Notes to General Purpose Financial Statements

Notes to General Purpose Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The City of Santa Clarita (the City), California was incorporated on December 15, 1987 as a general law city. The City operates under a council-manager form of government and provides its citizens with a full range of municipal services, either directly or under contract with the County of Los Angeles. Such services include public safety (police and fire protection), building permit/plan approval, planning, community development, recreation, animal control and street maintenance.

The Santa Clarita Redevelopment Agency (the Agency) was established in July 1991, pursuant to the State of California Health and Safety Code, Section 33000. The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse arising from inadequate street layout and street access, lack of open space, landscaping and other improvements and facilities necessary to establish and maintain the economic growth of the City. The Agency is in the process of forming a project area.

The Santa Clarita Public Financing Authority (the Authority) was established in July 1991, as a joint power of authority between the City and the Agency for the purpose of providing financing and funding of public capital improvements and the acquisition of property.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14. The City of Santa Clarita is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Agency and the Authority have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. The Agency's financial data and activity are reported within the debt service and capital projects fund types and the general fixed assets and general long-term debt account groups, and the authority's financial data and activity are reported within the debt service fund type.

The following specific criteria were used in determining that the Agency and the Authority were blended component units:

- The members of the City Council also act as the governing bodies of the Agency and the Authority.

- The Agency and the Authority are managed by employees of the City.

Financial statements for each of the individual component units may be obtained at the City's administrative offices.

b. Description of Fund Types and Account Groups:

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts, established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. For financial reporting purposes, the various funds for the City have been grouped according to defined fund types and account groups and are presented in this report as follows:

Governmental Fund Types:

General Fund – accounts for all the general revenue of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

Special Revenue Funds - account for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.

Debt Service Funds - account for the accumulation of resources for, and payment of, interest and principal on long-term debt.

Capital Projects Funds - account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types:

Enterprise Fund - accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of City Council is that the costs and expenses, including depreciation and amortization, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds - account for activities involved in rendering services to departments within the City. Costs of materials and services used are accumulated in these funds and are charged to the user departments as such goods are delivered or services rendered.

Fiduciary Fund Types:

Expendable Trust Fund - accounts for assets and activities restricted to a specific purpose in accordance with a trust agreement.

Agency Funds - account for assets held by the City as an agent for the City employees' deferred compensation plan and assets held by the City as agent for the Community Facilities District 92-1 and Assessment District 92-2.

Account Groups:

General Fixed Assets Account Group - accounts for fixed assets of the City, except for those accounted for in proprietary fund types.

General Long-Term Debt Account Group - accounts for long-term debt of the City, except for debt accounted for in proprietary fund types.

c. Basis of Accounting:

Governmental fund types and the expendable trust fund are accounted for using the modified accrual basis of accounting. Generally, revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Revenues which are susceptible to accrual include property taxes received within 60 days after year end, taxpayer assessed taxes, such as sales taxes, and earnings on investments. Licenses, permits, fines, forfeits, charges for services and miscellaneous revenues are recorded as governmental fund type revenues when received in cash because they are not generally measurable until actually received. Grant funds which are reported in governmental fund types are recorded as a receivable when earned rather than when susceptible to accrual. Generally, this occurs when authorized expenditures are made under the grant program. Generally grant funds received before the revenue recognition criteria have been met are reported as deferred revenue. Expenditures are recognized when the fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is followed by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Agency fund types are accounted for using the modified accrual basis of accounting. Agency type funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations.

For purposes of these general purpose financial statements, the City has conformed to the pronouncements of the Governmental Accounting Standards Board (GASB) which are acknowledged as the primary authoritative statements of generally accepted accounting principles applicable to state and local governments. In accordance with GASB Statement No. 20, the City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Standards Board Statements and Interpretations, Accounting Principals Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

d. Measurement Focus:

All governmental funds and the expendable trust fund are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheets, with the exception that the noncurrent portion of long-term receivables due to governmental funds are reported on their balance sheets, offset by fund balance reserve accounts. Statements of revenue, expenditures and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with the activity are included on the balance sheets. Their reported fund equity presents total net assets. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in total net assets.

e. Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1) The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.

2) The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. There were no significant non-budgeted financial activities. Actual expenditures may not exceed budgeted appropriations at the functional or program level. The City Manager is authorized to transfer budgeted amounts at the program level. The City has the following programs accounted for through its governmental funds – general government, public safety, public works, parks and recreation, community development, capital expenditures and debt service expenditures.

