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 Redevelopment Agency of the City of Santa Clarita (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 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 Government Accounting Standards Board (GASB) Statement No. 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 and capital projects fund types.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Reporting Entity (Continued):

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:

<u>General Fund</u> - 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.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Description of Funds and Account Groups (Continued):

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 on behalf of others.

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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Accounting (Continued):

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 accounting principles generally accepted in the United States of America 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 Principles 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 nonbudgeted 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 outlay 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 accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparison is presented for the Public Financing Authority, Community Facilities District No. 92-1 and Assessment District 99-1 Capital Projects Funds, 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.

	Capital Projects
Fund Balance - Budgeted Funds	$ 146,495
Fund Balance - Nonbudgeted Funds	656,511
	$ 803,006

4) The budgetary information shown for revenues and expenditures represents the original adopted budget adjusted for any changes made by the City Council or City Manager. For the year ended June 30, 2002, budgeted appropriations in the budgeted governmental funds increased from $125,254,716 to $149,135,274.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgetary Accounting (Continued):

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, 2002, fund balances have been reserved for encumbrances carried forward.

F. Investments:

Investments are stated at fair value (see Note 2).

G. Cash and Cash Equivalents:

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 $26,584,312. 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.

H. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Fixed Assets (Continued):

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
Buildings	35 years

I. Contributed Capital/Capital Contributions:

In accordance with GASB Statement No. 33, effective July 1, 2000, governments are required to recognize capital contributions to proprietary funds as revenues, not contributed capital. However, governments are not to restate contributed capital arising from periods prior to implementation of GASB Statement No. 33.

J. 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 in the current period with expendable available resources is reported as an expenditure and liability of the government fund that will pay it. Compensated absences in the amount of $1,054,305, which are not expected to be liquidated in the current period with expendable, available financial resources are reported in the General Long-Term Debt Account Group.

K. Property Taxes:

Property taxes are an enforceable lien on property as of January 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. 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, 2002.

M. 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.

N. 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 inconclusion would make the statements unduly complex and difficult to read. Certain reclassifications have been made to the prior year financial data to conform with the current year presentation.

O. 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.

P. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Authorized Investments:

Under provision 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 investments:

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

California Local Agency Investment Fund (LAIF):

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Each City may invest up to $40,000,000 and may also invest without limitation in special bond proceeds accounts. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's prorata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The total portfolio fair value of LAIF at June 30, 2002 was $47,889,555,193. The City's proportionate share of that value is $25,435,702. Included in LAIF's investment portfolio are certain derivative securities or similar products such as structured notes totaling $551,578,000 and asset-backed securities totaling $921,063,000. LAIF's and the City's exposure to credit, market or legal risk is not available.

Los Angeles County Pooled Investment Fund (LACPIF):

The LACPIF is a pooled investment fund program governed by the Los Angeles County Board of Supervisors, and administered by the Los Angeles County Treasurer and Tax Collector. Investments in the LACPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty. LACPIF does not impose any maximum investment limit. At June 30, 2002, the total market value of the LACPIF was $12,464,064,941. The City's proportionate share of that value is $1,148,610. Information regarding derivative securities or similar products held by the LACPIF is not available. Also, LACPIF's and the City's exposure to credit, market or legal risk is not available.

2. CASH AND INVESTMENTS (CONTINUED):

Classification of Deposits and Investments By Credit Risk:

Governmental Accounting Standards Board (GASB) Statement No. 3 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 uninsured or 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, or by its 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 No. 3 does not require categorization of investment pools managed by another government. Also, investments held by fiscal agents are not categorized because the underlying assets of these investments consist of open-ended mutual funds. All such investments are not required to be categorized under interpretive guidelines issued by the GASB.

