

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

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 Authority's financial data and activity are reported within the debt service and capital projects fund types.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTE TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

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. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included as part of the program expenses reported for individual functions and activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transit enterprise fund and of the government's internal service funds are charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, and compensated absences, which are recognized as expenditures only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

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.

The City reports the following major governmental funds:

The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the City that are not required to be accounted for in another fund.

The Bridge and Thoroughfare Special Revenue Fund is used to account for monies received from developers for street and highway construction through bridge and thoroughfare districts.

The Developer Fees Special Revenue Fund is used to account for monies received from developers for street improvements.

The Federal Grants Special Revenue Fund is used to account for receipts and disbursements of miscellaneous federal grant monies not accounted for in other funds.

The City reports the following major enterprise fund:

The Transit Enterprise Fund is used to account for the operation of the City's local public transit bus system.

Additionally, the City reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes.

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

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

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

The City reports the following Fund Types (Continued):

The Internal Service Funds are used to account for the financing of special activities that provide services within the City. Such activities include self-insurance, computer replacement, vehicle replacement and public facilities replacement.

The Agency Funds are used to account for assets held by the City as an agent and related to the debt service activity on no-commitment special assessment debt.

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 Procedures.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents:

A substantial portion of the City's investments, not held by bond trustees, 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 \$35,328,215. 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.

E. Investments:

Investments are stated at fair value.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTE TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Capital Assets:

Capital assets, which include land, site improvements, buildings and improvements, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. General infrastructure assets acquired or placed in service prior to July 1, 2002, have not yet been reported. Such assets consist of roads, bridges, trails, traffic signals and sewer lines. Infrastructure assets under construction as of July 1, 2002, have been reported and are included in construction in progress. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 (\$100,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 - 25 years
Site Improvements	5 - 25 years
Buildings and Improvements	5 - 50 years
Infrastructure	20 - 60 years

G. 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, 2006.

H. Employee Compensated Absences:

It is the City's policy to permit employees to accumulate earned but unused vacation (compensated absences). All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation pay which is expected to be liquidated in the current period with expendable available resources is reported in the governmental funds that will pay it (primarily the General Fund). Compensated absences are reported in governmental funds only if they have matured.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Property Taxes:

Property taxes are an enforceable lien on property as of January 1 of each year. Taxes are levied on each 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. 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.

K. 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. Specifically, the City has made certain estimates and assumptions related to the collectibility of its receivables (e.g. accounts receivable, intergovernmental receivables and loans receivable), the depreciation of its capital assets and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2006, are classified in the accompanying financial statements as follows:

	<u>Government- Wide Statement of Net Assets</u>	<u>Fiduciary Fund Statement of Net Assets</u>	<u>Total</u>
Unrestricted assets:			
Cash and investments	\$ 152,232,946	\$ 112,739	\$ 152,345,685
Cash and investments with fiscal agents	<u>-</u>	<u>1,816,295</u>	<u>1,816,295</u>
Total Cash and Investments	<u>\$ 152,232,946</u>	<u>\$ 1,929,034</u>	<u>\$ 154,161,980</u>

Cash and investments at June 30, 2006, consisted of the following:

Cash on hand	\$ 2,171
Deposits with financial institutions	1,616,187
Investments	<u>152,543,622</u>
Total Cash and Investments	<u>\$ 154,161,980</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the City's Investment Policy
(Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage or Amount of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Government Sponsored Enterprise Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	5 years	15%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	\$ 40 M	None

* - Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

N/A - Not Applicable

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage or Amount Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
Money Market Mutual Funds	5 years	15%	10%
Local Agency Investment Fund (LAIF)	N/A	\$ 40 M	None

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued)

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
Local Agency Investment Fund (LAIF)	\$ 34,072,657	\$ -	\$ -	\$ 34,072,657
Los Angeles County Pooled Investment Fund (LACPIF)	1,255,558	-	-	1,255,558
Federal National Mortgage Association (FNMA)	8,923,305	1,461,090	20,183,935	30,568,330
Federal Home Loan Bank (FHLB)	10,379,995	3,378,920	20,977,245	34,736,160
Federal Farm Credit Bank (FFCB)	1,999,380	-	1,455,465	3,454,845
Federal Home Loan Mortgage Corporation (FHLMC)	1,481,715	15,208,235	16,563,340	33,253,290
Medium-Term Notes	3,488,140	9,390,005	-	12,878,145
Money Market Mutual Funds	486,744	-	-	486,744
Held by Bond Trustee:				
Local Agency Investment Fund (LAIF)	1,684,104	-	-	1,684,104
Money Market Mutual Funds	<u>153,789</u>	<u>-</u>	<u>-</u>	<u>153,789</u>
	<u>\$ 63,925,387</u>	<u>\$ 29,438,250</u>	<u>\$ 59,179,985</u>	<u>\$152,543,622</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, as reported by Standard and Poor's, as of year end for each investment type:

<u>Investment Type</u>	<u>Total as of June 30, 2006</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>A-1+</u>	<u>A-1</u>	<u>Unrated</u>
LAIF	\$ 34,072,657	N/A	\$ -	\$ -	\$ -	\$ 34,072,657
LACPIF	1,255,558	N/A	-	-	-	1,255,558
FNMA	30,568,330	AAA	30,568,330	-	-	-
FHLB	34,736,160	AAA	34,736,160	-	-	-
FFCB	3,454,845	AAA	3,454,845	-	-	-
FHLMC	33,253,290	AAA	33,253,290	-	-	-
Medium-Term Notes	12,878,145	A-1	-	10,964,565	1,913,580	-
Money Market Mutual Funds	486,744	N/A	-	-	-	486,744
Held by Bond Trustee:						
LAIF	1,684,104	N/A	-	-	-	1,684,104
Money Market Mutual Funds	<u>153,789</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,789</u>
Total	<u>\$152,543,622</u>		<u>\$102,012,625</u>	<u>\$ 10,964,565</u>	<u>\$ 1,913,580</u>	<u>\$ 37,652,852</u>

N/A - Not Applicable

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the City's total investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal National Mortgage Association	U.S. Government Sponsored Enterprise Securities	\$ 30,568,330
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	34,736,160
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	33,253,290

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2006, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized as required under California Law.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

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.

Investment in County Investment Pool

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. 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 LACPIF for the entire LACPIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LACPIF, which are recorded on an amortized cost basis.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

Governmental Activities:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 57,389,548	\$ 14,719,592	\$ -	\$ 72,109,140
Construction in progress	<u>40,510,738</u>	<u>27,051,705</u>	<u>(15,365,687)</u>	<u>52,196,756</u>
Total capital assets, not being depreciated	<u>97,900,286</u>	<u>41,771,297</u>	<u>(15,365,687)</u>	<u>124,305,896</u>
Capital assets, being depreciated:				
Site improvements	11,594,810	485,519	-	12,080,329
Building and improvements	35,764,580	7,014,748	-	42,779,328
Equipment	7,316,789	519,637	(251,200)	7,585,226
Infrastructure (See Note 1F)	<u>49,934,758</u>	<u>22,074,494</u>	<u>-</u>	<u>72,009,252</u>
Total capital assets, being depreciated	<u>104,610,937</u>	<u>30,094,398</u>	<u>(251,200)</u>	<u>134,454,135</u>
Less accumulated depreciation for:				
Site improvements	(3,021,864)	(474,024)	-	(3,495,888)
Building and improvements	(8,489,385)	(1,291,470)	-	(9,780,855)
Equipment	(4,903,475)	(677,997)	248,644	(5,332,828)
Infrastructure	<u>(1,027,194)</u>	<u>(1,268,939)</u>	<u>-</u>	<u>(2,296,133)</u>
Total accumulated depreciation	<u>(17,441,918)</u>	<u>(3,712,430)</u>	<u>248,644</u>	<u>(20,905,704)</u>
Total capital assets, being depreciated, net	<u>87,169,019</u>	<u>26,381,968</u>	<u>(2,556)</u>	<u>113,548,431</u>
Total governmental activities capital assets, net	<u>\$ 185,069,305</u>	<u>\$ 68,153,265</u>	<u>\$ (15,368,243)</u>	<u>\$ 237,854,327</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

3. CAPITAL ASSETS (CONTINUED):

Capital Asset Activity (Continued):