3) Budgets for the General, Special Revenue Funds, Debt Service Funds and Capital Projects Funds are adopted on a basis substantially consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparison is presented for the Community Facilities District No. 92-1 and Assessment District 92-2 Capital Projects Funds, or the Redevelopment Agency Debt Service Fund as the City does not adopt annual budgets for these types of funds. The following is a reconciliation of fund balance for budgeted and nonbudgeted funds.

	Debt Service	Capital Projects
Fund Balance – Budgeted Funds	$1,687,948	$2,070,953
Fund Balance – Nonbudgeted Funds		199,894
Total Fund Balance	$1,687,948	$2,270,847

4) The budgetary information shown for revenues and expenditures represent the original adopted budget adjusted for any changes made by the City Council or City Manager. For the year ended June 30, 1997, budgeted appropriations in the governmental funds increased from $75,582,480 to $82,399,386.

5) Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations at year end lapse, and then reappropriated amounts are added to the following year's budgeted appropriations. At June 30, 1997 fund balances have been reserved for encumbrances carried forward.

f. Cash and Investments:

Investments are stated at cost (see Note 2), except that investments recorded in the Deferred Compensation Agency Fund are reported at market value. If market values decline below cost, no loss is recorded as such declines are considered temporary. The City's practice is to hold investments until maturity or until market values equal or exceed cost. However, if the liquidity needs of the City were to require that investments be sold at a loss subsequent to year end, the decline in value would be recorded as a loss at year end.

A substantial portion of the City's investments are in short-term, highly liquid instruments, with original maturities of three months or less, including investments in the California Local Agency Investment Fund and Los Angeles County Pooled Investment Fund totaling $18,052,221. For purposes of the statements of cash flows, all pooled cash and investments held by the enterprise and internal service funds are considered to be short-term and, accordingly, are classified as cash and cash equivalents.

g. Fixed Assets:

General fixed assets are not capitalized in the fund used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental fund types, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. General fixed assets acquired by capital lease are recorded as expenditures and other financing sources in the acquiring governmental fund. These obligations are then reflected in the general fixed assets and long-term debt account groups. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. Assets in the General Fixed Assets Account Group are not depreciated.

Fixed assets purchased by proprietary fund types are capitalized at historical cost, while contributed assets are recorded at fair market value on the date donated. Depreciation is charged to operations using a straight-line method, based on the average useful life of the asset. The estimated useful lives of the assets are as follows:

Equipment	5-12 years
Building	35 years

h. Employee Compensated Absences:

It is the government's policy to permit employees to accumulate earned but unused vacation (compensated absences). Vacation pay which is expected to be liquidated with expendable available resources is reported as an expenditure and liability of the governmental fund that will pay it. Compensated absences in the amount of $547,922 which are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group.

i. Property Taxes:

Property taxes are an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1, which become delinquent on December 10 and April 10, respectively. The County of Los Angeles bills and collects property taxes for the City. Remittance of property taxes to the City is accounted for in the City's General Fund.

j. Inventories:

Inventories are accounted for on the purchase (expenditure) method, whereby expenditures for inventory are written off as incurred. There were no significant inventories on hand at June 30, 1997.

k. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program claims payable, which includes an estimate for incurred but not reported claims (IBNR), and is recorded in an Internal Service Fund.

l. Comparative Data

Comparative total data from the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their conclusion would make the statements unduly complex and difficult to read.

m. Total Columns on Combined Financial Statements:

The combined financial statements include total columns which aggregate the financial statements of the various fund types and account groups. The columns are designated "Memorandum Only" because the totals are not comparable to a consolidation since interfund transactions are not eliminated.

n. New Funds

The City has established four new special revenue funds (Economic Development Administration, OCJP Grant Fund, BJA Law Enforcement and Supplemental Law Grant) to account for various grants. The OCJP Grant was previously reported within the City's General Fund and the Economic Development Grant was included in the Miscellaneous Grants special revenue fund. This fund restructuring had no effect on fund balance. In addition, the City created the Assessment District No. 92-2 Capital Projects and Agency funds to account for activities related to special assessment debt for which the City has no commitment.

2. CASH AND INVESTMENTS

Authorized Investments

Under provisions of the City's Investment Policy and bond indentures and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of instruments:

Mutual Funds Composed Entirely of U.S. Governmental
Securities or other allowable investments
Negotiable Certificates of Deposit
U.S. Government Securities
Bankers Acceptances
Commercial Paper
Medium-Term Corporate Notes
California Local Agency Investment Fund (LAIF)
Los Angeles County Pooled Investment Fund
Federal Agency Obligations

California Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each City or Agency may invest up to $20,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours.

Los Angeles County Pooled Investment Fund

The Los Angeles County Pool is a special fund of the County of Los Angeles through which Cities in Los Angeles County may pool investments. Each City may invest an unlimited amount in the fund. Investments in the pool are highly liquid, as deposits can be converted to cash within 24 hours.