2. CASH AND INVESTMENTS (CONTINUED):

The City's deposits and investments were categorized as follows at June 30, 2002:

	Category 1	Category 2	Category 3	Bank Balances	Carrying Amount
Pooled Deposits:					
Demand Accounts:					
Bank balances	$ 115,584	$ 5,391,034	$ -	$ 5,506,618	$ 3,911,095
Petty cash	2,502	-	-	2,502	2,502
Total Deposits	$ 118,086	$ 5,391,034	$ -	$ 5,509,120	3,913,597

	Category 1	Category 2	Category 3	Not Required to be Categorized	
Investments:					
Los Angeles County Pooled Investment Fund	$ -	$ -	$ -	$ 1,148,610	1,148,610
California Local Agency Investment Fund	-	-	-	25,435,702	25,435,702
Medium Term Corporate Notes	22,384,571	-	-	-	22,384,571
Federal National Mortgage Association	12,212,305	-	-	-	12,212,305
Federal Home Loan Bank	8,566,095	-	-	-	8,566,095
Federal Farm Credit Bank	3,148,470	-	-	-	3,148,470
Federal Home Loan Mortgage	3,338,226	-	-	-	3,338,226
Held By Fiscal Agents:					
Mutual Funds	-	-	-	1,761,417	1,761,417
Total Investments	$ 49,649,667	$ -	$ -	$ 28,345,729	77,995,396
Total Carrying Amount (Fair Value)					$ 81,908,993

2. CASH AND INVESTMENTS (CONTINUED):

Total cash and investments at June 30, 2002 consisted of the following:

Cash and investments	$ 80,147,576
Cash and investments held by fiscal agent	1,761,417
Total Cash and Investments	$ 81,908,993

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 that received the bond proceeds.

3. PROPERTY, PLANT AND EQUIPMENT:

Changes in General Fixed Assets for the year ended June 30, 2002 are as follows:

	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Land and improvements	$ 37,763,623	$ 9,772,192	$ -	$ 47,535,815
Buildings and improvements	20,155,247	3,771,622	-	23,926,869
Equipment	5,522,487	588,254	(381,788)	5,728,953
Construction in progress	-	1,736,600	-	1,736,600
Total	$ 63,441,357	$ 15,868,668	$ (381,788)	$ 78,928,237

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED):

Changes in the proprietary fund property, plant and equipment for the year ended June 30, 2002 are as follows:

Enterprise Fund:	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Equipment acquired by capital lease/notes payable	$ 11,226,401	$ -	$ -	$ 11,226,401
Equipment purchased	7,027,329	-	12,369	7,014,960
Buildings	9,991,651	3,437,834	-	13,429,485
Land	3,128,572	7,659,308	-	10,787,880
Construction in progress	-	160,454	-	160,454
	31,373,953	$ 11,257,596	$ 12,369	42,619,180
Less: Accumulated depreciation	(8,175,025)			(10,401,609)
Net Assets Enterprise Fund	$ 23,198,928			$ 32,217,571
Internal Service Fund:				
Equipment	$ 1,008,777	$ 361,951	$ -	$ 1,370,728
Less: Accumulated depreciation	(602,909)			(745,145)
Net Assets Internal Service Fund	$ 405,868			$ 625,583

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, 2002:

	Balance at July 1, 2001 (1)	Additions	Deletions	Balance at June 30, 2002
Refunded Certificates of Participation - Series 1997	$ 19,670,000	$ -	$ 195,000	$ 19,475,000
Certificates of Participation - Series 2001	-	3,200,000	-	3,200,000
Note payable	2,813,834	-	147,988	2,665,846
Leases payable	322,347	-	60,291	262,056
Loans payable	1,870,000	1,200,000	130,000	2,940,000
Compensated absences	947,331	106,974	-	1,054,305
Totals	$ 25,623,512	$ 4,506,974	$ 533,279	$ 29,597,207

(1) The beginning balance of the note payable has been restated to correct a $45,361 overstatement that occurred in the prior year. Also, the beginning balance of advances from other funds ($3,835,789) has been eliminated and reclassified as a liability in the Redevelopment Agency Debt Service Fund (see Note 18).

