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 general 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 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. <u>Measurement Focus</u>:

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. <u>Budgetary Accounting</u>:

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	$ 1,174	$(6,134)
Fund Balance – Nonbudgeted Funds	-	60,601
Total Fund Balance	$ 1,174	$54,467

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, 1999, budgeted appropriations in the governmental funds increased from $93,914,629 to $100,778,579.

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, 1999 fund balances have been reserved for encumbrances carried forward.

f. *Investments:*

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

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 $20,425,166. 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 $730,358 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 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.

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, 1999.

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 one new special revenue fund and one new internal service fund. The Special Revenue Fund (Federal Grants Fund) is designed to account for the receipts and disbursements of miscellaneous federal grant monies not accounted for in other funds. The internal service fund (Public Facilities Replacement Fund) is to account for the financing for the replacement of the City's public facilities.

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 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.

The City's deposits and investments were categorized as follows at June 30, 1999:

	Category			Carrying
	1	2	3	Amount
Deposits				
Pooled Deposits				
Demand Accounts:				
Bank balances	$118,035	$808,894		$926,929
Deposits in transit				68,701
Outstanding checks				(244,492)
Book balance	118,035	808,894		751,138
Total Deposits	$118,035	$808,894	$ -	$751,138

	Category 1	Category 2	Category 3	Fair Value
Investments:				
Los Angeles County Pooled Investment Fund				$ 2,154,032[1][3]
California Local Agency Investment Fund				18,271,134[1][2]
Corporate Notes	$18,396,532			18,396,532
Federal National Mortgage Association	8,774,447			8,774,447
United States Treasury Notes	1,002,030			1,002,030
Federal Home Loan Bank	5,870,499			5,870,499
Federal Farm Credit Bank	1,579,904			1,579,904
Federal Home Loan Mortgage	1,000,940			1,000,940
Total Investments	36,603,515			57,049,518
Investments Held By Fiscal Agents:				
Mutual Funds				4,824,264
Total Investments	$36,603,515	$ -	$ -	$61,873,782

(1) Not subject to categorization.

(2) The management of LAIF has indicated to the City that as of June 30, 1999, the amortized cost of the pool was $36,849,505,673 and the fair value of the pool was $31,801,575,428. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling $1,524,350,000, and asset-backed securities totaling $351,942,000. LAIF's (and the City's) exposure to risk (credit, market, or legal) is not currently available.

(3) At June 30, 1999, market value for the Los Angeles County Pooled Investment Fund (LACPIF) was $9,027,402,097 compared to principal cost of $9,061,495,338. Included in the LACPIF's investment portfolio are certain derivative securities in the form of asset-backed securities and floating rate notes, representing approximately 4.8% of the LACPIF total investment portfolio. Information regarding LACPIF's (and the City's) exposure to credit, market or legal risk is currently not available.

Total cash and investments at June 30, 1999 consisted of the following:

Cash and investments	$57,800,657
Cash and investments held by fiscal agents	4,824,263
Total Cash and Investments	$62,624,920

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, 1999 are as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Land and improvements	$32,146,909	$1,224,717	$5,500	$33,366,126
Buildings	16,821,315	896,046		17,717,361
Equipment	3,629,602	1,013,351		4,642,953
Totals	$52,597,826	$3,134,114	$5,500	$55,726,440

Changes in the proprietary fund property, plant and equipment for the year ended June 30, 1999 are as follows:

	Balance at July 1, 1998	Additions	Deletions	Balance at June 30, 1999
Enterprise Fund				
Equipment acquired by capital lease/notes payable	$ 8,890,437	$2,335,964		$11,226,401
Equipment purchased	657,439	134,178	$2,245	789,372
Buildings	4,746,330			4,746,330
Land	3,128,572			3,128,572
	17,422,778	$2,470,142	$2,245	19,890,675
Less: Accumulated depreciation	(4,293,098)			(5,726,846)
Net Assets	$13,129,680			$14,163,829
Internal Service Fund Equipment	$497,663	$30,648	$ -	$528,311
Less: Accumulated depreciation	(193,417)			(294,994)
Net Assets	$304,246			$233,317

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, 1999:

	Balance at July 1, 1998	Additions	Deletions	Balance at June 30, 1999
Financing Authority Certificates of Participation - Series 1997	$19,670,000			$19,670,000
Notes payable	2,966,233	$ 93,250		3,059,483
Lease payable	71,327	420,000	$26,755	464,572
Advances to other funds	2,447,384	487,228		2,934,612
Compensated absences (Note 1h)	623,648	106,710		730,358
Totals	$25,778,592	$1,107,188	$26,755	$26,859,025

a. Financing Authority Refunded Certificates of Participation 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 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
2000		$ 953,270	$ 953,270
2001	$ 195,000	953,270	1,148,270
2002	500,000	948,883	1,448,883
2003	640,000	923,246	1,563,246
2004	695,000	907,275	1,602,275
Thereafter	17,640,000	9,057,626	26,697,626
	$19,670,000	$13,743,570	$33,413,570

b. Notes Payable:

1. 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. At June 30, 1999, the balance outstanding of $3,059,483 on the note included $2,557,436 in original loan proceeds and $502,047 of accrued interest.

c. Lease Payable

1. 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 semiannually from January 30, 1997 through July 30, 2000.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$29,161	$2,017	$31,178
2001	15,411	415	15,826
	$44,572	$2,432	$47,004

2. 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, 1999 through July 1, 2005.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 69,073		$ 69,073
2001	51,632	$17,441	69,073
2002	54,198	14,875	69,073
2003	56,892	12,181	69,073
2004	59,719	9,354	69,073
Thereafter	128,486	9,661	138,147
	$420,000	$63,512	$483,512

d. Advances from Other Funds:

The Agency has received advances totaling $2,934,612, which includes $2,403,144 of principal and $531,468 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 $303,674 are recorded as "Other Financing Sources" in the Agency's Capital Projects Fund and interest for fiscal year 1998-99 of $183,554 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 AND LOANS RECEIVABLE

At June 30, 1999, 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, 1999, $254,703 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 $531,468 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 $685,017 in advances received for construction projects for which the related expenditures had not been incurred and $10,114 for rent received in advance.

d. The City collects funds in advance from developers and to provide funds for construction of related projects. At June 30, 1999, $711,522 in the Bikeway Special Revenue Fund, $1,855,942 in the Developer Fees Special Revenue Fund, $7,034 in the Sewer Maintenance Special Revenue Fund, $161,484 in the Miscellaneous Grants 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 $176,707 and $362,379 funded by grant funds have been offset by deferred revenue in the CDBG and HOME special revenue funds respectively.

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 and various floods. As of June 30, 1999, the City has incurred $20,058,054 in expenditures related to the grant funds. $1,445,380 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 $8,082,200 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, 1999, the balance payable to the MTA was $323,226 in the Proposition C Special Revenue Fund.

c. The City received grant funds in the amount of $361,389 for a project that has not received final approval. The City has recorded a Due to Federal Government in the Federal Aid Urban (FAU) Special Revenue Fund for this amount since the lapsing policy appeals deadline may not be met.

d. The City received a refund in the amount of $1,192 from the County of Los Angeles for its work on Railroad Avenue. The City has recorded a Due to Federal Government in the CDBG Special Revenue Fund for this amount since it is payable to HUD.

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, 1999:

	Balance at July 1, 1998	Additions	Deletions	Balance at June 30, 1999
Transit Enterprise Fund:				
Master lease obligations	$ 799,115		$249,023	$ 550,092
Leases payable	4,232,362	$2,335,964	505,644	6,062,682
	5,031,477	2,335,964	754,667	6,612,774
Less: Lease Discount	(10,508)		(3,709)	(6,799)
Total Transit Enterprise Fund Long-Term Debt	$5,020,969	$2,335,964	$750,958	$6,605,975

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
2000	$265,986	$32,475	$298,461
2001	284,106	14,355	298,461
	$550,092	$46,830	$596,922

b. Leases Payable - Buses:

1. 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.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 435,000	$141,373	$ 576,373
2001	460,000	113,845	573,845
2002	485,000	84,308	569,308
2003	520,000	52,390	572,390
2004	550,000	17,875	567,875
	$2,450,000	$409,791	$2,859,791

2. 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 an 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
2000	$ 100,608	$ 66,262	$ 166,870
2001	105,830	61,040	166,870
2002	111,322	55,548	166,870
2003	117,100	49,770	166,870
2004	123,178	43,692	166,870
Thereafter	718,680	115,668	834,348
	$1,276,718	$391,980	$1,668,698

3. 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 an 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
2000	$ 148,723	$111,425	$ 260,148
2001	155,817	104,331	260,148
2002	163,249	96,899	260,148
2003	171,036	89,112	260,148
2004	179,195	80,953	260,148
Thereafter	1,517,944	303,096	1,821,040
	$2,335,964	$785,816	$3,121,780

c. Commitment:

In March 1997, the City entered into an agreement with Antelope Valley Transit Authority (AVTA) whereby the City has agreed to pay AVTA the sum of $1,498,000 in exchange for AVTA's FTA allocation. This is a non-interest bearing agreement that will be paid over three years in annual payments beginning January 1, 1999 through January 1, 2000. The City repaid $500,000 during the year ended June 30, 1999.