Classification of Deposits and Investments By Credit Risk

Statement No. 3 of the Governmental Accounting Standard Board requires that deposits and investments be classified into three categories of credit risk. These categories are as follows:

Deposits:

Category 1 - Deposits which are insured or collateralized with securities held by the City or the City's agent in the City's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department in the City's name.

Category 3 - Deposits which are uncollateralized.

Investments:

Category 1 - Investments which are insured or registered, or where the securities are held by the City or the City's agent in the City's name.

Category 2 - Investments which are uninsured and unregistered with securities held by the purchasing financial institution's trust department or agent in the City's name.

Category 3 - Investments which are uninsured and unregistered, with the securities held by the purchasing financial institution's trust department or agent, but not in the City's name.

Investments Not Subject to Categorization:

Investments in the California Local Agency Investment Fund (LAIF) and the Los Angeles County Pooled Investment Fund are not categorized, as GASB Statement 3 does not require categorization of investment pools managed by another government. Also, investments of the Deferred Compensation Plans and investments held by fiscal agents are not categorized because the underlying assets of these investments consist primarily of guaranteed investment contracts issued by insurance companies (GIC's), annuity contracts or open-ended mutual funds. All such investments are not required to be categorized under interpretive guidelines issued by the GASB.

The City's deposits and investments were categorized as follows at June 30, 1997:

	Category 1	Category 2	Category 3	Carrying Amount
Deposits				
Pooled Deposits				
Demand Accounts:				
Bank balances	$230,341	$870,458		$1,100,799
Deposits in transit				95,508
Outstanding checks				(1,499,303)
Book balance	230,341	870,548		(302,996)
Total Deposits	$230,341	$870,548	$ -	$ (302,996)

	Category 1	Category 2	Category 3	Carrying Amount	Contractual/ Market Value
Investments:					
Los Angeles County Pooled Investment Fund				$ 58,945(1)	$ 58,945(3)
California Local Agency Investment Fund				17,993,276(1)	17,993,276(2)
United States Treasury Bills	$4,864,925			4,864,925	4,865,684
Federal National Mortgage Association	3,651,221			3,651,221	3,634,507
United States Treasury Notes	2,886,846			2,886,846	2,882,266
Federal Home Loan Bank	2,968,482			2,968,482	2,954,282
Commercial paper	1,517,872			1,517,872	1,518,130
Bankers acceptances	2,066,477			2,066,477	2,054,036
Total Investments	17,955,823			36,008,044	35,961,126

	Category 1	Category 2	Category 3	Carrying Amount	Contractual/ Market Value
Investments Held By Fiscal Agents:					
Mutual Funds				3,885,212[1]	3,885,212
Deferred Compensation				4,453,517[1]	4,453,517
Total Investments With Fiscal Agents				8,338,729	8,338,729
Total Investments	$17,955,823	$ -	$ -	$44,346,773	$44,299,855

[1] Not subject to categorization.

[2] The management of the State of California Pooled Money Investment Account (generally referred to as LAIF) has indicated to the City that as of June 30, 1997 the carrying amount of the pool was $28,515,398,747 and the estimated market value of the pool (including accrued interest) was $28,637,448,331. The City's proportionate share of that value is $18,070,286. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling $740,750,000 and asset-backed securities totaling $406,649,000. LAIF's (and the City's) exposure to risk (credit, market, or legal) is not currently available.

[3] At June 30, 1997, market value for the Los Angeles County Investment Pool (LACIP) was $6,408,288,032 compared to principal cost of $6,410,083,799. The City's proportionate share of the market value was $58,928. Included in the LACIP's investment portfolio are certain derivative securities in the form of asset-backed securities and floating rate notes, representing approximately 4.8% of the LACIP total investment portfolio. Information regarding LACIP's (and the City's) exposure to credit, market or legal risk is currently not available.

Total cash and investments at June 30, 1997 consisted of the following:

Cash and investments (including petty cash $2,121)	$35,707,169
Cash and investments held by fiscal agents	8,338,729
Total Cash and Investments	$44,045,898

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest and to the proprietary funds. Interest is allocated monthly based on the cash balances in each fund receiving interest. Investments from bond proceeds are maintained separately and interest on these investments are allocated specifically to the capital projects fund which received the bond proceeds.

