensated absences). This accumulation is recorded as an expense and liability of the Transit Fund in the fiscal year earned. The outstanding balance as of June 30, 2016 was \$82,397 of which \$51,460 was considered due within one year, and \$30,937 was considered due in more than one year.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates.

Effect of new Governmental Accounting Standards Board (GASB) pronouncements:

Effective This Fiscal Year

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, or the 2015-2016 fiscal year. The Fund has implemented this statement effective July 1, 2015.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of the Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, the Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement is effective for the reporting periods beginning after June 15, 2016. The Fund has implemented this statement effective July 1, 2015.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

***NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

Effect of new Governmental Accounting Standards Board (GASB) pronouncements (Continued):

Effective in Future Fiscal Years

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016, or the 2016-2017 fiscal year. The Transit Fund has not determined the effect of this statement.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017, or the 2017-2018 fiscal year. The Transit Fund has not determined the effect on the financial statements.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The requirements of this Statement are effective for the financial statements for periods beginning after December 15, 2015, or the 2016-2017 fiscal year. The Transit Fund has not determined the effect of this statement.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015. The Transit Fund has not determined the effect of the statement.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016. The Transit Fund has not determined the effect of the statement.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

***NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

Effect of new Governmental Accounting Standards Board (GASB) pronouncements (Continued):

Effective in Future Fiscal Years (Continued)

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016. The Transit Fund has not determined the effect of the statement.

NOTE 2 – POOLED CASH AND INVESTMENTS

The Transit Fund’s cash and investment balance of \$4,270,156 is held in the City investment pool. The City investment pool is not rated and is not registered with the Securities Exchange Commission (SEC). The Transit Fund’s position in the City investment pool at June 30, 2016 is stated at fair value. For further information regarding the City Pool, refer to the City of Santa Clarita Comprehensive Annual Financial Report.

Fair Value Measurement

For investments, the City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the Transit Fund held no individual investments. Deposits and withdrawals from the City Pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of the Transit Fund’s proportionate share of investments in the City investment pool is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Due from other governments consists of the following at June 30, 2016:

<u>Agency</u>	
Los Angeles County	\$ 1,793,408
Federal Transit Administration	706,709
Other Agencies	390,459
	<u>\$ 2,890,576</u>

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – CAPITAL ASSETS

Changes in capital assets of the Fund at June 30, 2016 consisted of the following:

	Balance June 30, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Non-depreciable assets:					
Land	\$ 10,787,880	\$ -	\$ -	\$ -	\$ 10,787,880
Intangible	4,300,000	-	-	-	4,300,000
Construction	-	1,736	-	-	1,736
Total non-depreciable assets	<u>15,087,880</u>	<u>1,736</u>	<u>-</u>	<u>-</u>	<u>15,089,616</u>
Depreciable assets:					
Site improvements	12,941,276	-	-	-	12,941,276
Building and improvements	41,483,799	-	-	-	41,483,799
Equipment	45,877,133	3,673,195	(10,036)	-	49,540,292
Total depreciable assets	<u>100,302,208</u>	<u>3,673,195</u>	<u>(10,036)</u>	<u>-</u>	<u>103,965,367</u>
Less accumulated depreciation					
Site improvements	(2,127,149)	(568,221)	-	-	(2,695,370)
Building and improvements	(10,159,039)	(883,347)	-	-	(11,042,386)
Equipment	(24,608,029)	(4,031,974)	10,036	-	(28,629,967)
Total accumulated depreciation	<u>(36,894,217)</u>	<u>(5,483,542)</u>	<u>10,036</u>	<u>-</u>	<u>(42,367,723)</u>
Total depreciable assets, net	<u>63,407,991</u>	<u>(1,810,347)</u>	<u>-</u>	<u>-</u>	<u>61,597,644</u>
Total capital assets, net	<u>\$ 78,495,871</u>	<u>\$ (1,808,611)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,687,260</u>

NOTE 5 – TRANSFERS TO/FROM THE CITY OF SANTA CLARITA

During the year ended June 30, 2016, the Transit Fund transferred \$199,894 to the City of Santa Clarita’s General Fund and Nonmajor governmental funds of the City for support of transit operations. The management of the City approved the transfers to the Transit Fund of \$6,590,158 as follows:

Proposition A	\$ 3,757,974
Proposition C	2,832,184
	<u>\$ 6,590,158</u>

NOTE 6 – PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City’s Miscellaneous Pension Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. The employees are participants in the Miscellaneous Plan of the City. Accordingly, all amounts and disclosures are presented on a cost-sharing perspective where the Transit Fund is a participant in the City’s plan. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – PENSION PLAN (CONTINUED)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	Tier 3
Formula	2.7% at 55	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	60	62
Monthly benefits, as a % of annual salary	2.7%	2.0%	2.0%
Required employee contribution rates*	8%	7%	6.25%
Required employer contribution rates	14.185%	14.185%	14.185%
	Tier 1	Tier 2	Tier 3
Applies to:	Employees hired before April 9, 2011, including those hired as part time seasonal (PTS) who later convert to regular full time employees.	Employees hired between April 9, 2011 and December 31, 2012, or those hired January 1, 2013 or later, who have been a CalPERS member with a public agency or in a reciprocal plan within the last 6 months). Also includes PTS who later convert to regular full time employees	Employees hired January 1, 2013 or later (if employee has not been a CalPERS member with a public agency, or in a reciprocal plan within the last 6 months)