4. GENERAL LONG-TERM DEBT (CONTINUED):

A. Refunded Certificates of Participation - Series 1997:

On August 1, 1997, the Santa Clarita Public Financing Authority issued $19,670,000 in Certificates of Participation with an average interest rate of 4.9% to advance refund $18,800,000 of outstanding 1991 Series certificates with an average interest rate of 6.8%. These securities were all deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 series certificates. As a result, the 1991 Series certificates are considered to be defeased and the liability for those certificates has been removed from the general long-term debt account group. The defeased 1991 Series certificates have been retired. The Authority amended and restated the lease agreement that was entered into simultaneously with the refunded certificate issue with the City.

Principal amounts on $12,195,000 of serial certificates mature annually each October 1, in the years 2001 through 2015 and bear interest at rates ranging from 4.5% to 5.0%. Term certificates in the amounts of $2,370,000 and $5,105,000 are due October 1, 2017 and 2021, respectively, and each bear interest at 5%. Interest is payable semiannually on April 1 and October 1.

The certificates are subject to optional redemption on or after October 1, 2005, 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 certificates are subject to mandatory redemption on any October 1, from 2016 to 2021, in amounts ranging from $920,000 to $1,435,000, at a price equal to the principal amount plus accrued interest to the redemption date. In addition, the certificates are subject to mandatory redemption under various other circumstances as described in the official statement dated August 1, 1997.

Future debt service requirements on the certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 500,000	$ 933,245	$ 1,433,245
2004	640,000	907,275	1,547,275
2005	695,000	876,570	1,571,570
2006	730,000	843,795	1,573,795
2007	760,000	809,525	1,569,525
Thereafter	16,150,000	6,517,738	22,667,738
Total	$ 19,475,000	$ 10,888,148	$ 30,363,148

4. GENERAL LONG-TERM DEBT (CONTINUED):

B. Certificates of Participation - Series 2001:

On November 16, 2001, the Santa Clarita Public Financing Authority issued $3,200,000 in Certificates of Participation for the purpose of acquiring parkland. The certificates represent direct undivided fractional interests in the lease payments to be made by the City under a lease agreement with the Authority for the use of the acquired parkland. The certificates bear interest at a rate of 4.2% through November 1, 2006. From November 2, 2006 to November 1, 2016 the interest rate will be 85% of the five year advance rate as quoted by the Seattle Federal Home Loan Bank. Interest is payable semiannually on May 1 and November 1. Principal is payable on November 1 in annual installments ranging from $100,000 to $285,000.

The certificates are subject to annual prepayment in part in cumulative maximum prepayment amounts ranging from $435,000 to $500,000 on November 1 of 2002 through 2005. On November 1, 2006 and November 1, 2011, the remaining principal is subject to prepayment, in whole or in part, without premium. The Authority and City intend to prepay the certificates in full by November 1, 2006.

Future payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 435,000	$ 187,673	$ 622,673
2004	460,000	106,470	566,470
2005	475,000	86,835	561,835
2006	500,000	66,360	566,360
2007	1,330,000	27,930	1,357,930
Total	$ 3,200,000	$ 475,268	$ 3,675,268

C. Note Payable:

The City entered into an agreement whereby the Price Enterprise, Inc. 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 Enterprise, Inc.). 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.

4. GENERAL LONG-TERM DEBT (CONTINUED):

C. Note Payable (Continued):

At June 30, 2002, the balance outstanding of $2,665,846 on the note included $2,557,436 in original loan proceeds and $108,410 of accrued interest. The note payable balance at July 1, 2001 was adjusted to $2,813,834 to properly reflect payments made in previous years.

D. Leases Payable:

In September 1998, the City entered into a lease with an option to purchase agreement in the amount of $420,000 for the lease of a phone system through Leasing Innovations, Incorporated. Such agreement carries interest at the rate of 4.97% per annum on the unpaid principal balance, payable annually from July 1, 2001 through July 1, 2005.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 56,892	$ 12,181	$ 69,073
2004	59,719	9,354	69,073
2005	62,687	6,386	69,073
2006	65,798	3,275	69,073
Total	$ 245,096	$ 31,196	$ 276,292