3. PROPERTY, PLANT AND EQUIPMENT

Changes in General Fixed Assets for the year ended June 30, 1997 are as follows:

	Balance at July 1, 1996	Additions	Deletions	Balance at June 30, 1997
Land and improvements	$29,300,124	$ 26,069		$29,326,193
Buildings	13,640,104	190,180		13,830,284
Equipment	6,247,091	557,392		6,804,483
Totals	$49,187,319	$773,641	$ -	$49,960,960

Changes in the proprietary fund property, plant and equipment for the year ended June 30, 1997 are as follows:

	Balance at July 1, 1996	Additions	Deletions	Balance at June 30, 1997
Enterprise Fund				
Equipment acquired by capital lease	$6,162,479			$6,162,479
Equipment purchased	318,232	$ 54,517		372,749
Buildings	4,208,955	537,375		4,746,330
Land	1,743,027			1,743,027
	12,432,693	$591,892	$ -	13,024,585
Less: Accumulated depreciation	(2,966,692)			(3,658,622)
Net Assets	$9,466,001			$9,365,963
Internal Service Fund				
Equipment	$195,848	$284,875	$ -	$480,723
Less: Accumulated depreciation				(90,454)
Net Assets	$195,848			$390,269

4. GENERAL LONG-TERM DEBT

The following is a summary of the changes in the City's general long-term debt for the year ended June 30, 1997:

	Balance at July 1, 1996	Additions	Deletions	Balance at June 30, 1997
Financing Authority Revenue Bonds - Series 1991	$19,715,000		$ 915,000	$18,800,000
Notes payable	3,278,698		175,822	3,102,876
Lease payable		$107,381	11,553	95,828
Advances to other funds	1,612,248	386,057		1,998,305
Compensated absences	482,038	65,884		547,922
Totals	$25,087,984	$559,322	$1,102,375	$24,544,931

a. Financing Authority Revenue Bonds – Series 1991:

On October 1, 1991 the Santa Clarita Public Financing Authority issued $22,940,000 of Revenue Bonds – Series 1991. The Authority, simultaneously with the receipt of the Bond proceeds, acquired $22,940,000 of Certificates of Participation issued by the Santa Clarita Redevelopment Agency. The proceeds from the Certificates were transferred from the Agency to the City to finance and/or refinance the design, acquisition, improvement or construction of land, the City Hall Building and certain road improvements, and to refinance certain debt. In exchange for transferring the proceeds from the Certificates to the City, the Agency acquired a leasehold interest in land, the City Hall Building and certain public improvements (the facilities). The Agency leased back the facilities to the City for lease payments to be made by the City to the Financing Authority equal to the principal and interest due on the revenue bonds.

Principal amounts on $6,055,000 of serial bonds mature annually each October 1, in the years 1992 through 2003 and bear interest at rates ranging from 4.80% to 6.50%. Term bonds in the amounts of $3,035,000, $7,000,000 and $6,850,000 are due October 1, 2011, 2020, and 2021, respectively, and bear interest at 6.70%, 7.00% and 6.75%, respectively. Interest is payable semi-annually on April 1 and October 1 beginning in 1992.

The bonds are subject to optional redemption on or after October 1, 2001, and on any interest payment date thereafter at a price equal to the principal amount plus accrued interest to the redemption date, plus a premium ranging from 0.0% to 2.00%. The term bonds are subject to mandatory redemption on any October 1, from 1999 to 2021, in amounts ranging from $145,000 to $905,000, at a price equal to the principal amount plus accrued interest to the redemption date. In addition, the bonds are subject to mandatory redemption under various other circumstances as described in the official statement dated October 1, 1993.

Future debt service requirements on the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$ 320,000	$ 1,264,760	$ 1,584,760
1999	345,000	1,244,970	1,589,970
2000	365,000	1,222,835	1,587,835
2001	390,000	1,198,340	1,588,340
2002	415,000	1,171,980	1,586,980
Thereafter	16,965,000	13,761,335	30,726,335
	$18,800,000	$19,864,220	$38,664,220

b. Notes Payable:

1. The City entered into an agreement whereby the Price Company loaned the City $2,557,436 for the acquisition of certain public improvements. Interest on the note accrues at the rate of 10% per year. Payments are due quarterly and will equal 70% of the sales tax revenue generated from the operation of the Price Club Center (owned by the Price Company). The payments will be made for a period of 30 years or until the accrued interest and principal are paid in full, beginning October 1, 1993. In the event that payments are insufficient to fully discharge the note in 30 years, the unpaid balance of principal and interest will be forgiven. Sales tax generated has been less than current interest due during certain periods. Therefore, the City has added unpaid accrued interest payable to the outstanding principal balance of the note. At June 30, 1997, the balance outstanding of $2,925,149 on the note included $2,557,436 in original loan proceeds and $367,713 of accrued interest.