Business-type Activity:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 10,787,880	\$ -	\$ -	\$ 10,787,880
Construction in progress	<u>21,194,759</u>	<u>5,765,242</u>	<u>(957,317)</u>	<u>26,002,684</u>
Total capital assets, not being depreciated	<u>31,982,639</u>	<u>5,765,242</u>	<u>(957,317)</u>	<u>36,790,564</u>
Capital assets, being depreciated:				
Building and improvements	13,917,323	1,413,726	-	15,331,049
Equipment	<u>27,069,909</u>	<u>37,764</u>	<u>(551,742)</u>	<u>26,555,931</u>
Total capital assets, being depreciated	<u>40,987,232</u>	<u>1,451,490</u>	<u>(551,742)</u>	<u>41,886,980</u>
Less accumulated depreciation for:				
Building and improvements	(3,124,196)	(477,809)	-	(3,602,005)
Equipment	<u>(10,547,504)</u>	<u>(1,888,302)</u>	<u>551,742</u>	<u>(11,884,064)</u>
Total accumulated depreciation	<u>(13,671,700)</u>	<u>(2,366,111)</u>	<u>551,742</u>	<u>(15,486,069)</u>
Total capital assets, being depreciated, net	<u>27,315,532</u>	<u>(914,621)</u>	<u>-</u>	<u>26,400,911</u>
Total business-type activity, capital assets, net	<u>\$ 59,298,171</u>	<u>\$ 4,850,621</u>	<u>\$ (957,317)</u>	<u>\$ 63,191,475</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

3. CAPITAL ASSETS (CONTINUED):

Depreciation Expense:

Depreciation expense was charged to City functions/programs as follows:

Governmental Activities:

General government	\$ 495,188
Public safety	162,903
Public works	233,632
Parks and recreation	1,352,940
Community development	24,834
Internal service funds depreciation charged to programs	<u>173,994</u>
Allocated depreciation	2,443,491
Unallocated infrastructure depreciation	<u>1,268,939</u>
 Total depreciation expense - governmental activities	 <u>\$ 3,712,430</u>

Business-type Activity:

Transit	<u>\$ 2,366,111</u>
---------	---------------------

Construction Commitments:

The City has active construction projects as of June 30, 2006. At year-end, the City's commitments with contractors for the projects are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Streets	\$ 62,157,103
Bridges	9,633,366
Traffic signals	289,587
Trails	173,889
Buildings	1,681,609
Site improvements	<u>752,973</u>
 Total	 <u>\$ 74,688,527</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES:

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006	Due Within One Year
Governmental Activities:					
Refunding Certificates of Participation - Series 1997	\$ 17,640,000	\$ -	\$ 17,640,000	\$ -	\$ -
Refunding Certificates of Participation - Series 2005	-	17,700,000	-	17,700,000	940,000
Certificates of Participation - Series 2001	1,390,000	-	680,000	710,000	710,000
Capital leases payable	23,798	54,845	18,164	60,479	24,078
Loans payable	5,698,192	-	669,195	5,028,997	700,907
Compensated absences	1,381,872	1,068,655	876,049	1,574,478	174,942
Claims payable (see Note 12)	<u>1,148,067</u>	<u>1,497,043</u>	<u>2,078,478</u>	<u>566,632</u>	<u>67,996</u>
Total governmental activities long-term liabilities	<u>\$ 27,281,929</u>	<u>\$ 20,320,543</u>	<u>\$ 21,961,886</u>	<u>\$ 25,640,586</u>	<u>\$ 2,617,923</u>
Business-type Activity:					
Capital leases payable	<u>\$ 1,919,311</u>	<u>\$ -</u>	<u>\$ 332,993</u>	<u>\$ 1,586,318</u>	<u>\$ 349,449</u>

Governmental Activities:

A. Refunding 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 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 long-term liabilities. The defeased 1991 Series certificates have been retired. The Authority amended and restated the lease agreement with the City that was entered into simultaneously with the refunded certificates issue.

The Series 1997 certificates were subsequently refunded with the Refunding Certificates of Participation - Series 2005.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

B. Refunding Certificates of Participation - Series 2005:

On July 1, 2005, the Santa Clarita Public Financing Authority issued \$17,700,000 in Certificates of Participation with an average interest rate of 3.4% to advance refund \$17,640,000 of outstanding 1997 Series certificates with an average interest rate of 4.9%. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series certificates. As a result, the 1997 Series certificates are considered to be defeased, and the liability for those certificates has been removed from the long-term liabilities. The defeased 1997 Series certificates have been retired. The Authority amended and restated the lease agreement with the City that was entered into simultaneously with the refunded certificates issue. The advance refunding resulted in a decrease in cash flows (difference in debt service payments between new debt and old debt of \$1,466,174) and an economic gain of \$925,017.

Principal amounts mature annually each October 1 in the years 2006 through 2020 and bear interest at rates ranging from 3.0% to 4.0%. Interest is payable semi-annually on April 1 and October 1.