In September 1999, the City entered into a lease with an option to purchase agreement in the amount of $31,892 for the lease of a two (2) copiers through Ricoh Corporation. Such agreement carries interest at the rate of 10.51% per annum on the unpaid principal balance, payable annually from November 1, 1999 through October 1, 2004.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 6,765	$ 1,463	$ 8,228
2004	7,511	717	8,228
2005	2,684	59	2,743
Total	$ 16,960	$ 2,239	$ 19,199

4. GENERAL LONG-TERM DEBT (CONTINUED):

E. Loans Payable:

In December 1999, the City entered into a loan agreement with the Secretary of Housing and Urban Development for the amount of $2,000,000. The purpose of this loan is for installation of curbs, gutters and sidewalks in the West Newhall area. Payments are due semi-annually, commence on August 1, 2001 and continue through August 1, 2014. CDBG funds will be used to repay the loan.

Future loan payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 130,000	$ 123,200	$ 253,200
2004	130,000	113,975	243,975
2005	130,000	104,695	234,695
2006	130,000	95,407	225,407
2007	130,000	86,131	216,131
Thereafter	1,090,000	344,547	1,434,547
Total	$ 1,740,000	$ 867,955	$ 2,607,955

On April 8, 2002, the City entered into a lease purchase agreement with the Santa Clarita Public Financing Authority to finance the purchase of real property that will be developed as an employee parking lot for the City. The Authority assigned all of its rights under the lease purchase agreement to Zions First National Bank. In consideration of this assignment, Zions First National Bank advanced the City $1,200,000. The lease purchase agreement calls for interest at a rate of 4.79% per annum on the unpaid balance. Principal and interest are payable to Zions First National Bank semiannually on October 8 and April 8 from October 8, 2002 through April 8, 2012.

Future payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 96,087	$ 56,343	$ 152,430
2004	100,745	51,685	152,430
2005	105,629	46,801	152,430
2006	110,749	41,681	152,430
2007	116,117	36,313	152,430
Thereafter	670,673	91,477	762,150
Total	$ 1,200,000	$ 324,300	$ 1,524,300

4. GENERAL LONG-TERM DEBT (CONTINUED):

F. Compensated Absences:

There is no fixed payment schedule for earned but unpaid compensated absences.

5. DEFERRED REVENUE AND LOANS RECEIVABLE:

At June 30, 2002, deferred revenue consisted of the following:

A. The City collects funds in advance as reimbursement of costs for providing recreation classes to the public. At June 30, 2002, $370,066 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 $1,114,342 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 $857,080 in advances received for construction projects for which the related expenditures had not been incurred, and $123,142 in accrued revenues that are not considered a resource to finance current expenditures.

D. The City collects funds in advance from developers to provide funds for construction of related projects. At June 30, 2002, $832,965 in the Bikeway Special Revenue Fund, $3,942,772 in the Developer Fees Special Revenue Fund, and $1,409,980 in the Library Facilities Fees Special Revenue Fund, related to grant and developer receipts, were recorded as deferred revenue since the related expenditures for the construction projects had not been incurred.

E. Other deferred revenue in Special Revenue Funds consisted of $1,923,864 in the State Park Fund, $1,157,243 in the Federal Aid Urban Fund, $1,001,172 in the Miscellaneous Grants Fund, $110,677 in the BJA Law Enforcement Fund, $178,664 in the Supplemental Law Grant Fund, and $442,000 in the Federal Grants Fund. These accrued revenues have been deferred since they are not considered a resource that will finance current expenditures.

F. Loans receivable of $85,431 and $319,857 funded by grant funds have been offset by deferred revenue in the CDBG and HOME Special Revenue Funds, respectively.

6. ADVANCES TO/FROM OTHER FUNDS:

A. Advances payable and accrued interest from the Agency to the City were as follows for the year ended June 30, 2002:

	Loans	Accrued Interest	Total
Balance at June 30, 2001	$ 2,808,540	$ 1,027,249	$ 3,835,789
Additions	143,867	220,558	364,425
Payments from Agency to City	-	(133,465)	(133,465)
Balance at June 30, 2002	$ 2,952,407	$ 1,114,342	$ 4,066,749

Interest at an annual rate of prime minus one percent (5.75% for the year ended June 30, 2002) is charged on the advances.