2. In April, 1993 the City entered into an agreement whereby the City will reimburse Home Depot Company $690,000 for certain public improvements. Interest accrues at a rate of 7% per year. Payments are due quarterly and will equal up to 50% of the sales tax revenue generated monthly from the operation of the Home Depot. The payments will be made for a period of 7 years or until accrued interest and principal are paid in full. In the event that payments are insufficient to fully discharge the note in 7 years, the unpaid balance of principal will be forgiven. As of June 30, 1997, the unpaid principal balance was $177,727.

c. Lease Payable

In August 1996, the City entered into a lease with an option to purchase agreement in the amount of $107,381 for the lease of property through Municipal Leasing Associates, Inc. Such agreement carries interest at the rate of 5.38% per annum on the unpaid principal balance, payable semi-annually from January 30, 1997 through July 30, 2000.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$24,501	$ 4,836	$ 29,337
1999	26,755	3,488	30,243
2000	29,161	2,017	31,178
2001	15,411	415	15,826
	$95,828	$10,756	$106,584

d. Advances from Other Funds:

The Agency has received advances totaling $1,998,305, which includes $1,736,778 of principal and $261,527 of accrued interest, from the City's General Fund, which are recorded as "Advances to Other Funds" in the General Fund. Current year principal advances of $237,017 are recorded as "Other Financing Sources" in the Agency's Capital Projects Fund and interest for fiscal year 1996-97 of $149,040 in the Agency's Debt Service Fund. Since the debt will be repaid from future tax increments as it becomes available, the debt from the Agency to the General Fund has been recorded in the General Long-Term Debt Account Group.

5. DEFERRED REVENUE

At June 30, 1997, deferred revenue consisted of the following:

a. The City collects funds in advance as reimbursement for costs of providing recreation classes to the public. At June 30, 1997, $391,246 in fees collected in advance for providing recreation classes were recorded as deferred revenue in the General Fund to reflect fees not earned.

b. In the General Fund, accrued interest receivable of $261,527 added to the Advances to the Redevelopment Agency has been recorded as deferred revenue since the accrued interest is not considered a resource to finance current expenditures.

c. Other deferred revenue in the General Fund consisted of $478,974 in advances received for construction projects for which the related expenditures had not been incurred and $12,377 of miscellaneous fees collected in advance.

d. The City collects funds in advance from developers and receives grants to provide funds for construction of related projects. At June 30, 1997, $832,004 in the Bikeway Special Revenue Fund, $1,840,588 in the Developer Fees Special Revenue Fund, and $30,946 in the Sewer Maintenance Special Revenue Fund related to grant and developer receipts. All were recorded as deferred revenue since the related expenditures for the construction projects had not been incurred.

e. Loans receivable of $236,000 funded by grant funds have been offset by deferred revenue in the CDBG special revenue fund.

6. DUE TO OTHER GOVERNMENTS

a. The City has received $26,694,874 in grant funds in the Earthquake Special Revenue Fund to provide for repairs related to the 1994 Northridge Earthquake. As of June 30, 1997, the City has incurred $18,482,622 in expenditures related to the grant funds. $1,313,288 of these expenditures has not been reimbursed as of year end. The City has recorded a liability for Due to Other Governments in the amount of $9,525,540 to reflect the balance of working capital loans.

b. The City received State and Local Partnership Project funds to provide for the construction of the Commuter Rail Trail. The provisions of the contract provide for a portion of these funds to be paid to the Metropolitan Transit Authority (MTA). As of June 30, 1997, the balance payable to the MTA was $141,449 in the Proposition C Special Revenue Fund and $18,924 in the 1991 Revenue Bonds Capital Projects Fund.

7. PROPRIETARY FUND TYPE OF LONG-TERM DEBT

The following is a summary of the changes in the proprietary fund type long-term debt for the year ended June 30, 1997:

	Balance at July 1, 1996	Additions	Deletions	Balance at June 30, 1997
Transit Enterprise Fund:				
Master lease obligations	$1,250,526		$ 218,271	$1,032,255
Lease payable	3,610,000		365,000	3,245,000
Notes payable	1,677,769		1,177,769	500,000
	6,538,295		1,761,040	4,777,255
Less: Lease Discount	(17,926)		(3,709)	(14,217)
Total Transit Enterprise Fund Long-Term Debt	$6,520,369	$ -	$1,757,331	$4,763,038

	Balance at July 1, 1996	Additions	Deletions	Balance at June 30, 1997
Internal Service Fund:				
Computer Replacement Fund:				
Lease payable	$195,848	$256,425	$166,634	$285,639

a. Master Lease Obligations:

In May 1991, the City entered into a master lease and option to purchase agreement in the amount of $2,150,000 for the lease of thirteen buses. Such agreement carries an interest rate at 6.7% payable semiannually, due from November 1, 1991 through May 1, 2001. Under the terms of the agreement, the City has leased these transit buses for the establishment of a citywide local public transit system.

