

December 19, 2003

Ken Pulskamp, City Manager  
Honorable Mayor and Members of the City Council  
City of Santa Clarita  
23920 Valencia Boulevard, Suite 300  
Santa Clarita, CA 91355

Subject: Comprehensive Annual Financial Report of the City of Santa  
Clarita for the Fiscal Year Ended June 30, 2003

Dear Mr. Pulskamp, Honorable Mayor, and City Councilmembers:

It is a pleasure to submit for your information the Comprehensive Annual Financial Report of the City of Santa Clarita for the fiscal year ended June 30, 2003. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

The City of Santa Clarita received both awards for the last fourteen years' financial reports and, in my opinion, the accompanying financial report conforms to the high standards of public financial reporting and will again this year be submitted to both award programs for review. In accordance with the

above-mentioned guidelines, the Comprehensive Annual Financial Report is divided into three sections.

## **FINANCIAL REPORTING ENTITY**

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

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

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

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

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

The City of Santa Clarita maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds, debt service funds, and capital projects funds are included in the annual appropriated budget. In addition, yearly operating budgets are adopted for the City's proprietary fund types to facilitate management evaluation. The level of budgetary control, that is, the level at which expenditures cannot legally exceed the appropriated amount, is established by function or program within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Open encumbrances are reported as a reserve of fund balance at the end of a fiscal year for all governmental funds. Encumbrances at year-end lapse and then are added to the following year's budgeted appropriations.

## **ECONOMIC CONDITION AND OUTLOOK**

Santa Clarita remains a great place to live and work. The City of Santa Clarita currently enjoys a favorable economic environment and local indicators point to continued stability. In fact, the City of Santa Clarita was the fastest growing city among all cities with a population size of at least 150,000 in Los Angeles County and well exceeded the state's growth rate of 1.7% from the previous year. The City was also ranked as the second most desirable location in Los Angeles County for new homebuyers. Unemployment rates in the City averaged 3.8% in 2003, as compared to 4.7% in Simi Valley and 4.6% in Thousand Oaks.

The City's residential and retail base continues to grow. New developments continue to add to the quality of life in Santa Clarita with new retail outlets in the planning stages that will bring a new Wal-Mart and other major retail stores into the City. Employment in Santa Clarita is comprised of more than one-third in the services sector followed by 18% in the retail and wholesale trades. Manufacturing is the third largest employment sector at 13%. The City is also bringing in new jobs through the construction of the Centre Pointe Business Park.

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

## **CAPITAL IMPROVEMENTS**

Santa Clarita's Capital Improvement Program (CIP) is a component of the annual budget process that addresses the City's short- and long-term capital needs. Just as important, the CIP emphasizes a plan of action that effectively maintains the existing infrastructure to a sound physical standard, as well as providing new facilities to support current growth and complement new development. Some of the more significant projects that were set in motion or completed during the 2002-03 fiscal year are as follows:

The construction of Oak Springs Canyon Park, a 3.68 acre park in Canyon Country, was completed in Fiscal Year 2002-03. The City also completed the purchase and construction of a new parking lot near City Hall. The construction of the Santa Clarita Aquatic Center, which will feature three pools, including an Olympic size 50-meter pool and a diving pool, is continuing and nearing completion. The grand opening of the Aquatic Center is anticipated for the Fall of 2003. The City is also in the process of

designing a new, state-of-the-art Transit Maintenance Facility. The facility will be used to house and maintain the City's bus fleet and serve as the fleet's CNG fueling station.

The City also completed construction of a second platform at the Jan Heidt Metrolink Station to help expand the Metrolink service, and began the design of a new Community Center to be located in the Newhall area.

## **GANN LIMIT**

Proposition 4, the "Gann" initiative, was passed by California voters in 1978 and is intended to limit government appropriations. According to California law, cities must use the 1978-79 appropriations as a base year and modify that figure by the composite consumer price index and population changes that have accrued in subsequent years. Because Santa Clarita was incorporated after 1978-79, the Los Angeles County Local Agency Formation Commission used 1985-86 fiscal-year appropriations at incorporation as the base year on which the City will modify each year. The City has since performed a study to increase the limit, and City appropriations remain below the Gann limitation and are expected to continue in that respect in the near future.

## **CASH MANAGEMENT**

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

Temporarily idle cash was invested in a variety of investment vehicles, including the State Treasurer's Local Agency Investment Fund, Los Angeles County Pooled Investment Fund, Federal Agency instruments, Bankers' Acceptances, Corporate Notes, and Commercial Paper. The City's diversified investment portfolio allows for flexibility and safety of the total invested funds. The weighted average yield on such investments for the year was 3.51%, with total interest earnings for all funds at \$4,255,115.

## **FIDUCIARY OPERATIONS**

Trust and agency funds are maintained to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and other funds. The City's General Trust Fund is an expendable trust fund, which accounts for assets and activities restricted to a specific purpose in accordance with a formal intent. An Agency fund is custodial in nature and used to receive and disburse funds which do not belong to the City.

The City's agency funds are the Valencia Town Center Community Facilities District No. 92-1, Golden Valley Assessment District No. 92-2, and Vermont/Everett Improvement Assessment District No. 99-1. The Community Facilities District No. 92-1 represents bond proceeds from the sale of Special Tax Bonds, Series A. These bonds were issued to finance a portion of the costs of acquiring certain public infrastructure improvements located within the vicinity of the Valencia Town Center. The bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982. This fund was established during fiscal year 1992-93. Assessment District No. 92-2 represents bond proceeds from Limited Obligation Improvement Bonds, Series 1996, which were issued to finance the acquisition of certain public improvements in the area of Golden Valley Road. These bonds were issued pursuant to the Improvement Bond Act of 1915. This fund was established during fiscal year 1996-97. And finally, in January 2000, \$790,000 of 1915 Limited Obligation Improvement Bonds for the Vermont/Everett Drive Improvement Assessment District were issued. The debt service on these bonds is paid from property assessments within the district.

## **RISK MANAGEMENT**

The City of Santa Clarita maintains full coverage for all municipal events under its general liability policy. This policy provides a \$250,000 self-insured retention and is layered to a total coverage of \$10 million per occurrence. In addition to general liability, the City maintains individual policies for autos, property, flood, special events, and earthquake damage where appropriate. As a precautionary measure, all employees in a position with significant financial responsibility are independently bonded. The individual bond complements the blanket dishonest bond extended to all employees.

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

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

## **INDEPENDENT AUDIT**

The City of Santa Clarita's financial statements have been audited by Diehl, Evans & Company, LLP, a firm of licensed certified public accountants. The accounting firm of

Diehl, Evans & Company, LLP, Inc. has been selected by the City Council to perform this service. An audit by independent certified public accountants is required annually. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Santa Clarita for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Santa Clarita's financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The auditors' report on the general purpose financial statements, combining and individual fund statements and schedules, is included in the financial section of this report.

## **AWARDS**

I am pleased to report that CSMFO awarded its Outstanding Financial Reporting Award, and GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Clarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

These awards are valid for a period of one year only. We believe our current report continues to conform to requirements, and we are submitting it to GFOA and CSMFO to determine its eligibility for another certificate.

## **ACKNOWLEDGMENTS**

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

Respectfully submitted,

Barbara Boswell  
Interim Director of Administrative Services

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