The certificates maturing on or after October 1, 2016, are subject to optional prepayment on any date on or after October 1, 2015, at a price equal to the principal amount plus accrued interest to the prepayment date, without premium.

Future debt service requirements on the certificates are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 940,000	\$ 590,401	\$ 1,530,401
2008	970,000	561,752	1,531,752
2009	1,000,000	532,201	1,532,201
2010	1,030,000	501,752	1,531,752
2011	1,060,000	470,401	1,530,401
2012 - 2016	5,805,000	1,827,400	7,632,400
2017 - 2021	<u>6,895,000</u>	<u>698,434</u>	<u>7,593,434</u>
Total	<u>\$ 17,700,000</u>	<u>\$ 5,182,341</u>	<u>\$ 22,882,341</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

C. 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 semi-annually on May 1 and November 1. Principal is payable on November 1 in annual installments ranging from \$100,000 to \$285,000.

The certificates were subject to annual prepayment, in part, in cumulative maximum prepayment amounts ranging from \$460,000 to \$500,000 on each November 1 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, based on the intention to prepay, are as follows:

Year Ending June 30,	Principal	Interest	Total
<u>2007</u>	<u>\$ 710,000</u>	<u>\$ 14,910</u>	<u>\$ 724,910</u>

D. Capital Leases Payable:

- (1) September 2002, the City entered into a lease with an option to purchase agreement in the amount of \$58,097 for the lease of a tractor through John Deere Credit. Such agreement carries an interest rate of 5.25% per annum on the unpaid principal balance. The first payment of \$12,868 was due with the signing of the agreement. Subsequent payments of principal and interest are due annually on September 1 through 2006.

Future payment requirements, based on the intention to prepay, are as follows:

Year Ending June 30,	Principal	Interest	Total
<u>2007</u>	<u>\$ 12,211</u>	<u>\$ 656</u>	<u>\$ 12,867</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

D. Capital Leases Payable (Continued):

(2) In August 2005, the City entered into a lease with an option to purchase agreement in the amount of \$41,016 for the lease of a copier. Payments of \$812 are due monthly through August 2010.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 7,525	\$ 2,221	\$ 9,746
2008	8,069	1,677	9,746
2009	8,652	1,094	9,746
2010	9,278	468	9,746
2011	1,610	14	1,624
Total	<u>\$ 35,134</u>	<u>\$ 5,474</u>	<u>\$ 40,608</u>

(3) In April 2006, the City entered into a lease with an option to purchase agreement in the amount of \$13,829 for the lease of a copier. Payments of \$427 are due monthly through April 2009.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 4,342	\$ 782	\$ 5,124
2008	4,656	468	5,124
2009	4,136	134	4,270
Total	<u>\$ 13,134</u>	<u>\$ 1,384</u>	<u>\$ 14,518</u>

The remaining assets acquired through existing capital leases are as follows:

Assets:

Equipment	\$ 565,115
Less: accumulated depreciation	<u>(488,079)</u>
Total assets, net	<u>\$ 77,036</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

E. Loans Payable:

In December 1999, the City entered into a loan agreement with the Secretary of Housing and Urban Development in the amount of \$2,000,000. The purpose of this loan was to provide financing for the installation of curbs, gutters and sidewalks in the West Newhall area. Payments are due semi-annually, commencing on August 1, 2001, and continuing through August 1, 2014. Future CDBG grant funding will be used to repay the loan. Consistent with its election to prospectively report infrastructure assets beginning July 1, 2002 (see Note 1F), the City is not currently reporting the infrastructure assets constructed with the use of the proceeds of this loan prior to July 1, 2002.

In August 2002, the City entered into a loan agreement with the Secretary of Housing and Urban Development in the amount of \$1,150,000. The purpose of this loan was to provide financing for the construction of improvements to Scherzinger Lane. Payments are due semi-annually, commencing on February 1, 2003, and continuing through August 1, 2017. Future CDBG grant funding will be used to repay the loan.

In August 2002, the City entered into a loan agreement with the Secretary of Housing and Urban Development in the amount of \$350,000. The purpose of this loan was to assist the Boys and Girls Club in financing the construction of a new gymnasium. Payments are due semi-annually, commencing on February 1, 2003, and continuing through August 1, 2017. Future CDBG grant funding will be used to repay the loan.