Future payments are as follows:

Year Ending June 30,	Principal	Total
2000	$498,000	$498,000

8. INTERFUND BALANCES:

Interfund receivable and payable balances as of June 30, 1999 are as follows:

Fund	Due From	Due To
General Fund	$8,512,792	$ 136,639
Special Revenue Funds:		
Economic Development Administration		300,443
Gas Tax	3,457	
Proposition A		568,700
State Park		3,983,990
TDA		3,457
Community Development Block Grant (CDBG)		263,964
Federal Aid Urban (FAU)	136,639	

Fund	Due From	Due To
Earthquake		455,830
Miscellaneous Grants		1,303,171
BJA Law Enforcement		141,745
Supplemental Law Grant		165,649
Federal Grants		5,498
Transit Enterprise Fund		1,323,660
Agency Fund:		
Assessment District No. 92-2		142
	$8,652,888	$8,652,888

9. DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Santa Clarita contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' 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 current rate is 6.5% for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For 1999, the City's annual pension cost of $1,455,000 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1996, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS 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, 1999, was four years for prior service unfunded, and 15 years for remaining unfunded.

THREE-YEAR TREND INFORMATION FOR PERS ($ Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/97	$1,371	100%	0
6/30/98	1,399	100%	0
6/30/99	1,455	100%	0

SCHEDULE OF FUNDING PROGRESS FOR PERS ($ Amount in Thousands)
(most recent information available)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL)/ (Excess Assets) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/94	$4,689	$4,713	$ 24	99.5%	$ 8,721	0.279%
6/30/95	6,382	6,439	57	99.1%	10,065	0.565%
6/30/96	8,570	7,991	(579)	107.2%	9,625	(6.015%)

10. DEFERRED COMPENSATION PLAN/DEFINED CONTRIBUTION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforseeable emergency.

The City has established additional 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 $1,500 to $7,500 per participant per year. Employee contributions to certain plans are voluntary. During the year there were 8 participants. The City contributions totaled $33,750 and employees contributed $15,400. Total plan assets at June 30, 1999 were $449,563.

11. INDIVIDUAL FUND DISCLOSURES

a. Deficit Fund Balances/Retained Earnings:

Funds which have deficit fund balances/retained earnings at June 30, 1999 are as follows:

Special Revenue Funds:	
Developer Fees	$391,047
Community Development Block Grant (CDBG)	245,040
FAU	91,687
Economic Development Administration	59
Miscellaneous Grants	2,099
Sewer Maintenance	19,872
BJA Law Enforcement	11,281
Supplemental Law Grant	185,642
Capital Projects Fund – Redevelopment Agency	6,134
Internal Service Fund – Self-Insurance	835,016

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, 1999 $941,847 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, 1999 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, 1999.

Changes in the reported liability since June 30, 1997, resulted in the following:

Liability as of June 30, 1997	$ 998,423
Claims and changes in estimates during the year ended June 30, 1998	467,756
Claims payments during the year ended June 30, 1998	(542,269)
Liability as of June 30, 1998	923,910

Claims and changes in estimates during the year ended June 30, 1999	455,363
Claims payments during the year ended June 30, 1999	(437,426)
Liability as of June 30, 1999	$ 941,847

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, 1999, 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:					
Continuing appropriations	$ 621,211	$ 4,972,838			
Encumbrances	6,830,919	5,869,465			
Advances to other funds	2,403,143				
Prepaid items	159,088	6,543			
Debt service			$1,174		$489,500
TOTAL RESERVES	$10,014,361	$10,848,846	$1,174	$ -	$489,500
Designations:					
Self-insurance	$ 835,016				
Earthquake	1,000,000				
Special revenue purposes		$28,112,758			
Capital improvements				$60,601	
Contingencies	10,198,114				
TOTAL DESIGNATIONS	$12,033,130	$28,112,758	$ -	$60,601	$ -

a. Reserved for Continuing Appropriations – Appropriations for capital projects and other expenditures which are unexpended as of June 30, 1999 will carry forward as continuing appropriations to be expended in 1999-00.

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, 1999 was as follows:

Current assets	$ 1,605,780
Current liabilities payable from current assets	(2,876,464)
Net working capital (deficit)	$(1,270,684)

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 1998-99 there were three eligible participants, for which the City paid $3,833 for medical insurance premiums.

16. CONTRIBUTED CAPITAL

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

Balance June 30, 1998	$4,573,797
Capital grants - buses	105,600
Current depreciation on contributed assets	(196,772)
Balance June 30, 1999	$4,482,625

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, 1999 was $17,995,000.

1915 Act Limited Obligation Improvement Bonds

On September 2, 1996, $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, 1999 was $850,000.

Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the City's operations as early as fiscal year 1999.

The City of Santa Clarita has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary in conducting City operations. Through remediation and testing, it has been determined the City Manager, Administrative Services, Transportation and Engineering Services, Transit, Parks, Recreation and Community Services, and Planning and Building Services are all in compliance. The City is in the process of remediating non-compliant systems in the Field Service and Technology Services departments as well as upgrading the City's financial database and back up systems. It is anticipated that all non-compliant systems will be replaced and tested before December 31, 1999.

Because of the unprecedented nature of the Year 2000 issues and its effects, the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the City is or will be fully Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business with will be Year 2000 ready.