Future lease payments under such obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$ 233,140	$ 65,320	$ 298,460
1999	249,023	49,438	298,461
2000	265,986	32,475	298,461
2001	284,106	14,355	298,461
	$1,032,255	$161,588	$1,193,843

b. Lease Payable:

In October 1991, the City entered into a lease with an option to purchase agreement in the amount of $4,895,000 for the lease of sixteen buses from the Los Angeles County Transportation Commission. Such agreement carries interest rates ranging from 4.9% to 6.5%, payable semi-annually from July 1, 1992 through January 1, 2004.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$ 385,000	$190,598	$ 575,598
1999	410,000	166,940	576,940
2000	435,000	141,373	576,373
2001	460,000	113,845	573,845

Year Ending June 30,	Principal	Interest	Total
2002	485,000	84,308	569,308
Thereafter	1,070,000	70,265	1,140,265
	$3,245,000	$767,329	$4,012,329

c. Note Payable:

In September, 1992, the City entered into an agreement whereby the Los Angeles County Transportation Commission loaned the City $2,500,000 for the construction of a commuter rail station. Interest on the note accrues at the equivalent rate earned by the Los Angeles County Pooled Investment Fund plus one-half percent. Payments are due annually for five years.

Based on current available information, estimated future loan payments are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$500,000	$30,818	$530,818

d. Lease Payable:

In April, 1996, the City entered into a lease with an option to purchase agreement in the amount of $525,000 for the lease of a computer system through Municipal Leasing Associates, Inc. As of June 30, 1997, the City had received $452,273 in proceeds from the capital lease which was used to acquire computer equipment. The remaining proceeds will be received in fiscal year 1997-98. Interest, at 4.9%, and principal are payable semi-annually from November 9, 1996 through May 9, 1999.

Future lease payment requirements for the lease, assuming all proceeds have been received, are as follows:

Year Ending June 30,	Principal	Interest	Total
1998	$174,864	$15,381	$190,245
1999	183,502	6,743	190,245
	$358,366	$22,124	$380,490

8. INTERFUND BALANCES:

Interfund receivable and payable balances as of June 30, 1997 are as follows:

Fund	Due From	Due To
General Fund	$5,135,646	
Special Revenue Funds:		
Proposition A - Transportation		$1,388,867
State Park Fund		944,654
Traffic safety		20,462
Community Development Block Grant (CDBG)		685,900
Federal Aid Urban (FAU)		382,715
Earthquake Fund		18,798
Economic Development Administration		700,172
Miscellaneous Grants Fund		9,889
OCJP Grant Fund		100,644
Transit Enterprise Fund		883,545
	$5,135,646	$5,135,646

9. DEFINED BENEFIT PENSION PLAN

The City contributes to the State of California Public Employees Retirement System (the System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. The City's payroll for employees covered by the System for the year ended June 30, 1997 was $9,768,844. The total payroll for the year was $11,109,282.

All full-time City employees are eligible to participate in the System. Part-time employees generally do not participate in the System. Benefits vest after five years of service. City employees who retire at or after age fifty, with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to a benefit factor multiplied by their final compensation. Final compensation is the average monthly pay rate for the last consecutive 36 months of employment. The benefit factor is an amount equal to between 1.92% and 2.418% multiplied by the number of years of credited employment. The percentage amount is based on the age of the employee at retirement, increasing from age 50 to age 63.

Employee and Employer Contribution Obligations:

The City makes the contributions required of City employees on their behalf and for their amount. The employee contribution rate is set by statute. The present member rate is 7% of wages.

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants, and adopted by the Board of Administration.

Funding Status and Progress:

The amount shown below as the "pension benefit obligation" is a standardized measure of the present value of pension benefits, adjusted for the effects of step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5% a year compounded annually, (b) projected payroll increases of 4.5% a year compounded annually, attributable to inflation and across the board real salary increases, (c) no projected payroll increases attributable to seniority/merit and (d) no post-retirement benefit increases.

The excess of net assets available for benefits over the pension benefit obligation applicable to the City employees was $1,250,057 at June 30, 1995 (the most recent information available), as listed below.

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 360,469
Current employees:	
Accumulated employee contributions, including allocated investment earnings	2,749,437
Employer-financed vested	1,366,355
Employer-financed nonvested	655,914
Total pension benefit obligation	5,132,175
Net assets available for benefits, at cost (Market value, $6,784,312)	6,382,232
Excess of net assets over pension benefit obligation	$1,250,057

There were no changes in the pension benefit obligation from last year as a result of changes in benefit provisions or changes in actuarial methods and assumptions.