* For unrepresented Tier 1 participants, the City pays 4% of the required employee contribution. For the SEIU Tier 1 participants, the City pays 3% of the required employee contributions. The City does not pay any portion of the employee contribution for Tier 2 or Tier 3 participants. These payments are classified as employee contributions in accordance with GASB 68.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – PENSION PLAN (CONTINUED)

Contributions

Section 20814(c) of the California Public Employees’ Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. The expense associated with contributions for the Transit Fund employees is charged to payroll at the required rates previously noted.

Contributions recognized by the pension plan, and contributed by the Transit Fund for the year ended June 30, 2016 were \$139,761.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the net pension liability reported by the Transit Fund for its proportionate share of the net pension liability of the Plan, as allocated by the City, was \$1,084,341.

The Transit Fund’s net pension liability was measured as the proportionate share of the City’s net pension liability for the Miscellaneous Plan. The net pension liability of the Plan was measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using actuarial update procedures. The Transit Fund’s proportion of the net pension liability was based on actual contributions paid by the Transit Fund in relation to the total City’s contribution paid for the Miscellaneous Plan, as determined by the City. The Transit Fund’s proportion of the net pension liability for the Plan as of June 30, 2014 and 2015 were as follows:

Proportion - June 30, 2014	3.51419%
Proportion - June 30, 2015	3.51419%
Change - Increase (Decrease)	<u>0.00000%</u>

For the year ended June 30, 2016, the Transit Fund recognized pension expense of \$106,537. At June 30, 2016, the Transit Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 11,440	\$ -
Changes of assumptions	-	82,957
Net difference between projected and actual earnings on pension plan investments	-	24,303
Contributions subsequent to the measurement date	139,761	-
Total	<u>\$ 151,201</u>	<u>\$ 107,260</u>

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – PENSION PLAN (CONTINUED)

The amount of \$139,761 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending	Deferred Outflows/(Inflows) of Resources
2017	\$ (42,613)
2018	(42,613)
2019	(42,613)
2020	32,019
Total	<u>\$ (95,820)</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuation for the City’s Miscellaneous Plan was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% - 14.20% (1)
Investment Rate of Return	7.65%
Mortality	(2)

(1) Depending on age, service and type of employment

(2) Derived using CalPERS Membership Data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for each plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the district’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In determining the long-term expected 7.65 percent rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the pension funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Expected Real Rate of Return 1-10 Years (a)	Expected Real Rate of Return 11+ Years (b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99	2.43
Inflation Assets	6.0%	0.45	3.36
Private Equity	10.0%	6.83	6.95
Real Assets	10.0%	4.50	5.13
Infrastructure and Forestland	2.0%	4.50	5.09
Liquidity	2.0%	-0.55	-1.05
	100%		

(a) An expected inflation rate of 2.5% used for this period

(b) An expected inflation rate of 3.0% used for this period

Sensitivity of the Transit Fund’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Transit Fund’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Transit Fund’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Transit Fund's proportionate share of the net pension liability	\$ 1,923,777	\$ 1,084,341	\$ 400,927

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the City's CAFR, as well as the separately issued CalPERS financial reports.

NOTE 7 – ADMINISTRATIVE AND PERSONNEL COSTS

Certain general and administrative costs are allocated to the Transit Fund based upon an approved cost allocation plan. Such allocated costs were \$742,430 for the year ended June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
(AN ENTERPRISE FUND OF THE CITY OF SANTA CLARITA, CALIFORNIA)**

**SCHEDULE OF THE TRANSIT FUND'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Proportion of the collective net pension liability	3.51419%	3.51419%
Proportionate share of the collective net pension liability	\$ 1,084,341	\$ 944,480
Covered payroll**	\$ 957,079	\$ 944,599
Proportionate Share of the collective net pension liability as a percentage of covered payroll	113.30%	99.99%
Plan fiduciary net position as a percentage of the total pension liability	79.11%	80.58%

Note to Schedule:

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

** The Fund adopted GASB Statement No. 82, and has therefore restated the schedule to show covered payroll based on pensionable earnings.

Changes of Assumptions - The discount rate was changed from 7.5% at the June 30, 2014 measurement date to 7.65% at the June 30, 2015 measurement date.

**THE TRANSIT ENTERPRISE FUND OF THE CITY OF SANTA CLARITA
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**SCHEDULE OF THE TRANSIT FUND'S CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 139,761	\$ 131,436
Contributions in relation to the actuarially determined contribution	<u>(139,761)</u>	<u>(131,436)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 981,667	\$ 957,079
Contributions as a percentage of covered payroll	14.24%	13.73%

Note to Schedule:

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

** The Fund adopted GASB Statement No. 82, and has therefore restated the schedule to show covered payroll based on pensionable earnings.