B. On June 30, 2002, the General Fund advanced $6,700,000 to the Bridge and Thoroughfare Special Revenue Fund in order to provide financing for the construction of the Golden Valley Road Project. Interest will be charged on the advance at a rate equal to the average monthly yield of the City's investment portfolio.

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, 2002:

	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Transit Enterprise Fund:				
Lease obligations	$ 4,656,704	$ -	$ 759,571	$ 3,897,133
Unamortized lease discount	618	-	618	-
Total Transit Enterprise Fund Long-Term Debt	$ 4,657,322	$ -	$ 760,189	$ 3,897,133

A. 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 semiannually from July 1, 1992 through January 1, 2004.

7. PROPRIETARY FUND TYPE OF LONG-TERM DEBT (CONTINUED):

A. (Continued):

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 520,000	$ 52,390	$ 572,390
2004	550,000	17,875	567,875
	$ 1,070,000	$ 70,265	$ 1,140,265

B. In January 1998, the City entered into a lease with an option to purchase agreement in the amount of $1,539,232 for the lease of four buses. Such agreement carries interest rate at 5.2%, payable annually on January 22, 1999 through January 22, 2009.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 117,100	$ 49,770	$ 166,870
2004	123,178	43,692	166,870
2005	129,570	37,300	166,870
2006	136,295	30,575	166,870
2007	143,369	23,501	166,870
Thereafter	309,446	24,294	333,740
	$ 958,958	$ 209,132	$ 1,168,090

C. In December 1998, the City entered into a lease with an option to purchase agreement in the amount of $2,335,964 for the lease of six buses. Such agreement carries interest rate at 4.77%, payable annually on December 31, 1999 through December 31, 2010.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 171,036	$ 89,112	$ 260,148
2004	179,195	80,953	260,148
2005	187,742	72,406	260,148
2006	196,698	63,450	260,148
2007	206,080	54,068	260,148
Thereafter	927,424	113,168	1,040,592
	$ 1,868,175	$ 473,157	$ 2,341,332

8. INTERFUND BALANCES:

Interfund receivable and payable balances as of June 30, 2002 are as follows:

Fund	Due From	Due To
General Fund	$ 5,074,045	$ -
Special Revenue Funds:		
State Park	-	2,116,068
TDA	-	4,178
Traffic Safety	-	12,914
CDBG	-	87,421
Federal Aid Urban (FAU)	-	1,124,452
Miscellaneous Grants	-	426,022
Sewer Maintenance	-	11,166
OCJP Grant	-	26,395
State Transportation Program	-	1,217
Federal Grants	-	460,340
Enterprise Fund:		
Transit	-	803,872
	$ 5,074,045	$ 5,074,045

9. DEFINED BENEFIT PENSION PLAN:

Plan Description:

The City of Santa Clarita contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2002 was 2.175% for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

9. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Annual Pension Cost:

For 2002, the City's annual pension cost of $1,413,233 for CalPERS was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 1999 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a level percent of payroll over an average remaining period of fifteen years from the valuation date. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) a 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of CalPERS' assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002, was three years for prior service unfunded, and fourteen years for remaining unfunded.

Three-Year Trend Information for CalPERS
($ Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	$ 1,426	100%	$ -
6/30/01	1,357	100%	-
6/30/02	1,413	100%	-

Schedule of Funding Progress
($ Amount in Thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (AAL) (A)	Actuarial Value of Assets (B)	Unfunded AAL (UAAL)/ (Excess Assets) (A-B)	Funded Ratio (B/A)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(A-B/C]
6/30/99	$ 13,290	$ 18,646	$ (5,356)	140.3 %	$ 12,332	(43.431) %
6/30/00	16,152	22,266	(6,114)	137.9 %	14,175	(43.136) %
6/30/01	19,214	24,668	(5,454)	128.4 %	15,249	(35.766) %

10. DEFERRED COMPENSATION PLAN/DEFINED CONTRIBUTION PLAN:

The City has established Deferred Compensation/Defined Contribution plans for certain classifications of management under Internal Revenue Service Code Section 401(a). City participation in contributions to the plans is mandatory. The City is obligated to contribute amounts ranging from $2,000 to $8,000 per participant, per year. Employee contributions to certain plans are voluntary. During the year there were 20 participants. The City contributions totaled $44,623 and employees contributed $31,000. Total plan assets at June 30, 2002 were $525,322.

