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**City of
 Santa Clarita**

January 24, 1989

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

To: City Manager.

It is a pleasure to submit for your information the initial Comprehensive Annual Financial Report of the City of Santa Clarita for 1987-88. This financial report covers the period from the City's formal incorporation on December 15, 1987, to June 30, 1988.

Jan Heidt
 Mayor

Jo Anne Darcy
 Mayor Pro-Tem

Carl Boyer, III
 Councilmember

Dennis M. Koontz
 Councilmember

Howard "Buck" McKeon
 Councilmember

Organization of this Report

The Comprehensive Annual Financial Report is prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of the independent public accounting firm of Peat Marwick Main & Co.

Organization of the financial report follows the guidelines set forth by the Government Finance Officers Association of the United States and Canada. A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association to those entities whose comprehensive annual financial reports are judged to substantially conform to program standards. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

Because of the City's recent incorporation, the financial report was not completed this first year in time to meet the deadline for submission to the awards program but, in my opinion, the accompanying financial report conforms to the high standards of public financial reporting and will be submitted to the award program for review next year.

In accordance with the above-mentioned guidelines, the initial Comprehensive Annual Financial Report is divided into three sections:

- I. Introduction Section -
 - .. Letter of transmittal
 - .. City organization chart

II. Financial Section -

- .. Report of independent auditors
- .. Combined financial statements
- .. Notes to financial statements
- .. Supplemental statements

III. Statistical Section -

- .. Pertinent financial and non-financial data that presents historical trends and facts about the City

The Financial Section of this report has been structured so as to represent a "reporting pyramid." The significance of the levels of this pyramid are as follows:

- . General Purpose Financial Statements - This level includes the Independent Auditor's Report, the Combined Financial Statements, and Notes to Combined Financial Statements. The Combined Financial Statements provide a summary of the City's financial position at June 30, 1988, and the results of its operations for the period then ended by fund type or account group.
- . Combining, Individual Fund and Account Group Statements and Schedules - Also presented are separate sections for the various financial statements and schedules for each fund type. They reflect financial data on each generic fund type with separate columns for each individual fund. Each separate column serves as a financial statement for that particular fund. Combining financial statements are presented in each instance where the City has more than one fund of a given fund type.

The City's accounting records for general operations are maintained on the modified-accrual basis of accounting, with the revenues being recorded when measurable and available and expenditures, except for accrued interest on long-term debt, which is recorded when due, being recorded when the liability is incurred.

Developing the City's Accounting System

In developing and evaluating the City's emerging 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 requires estimates and judgments by management.

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

The City's emergence as a newly incorporated governmental entity in December 1987 effectively precluded the preparation of an operating budget for the period ended June 30, 1988. The City has developed an operating budget for fiscal year 1988-1989 which was presented to and adopted by the City Council in December 1988.

The Reporting Entity

The City of Santa Clarita (City) 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 and provides, either directly or under contract with the County of Los Angeles, a full range of municipal services including public safety, public works, parks and recreation, community development, etc.

Financial Operating Results

A summary of the City's overall operating results for the period from the date of incorporation through June 30, 1988, is presented below. Details of these revenue and expenditure amounts, by fund, can be found in the accompanying financial statement.

REVENUES:

Taxes	\$4,448,732
Licenses and permits	3,616,504
Developer fees	573,822
Interest income	128,544
Fines and forfeitures	191,774
Service charges	100,645
Total	<u>\$9,060,021</u>

EXPENDITURES:

Current operating expenditures:	
General government	\$ 535,975
Public safety	2,329,899
Public works	1,235,438
Parks and recreation	237,932
Community development	150,032
Maintenance	60,298
Capital outlay	80,357
Interest to County of Los Angeles	62,704
Total	<u>\$4,692,635</u>

The City's recent incorporation date and subsequent partial-year of operation effectively preclude relating comparison or analysis of the foregoing revenue and expenditures against prior operations or other cities of similar size and demographics. However, the City Council can be assured that subsequent annual financial reports will include management's analysis of the City's relative progress towards financial stability.

Investment Management

The City operates its pooled idle cash investments under the "Prudent Man Rule" and has adopted a formal investment policy. Such policy affords the City a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under current effective legislation of the State of California and other imposed restrictions.

Temporarily idle cash was invested in two investment vehicles, including State Treasurer's Local Agency Investment Fund, and deposits with commercial banking institutions. The average yield on such investments for the year was 7.3%, and total interest earnings for all funds was \$128,544.

Debt Administration

At June 30, 1988, the City had no bonded indebtedness; however, the City's "start-up" costs for contract municipal services performed by the County of Los Angeles on behalf of the City aggregated \$3,985,616. Such costs are payable over a five-year period ending in 1993 pursuant to an agreement between the City and the County. Such advanced costs bear interest at 7% per annum.

General Fixed Assets

The City's general fixed assets represent those fixed assets used in the performance of general governmental functions. At June 30, 1988, the City's general fixed assets aggregated \$12,528,560. This amount represents the original cost of the assets or fairmarket value at the date of contribution to the City. No depreciation of general fixed assets is recognized in the City's accounting system.

The General Fixed Assets Accounts Group does not include those assets defined as "infrastructure assets" (i.e., roads, curbs, gutters, sidewalks, etc.). Such assets are generally immovable and are deemed to be of value only to the City.

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Prospects for the Future

Fiscal year 1987-88 represented the birth of a major City in Southern California. With a population of approximately 150,000 people, Santa Clarita is already the fourth largest City in Los Angeles County, and if the housing market is any barometer for growth, the population boom will continue.

The accompanying financial statements reflect an excellent financial condition for a newly incorporated City. The City is widely diversified in housing, service needs and maintenance requirements. Already major infrastructure requirements are needed. The interest of the citizenry is for better planning, more parks, and the elimination of traffic congestion.

On June 30, 1988, the City was composed of eleven (11) employees with projected staffing levels of fifty (50) by June 30, 1989. The City is the largest contract City in California and will probably continue that status for the near future. In November, 1988, an expanded City Hall location was occupied, the performance of a General Plan study is already underway, a computer system has been selected, and the conversion process of all financial records has begun.

Acknowledgments

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I should like to express my appreciation to all members of the department who assisted and contributed to its preparation. I should also like to thank the Mayor, members of the City Council and the City Manager, George Carvalho, for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Andrea Daroca, Director of Finance/City Treasurer

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OFFICIALS OF THE CITY OF SANTA CLARITA

June 30, 1988

CITY COUNCIL

Howard P. "Buck" McKeon, MAYOR
Jan Heidt, MAYOR PRO TEM
Jo Anne Darcy, COUNCILMEMBER
Carl Boyer, 3rd, COUNCILMEMBER
Dennis M. Koontz, COUNCILMEMBER

CITY OFFICIALS

George Carvalho, CITY MANAGER
Carl Newton, CITY ATTORNEY
Donna Grindey, DEPUTY CITY CLERK
Kenneth R. Pulskamp, ASSISTANT CITY MANAGER
Andrea Daroca, DIRECTOR OF FINANCE/GENERAL SERVICES
Kyle Kollar, DIRECTOR OF COMMUNITY DEVELOPMENT

CITY OF SANTA CLARITA
ORGANIZATIONAL CHART