Actuarially Determined Contribution Requirements and Contribution Made:

The System uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. The System uses a modification of the Entry Age Cost method in which the employer's total normal cost is expressed as a level percentage of payroll. The System also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

A contribution of $1,371,149 for normal costs was made to the system for 1997 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1995. The City contributed employer contributions of $662,400 (7.2% of current covered payroll) and on behalf of employees contributed $648,062 (6.7% of current covered payroll). An additional $60,687 was contributed by the employees (.58% of current covered payroll).

Trend Information:

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten year trend information for the City of Santa Clarita is not published in the California Public Employees Retirement System Annual Report.

The City entered the System in fiscal year 1988-89. Therefore, the trend information from 1988-1989 through 1994-95 and employer contributions and covered payroll for 1988-1989 through 1996-97 is summarized as follows:

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Net Assets Available for Benefits (In Thousands)	$23	$445	$1,059	$1,895	$3,003	$4,689	$6,382	*	*
Pension Benefit Obligation (In Thousands)	41	323	853	1,591	2,759	3,579	5,132	*	*

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Net Assets Available for Benefits Expressed as a Percentage of the Pension Benefit Obligation	57.0%	137.8%	124.2%	119.1%	108.8%	131.0%	124.4%	*	*
Assets in Excess of Pension (Unfunded) Benefit Obligation (In Thousands)	(18)	122	206	304	244	1,110	1,250	*	*
Annual Covered Payroll (In Thousands)	1,008	2,963	5,515	7,609	7,245	7,409	8,311	8,852	9,769
Assets in Excess of (Unfunded) Pension Benefit Obligation, Expressed as a Percentage of Annual Covered Payroll	(1.7%)	4.1%	3.7%	4.0%	3.36%	15.0%	15.0%	*	*
Employer Contributions (In Thousands)	117	321	291	391	413	407	602	641	662
Employer Contributions Expressed as a Percentage of Annual Covered Payroll. These contributions were made in accordance with actuarially determined requirements.	11.6%	10.9%	5.3%	5.1%	5.7%	5.5%	7.2%	7.2%	6.8%

*Information at June 30, 1997 was not available.

10. DEFERRED COMPENSATION PLAN

The City has established a deferred compensation plan for all officers and employees of the City under Internal Revenue Code Section 457. Participation in the plan is voluntary and may be revoked at any time upon advance written notice. Generally, the amount of compensation subject to deferral until retirement, disability or other termination by a participant may not exceed the lesser of $7,500 or 33-1/3% of includible compensation.

The City has established an additional plan for City management under Internal Revenue Service Code Section 401(a). City participation in contributions to the plan are mandatory. The City is obligated to contribute amounts ranging from $1,500 to $7,500 per participant per year.

Amounts withheld by the City under these plans are deposited regularly with the International City Managers Association (ICMA) Fund for investment. The assets of the Section 457 plan are held in trust with the City serving as trustee, for the exclusive benefit of the participants. The City's fiduciary responsibilities under the Plan include the deduction of deferred compensation from employee compensation and the remittance of such deductions to ICMA for investment.

The assets of the plan in the amount of $4,453,517 are included in an Agency Fund in the City's financial statements.

11. INDIVIDUAL FUND DISCLOSURES

a. Deficit Fund Balances/Retained Earnings:

Funds which have deficit fund balances/retained earnings at June 30, 1997 are as follows:

Special Revenue Funds:	
Bikeway	$ 48,466
Developer Fees	360,493
State Park	956,507
CDBG	973
Earthquake	1,963,268
Economic Development Administration	5,101
Miscellaneous Grants	7,448
Capital Projects Fund – Redevelopment Agency	92,311
Internal Service Fund – Self-Insurance	923,385

The City plans to remove the deficit in the Special Revenue Funds through operating transfers from the General Fund, developer fees and additional grant revenue from other governmental agencies. The deficit in the Redevelopment Agency will be covered by future advances from the General Fund. The deficit in the Self-insurance Fund has been designated in the General Fund and the City plans on recovering this amount through future operating transfers.

12. SELF-INSURANCE

The City is self-insured for the first $250,000 on each general liability claim against the City. At June 30, 1997 $998,423 was accrued for general liability claims. This accrual represents estimates of amounts to be paid for incurred and reported claims as well as incurred but unreported claims based upon past experience and modified for current trends and information. While the ultimate amounts of losses incurred through June 30, 1997 are dependent on future developments, based upon information provided from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to cover such losses. Purchased insurance coverage is currently maintained for general liability claims greater than $250,000 up to a limit of $10,000,000.