11. INDIVIDUAL FUND DISCLOSURES:

A. Deficit Fund Balances/Retained Earnings:

Funds which have deficit fund balances/retained earnings at June 30, 2002 are as follows:

Special Revenue Funds:		
Developer Fees	$	82,987
State Park		1,925,003
TDA		4,178
Federal Aid Urban (FAU)		1,124,452
Miscellaneous Grants		548,069
Sewer Maintenance		36,089
OCJP Grant		6,781
BJA Law Enforcement		3,488
State Transportation Program		1,217
Federal Grants		447,736
Internal Service Fund:		
Self-insurance		388,525

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 Self-insurance Fund has been designated in the General Fund and the City plans on recovering this amount through future operating transfers.

11. INDIVIDUAL FUND DISCLOSURES (CONTINUED):

B. Expenditures exceeded appropriations as follows:

	Budget	Actual	Variance
Special Revenue Funds:			
Special Assessment	$ 1,982,268	$ 3,657,534	$ 1,675,266
State Transportation	-	1,217	1,217
Debt Service Fund:			
Redevelopment Agency	125,000	354,023	229,023

12. SELF INSURANCE:

The City is self-insured for the first $250,000 on each general liability claim against the City. At June 30, 2002, $933,137 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, 2002 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 $15,000,000.

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, 2002.

Changes in the reported liability since June 30, 2000, resulted in the following:

Liability as of June 30, 2000	$ 1,009,656
Claims and changes in estimates during the year ended June 30, 2001	1,075,836
Claims payments during the year ended June 30, 2001	(924,693)
Liability as of June 30, 2001	1,160,799
Claims and changes in estimates during the year ended June 30, 2002	641,028
Claims payments during the year ended June 30, 2002	(868,690)
Liability as of June 30, 2002	$ 933,137

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, 2002 are tabulated below, followed by explanations as to the nature and purpose of each reserve and designation.

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund
Reserves:					
Encumbrances	$ 11,638,618	$ 10,486,077	$ -	$ 129,889	$ -
Low/Moderate income housing	-	-	-	235,810	-
Advances to other funds	9,652,407	-	-	-	-
Prepaid items	76,978	-	-	-	-
Debt service	-	-	640	-	771,964
Total Reserves	$ 21,368,003	$ 10,486,077	$ 640	$ 365,699	$ 771,964
Designations:					
Self-insurance	$ 388,525	$ -	$ -	$ -	$ -
Special revenue purposes	-	38,232,941	-	-	-
Capital improvements	2,780,378	-	-	656,511	-
Total Designations	$ 3,168,903	$ 38,232,941	$ -	$ 656,511	$ -

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

B. Reserved for Low/Moderate Income Housing - This reserve is for amounts set-aside from tax increment money received by the Agency for the purpose of spending on projects that benefit low/moderate income households.

13. RESERVES AND DESIGNATIONS OF FUND EQUITY (CONTINUED):

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 Self-insurance Internal Service Fund.

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

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

14. SEGMENT INFORMATION:

Net working capital deficit of the Transit Enterprise System at June 30, 2002 was as follows:

Current assets	$ 1,435,078
Current liabilities payable from current assets	(3,320,389)
Net working capital (deficit)	$ (1,885,311)

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 CalPERS 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 $500 per month.

The City funds these amounts on a pay-as-you-go basis. For fiscal year 2001-02 there were 8 eligible participants, for which the City paid $30,354 for medical insurance premiums.

16. CONTRIBUTED CAPITAL:

Changes in the Transit Enterprise Fund's contributed capital were as follows (see Note 1I):

Balance June 30, 2001	$ 6,507,049
Current depreciation on contributed capital	(350,672)
Balance June 30, 2002	$ 6,156,377

17. NON-CITY OBLIGATIONS:

Community Facilities District No. 92-1 Mello Roos Bonds

On October 1, 1992, $20,000,000 of Mello Roos bonds were issued for Community Facilities District No. 92-1. The Mello Roos bonds are not a general obligation of the City and neither the faith and credit nor the taxing power of the City is pledged to the payment of these bonds. The source of debt service is from property assessments within the district. The principal amount of debt outstanding at June 30, 2002 was $15,990,000.

1915 Act Limited Obligation Improvements Bonds

A. On September 2, 1992, $879,432 of 1915 Act Limited Obligation Improvement Bonds for the Golden Valley Road Improvement Assessment District were issued. The 1915 Golden Valley Road Bonds are not a general obligation of the City and neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The source of debt service is from the property assessments within the district. The principal amount of debt outstanding at June 30, 2002 was $745,000.

B. On January 13, 2001, $790,000 of 1915 Act Limited Obligation Improvement Bonds for the Vermont Drive/Everett Drive Improvement Assessment District were issued. The 1915 Vermont Drive/Everett Drive Bonds are not a general obligation of the City and neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The source of debt service is from the property assessments within the district. The principal amount of the debt outstanding at June 30, 2002 was $740,000.

18. PRIOR PERIOD ADJUSTMENTS:

	As Previously Reported	Adjustment	As Restated
General Fund	$ 28,540,000	$ 697,496	$ 29,237,496
Redevelopment Agency Debt Service Fund	-	(3,835,789)	(3,835,789)
Redevelopment Agency Capital Projects Fund	165,193	(91,957)	73,236
Enterprise Fund	11,317,133	180,168	11,497,301

A. General Fund:

The beginning fund balance of the General Fund has been restated to record the accrual of the Motor Vehicle Fees revenue as of June 30, 2001.

B. Debt Service Fund:

The beginning fund balance of the Redevelopment Agency Debt Service Fund has been restated to record the outstanding advances payable to the City as of June 30, 2001 within the fund instead of the general long-term debt account group.

C. Capital Projects Fund:

The beginning fund balance of the Redevelopment Agency Capital Projects Fund has been restated to record the accrual of pass-through expenditures due to other governments as of June 30, 2001.

D. Enterprise Fund:

The beginning fund balance of the Transit Enterprise Fund has been restated for a $260,541 increase in the balance of a City deposit held by a third party and for a $80,373 increase in accrued interest payable as of June 30, 2001.

19. SANTA CLARITA WATERSHED RECREATION AND CONSERVANCY AUTHORITY

In June 1992, the City entered into a joint powers agreement with the Santa Monica Mountains Conservancy to create the Santa Clarita Watershed Recreation and Conservancy Authority, (the Authority). The purpose of the Authority is to acquire, develop and conserve additional park and open space lands including water-oriented recreation and conservation projects. The governing board consists of two representatives from the Conservancy and two from the City.

Upon termination of the agreement, personal property and funds will be returned to the originating party. Any real property owned by the Authority shall be conveyed to the City unless the Authority deems otherwise. The City has an ongoing financial responsibility and an ongoing financial interest in the Authority, however, it does not have an equity interest.

The City contributed $1,000,000 to the Authority during the year ended June 30, 2002. Financial statements of the Authority may be obtained at the City's administrative offices.

20. PUBLIC FACILITIES REPLACEMENT INTERNAL SERVICE FUND LOAN RECEIVABLE:

On July 10, 2002, the City authorized an advance of $2,000,000 to the Santa Clarita Facilities Foundation for the completion of public improvements associated with Golden Valley Road Phase III. The loan was made with monies from the Public Facilities Replacement Internal Service Fund. The term of the loan is 18 months and bears interest at a rate that is consistent with the average monthly yield of the City's pooled investments. The interest on the note accrues on a monthly basis and is due in full upon the completion of the note term. The interest receivable at June 30, 2002 was $55,115. The loan is secured by a parcel of land owned by the Foundation.