Settled claims have not exceeded any of these coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the year ended June 30, 1997.

Changes in the reported liability since June 30, 1995, resulted in the following:

Liability as of June 30, 1995	$ 997,972
Claims and changes in estimates during the year ended June 30, 1996	111,113
Claims payments during the year ended June 30, 1996	(586,355)
Liability as of June 30, 1996	522,730
Claims and changes in estimates during the year ended June 30, 1997	1,016,126
Claims payments during the year ended June 30, 1997	(540,433)
Liability as of June 30, 1997	$ 998,423

13. RESERVES AND DESIGNATIONS OF FUND EQUITY

A city may set up "reserves" of fund equity to segregate fund balances or retained earnings which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" also may be established to indicate tentative plans for financial resource utilization in a future period.

The City's reserves and designations at June 30, 1997, are tabulated below, followed by explanations as to the nature and purpose of each reserve and designation.

CITY OF SANTA CLARITA
Notes to Financial Statements (Continued)
June 30, 1997

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund
Reserves:					
Continuing appropriations	$1,606,313	$ 480,504		$ 170,965	
Encumbrances	2,098,130	5,202,437		1,242,760	
Advances to other funds	1,998,306				
Prepaid items	61,163	14,790			
Debt service			$1,687,948		$489,500
TOTAL RESERVES	$5,763,912	$5,697,731	$1,687,948	$1,413,725	$489,500
Designations:					
Self-insurance	$ 923,385				
Earthquake	1,968,369				
Special revenue purposes		$16,869,443			
Capital improvements				$ 949,433	
Contingencies	7,269,976				
TOTAL DESIGNATIONS	$10,161,730	$16,869,443	$ -	$ 949,433	$ -

a. Reserved for Continuing Appropriations – Appropriations for capital projects and other expenditures which are unexpended as of June 30, 1997 will carry forward as continuing appropriations to be expended in 1997-98.

b. Reserved for Encumbrances – Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts which are unperformed.

c. Reserved for Advances to Other Funds – This reserve is established to reflect the advances to the Redevelopment Agency so that they will not be considered as current funds available.

d. Reserved for Prepaid Items – This reserve is to indicate these prepaid items are not "available" as a resource to meet expenditures of the current year.

e. Reserved for Debt Service – These reserves represent amounts accumulated in accordance with a bond indenture or similar covenant.

f. Designated for Self-insurance – This designation is for the deficit retained earnings in the Internal Service Fund for Self-insurance.

g. Designated for Earthquake – This amount has been designated to fund the deficit fund balance in the Special Revenue Earthquake Fund.

h. Designated for Special Revenue Purposes – These funds are designated for the specific special revenue purpose as restricted by law or administrative action.

i. Designated for Capital Improvements – These funds are designated to provide for new capital additions as determined by the City Council.

j. Designated for Contingencies – The remainder of the unreserved fund balance in the General Fund has been designated for general contingencies.

14. SEGMENT INFORMATION

Net working capital deficit of the Transit Enterprise System at June 30, 1997 was as follows:

Current assets	$ 1,105,153
Current liabilities payable from current assets	(2,898,480)
Net working capital (deficit)	$(1,793,327)

15. POST EMPLOYMENT BENEFITS

In addition to the retirement benefits described in Note 9, the City provides post-retirement health care benefits in accordance with a City resolution to all employees who retire from the City on or after attaining age 50 with 5 years PERS credited service. The City pays the cost of the retirees enrollment including the enrollment of family members in a health benefits plan to a maximum of $363 per month, according to the following schedule:

From date of retirement to August 1 of same year the City pays $1 per month. On August 1 and each August 1 thereafter, the City's portion of the premium is increased by 5% per year of the maximum until the maximum is reached.

The City funds these amounts on a pay-as-you-go basis. For fiscal year 1996-97 there were three eligible participants, for which the City paid $1,676 for medical insurance premiums.

16. CONTRIBUTED CAPITAL

Changes in the Transit Enterprise Fund's contributed capital were as follows:

Balance June 30, 1996	$1,622,071
Grants restricted for capital outlay	728,410
Current depreciation on contributed assets	(123,832)
Balance June 30, 1997	$2,226,649

17. SUBSEQUENT EVENT

In August, 1997, the City issued $19,670,000 refunding certificates of participation with interest rates of 4.5% to 5.0% and maturity dates from October 1, 2001-2021 for the purpose of refinancing outstanding obligations related to the 1991 Lease Agreement and the 1991 Financing Authority Revenue Bonds (See Note 4a).