Future loan payment requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 230,000	\$ 142,476	\$ 372,476
2008	230,000	129,524	359,524
2009	230,000	116,159	346,159
2010	230,000	102,494	332,494
2011	230,000	88,424	318,424
2012 - 2016	1,070,000	218,106	1,288,106
2017 - 2018	<u>200,000</u>	<u>11,490</u>	<u>211,490</u>
Total	<u>\$ 2,420,000</u>	<u>\$ 808,673</u>	<u>\$ 3,228,673</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

E. Loans Payable (Continued):

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 was 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 semi-annually, commencing on October 8, 2002, and continuing through April 8, 2012. The asset acquired with the loan proceeds is reported in the governmental activities' capital assets as land (not being depreciated).

Future payment requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 116,117	\$ 36,313	\$ 152,430
2008	121,745	30,685	152,430
2009	127,647	24,783	152,430
2010	133,835	18,595	152,430
2011	140,322	12,108	152,430
2012	<u>147,124</u>	<u>5,306</u>	<u>152,430</u>
Total	<u>\$ 786,790</u>	<u>\$ 127,790</u>	<u>\$ 914,580</u>

On October 3, 2003, the City entered into a seven year fixed rate lease/leaseback transaction for certain capital transfer facilities with the Santa Clarita Public Financing Authority in order to pay off this note. The Authority assigned all of its rights under the leaseback transaction to Zions First National Bank. In consideration of this assignment, Zions First National Bank loaned the Authority \$2,590,955, which the Authority used to pay the up-front rental payment due to the City. This amount was used to prepay, in full, the note payable to Price Enterprise, Inc. The balance of the proceeds were used to pay for delivery costs. The lease/leaseback transaction calls for the City to make semi-annual payments of principal and interest to Zions First National Bank, commencing on May 1, 2004. Interest is fixed at a rate of 3.64%.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

E. Loans Payable (Continued):

Future payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 354,790	\$ 63,198	\$ 417,988
2008	382,656	50,035	432,691
2009	411,994	35,844	447,838
2010	442,136	20,570	462,706
2011	<u>230,631</u>	<u>4,200</u>	<u>234,831</u>
Total	<u>\$ 1,822,207</u>	<u>\$ 173,847</u>	<u>\$ 1,996,054</u>

F. Compensated Absences:

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

Business-type Activity:

A. Capital Leases Payable:

(1) 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 at 5.2%, payable annually on January 22 through 2009.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 143,369	\$ 23,501	\$ 166,870
2008	150,810	16,060	166,870
2009	<u>158,636</u>	<u>8,234</u>	<u>166,870</u>
Total	<u>\$ 452,815</u>	<u>\$ 47,795</u>	<u>\$ 500,610</u>

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activity (Continued):

A. Capital Leases Payable (Continued):

(2) 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 at 4.77%, payable annually on December 31 through 2010.

Future lease payment requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 206,080	\$ 54,068	\$ 260,148
2008	215,910	44,238	260,148
2009	226,209	33,939	260,148
2010	237,000	23,148	260,148
2011	<u>248,304</u>	<u>11,844</u>	<u>260,148</u>
Total	<u>\$ 1,133,503</u>	<u>\$ 167,237</u>	<u>\$ 1,300,740</u>

The remaining assets acquired through existing capital leases are as follows:

Assets:

Equipment	\$ 4,992,821
Less: accumulated depreciation	<u>(4,533,189)</u>
Total assets, net	<u>\$ 459,632</u>

5. LOANS RECEIVABLE:

The City has provided deferred-payment rehabilitation loans to qualified homeowners in connection with CDBG and HOME rehabilitation programs. The loans receivable balance totaling \$516,324 at June 30, 2006, has been offset by deferred revenue in the other governmental funds, since these loans are not available to finance current expenditures.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances as of June 30, 2006, is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Federal Grants	\$ 366,985
	Other Governmental Funds	<u>1,826,406</u>
		<u>\$ 2,193,391</u>

The interfund payables balance represents routine and temporary cash flow assistance from the General Fund until the amounts receivable from other governments are collected to reimburse eligible expenditures.

Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Bridge and Thoroughfare	\$ 5,906,576
	Other Governmental Funds	4,254,945
Developer Fees	Bridge and Thoroughfare	5,148,080
	Other Governmental Funds	<u>488,752</u>
		<u>\$ 15,798,353</u>

Advances between the funds are to fund capital projects. Amounts will be reimbursed to the receivable fund through future developer fees and tax increment revenues.

Interfund Transfers:

<u>Transfer In to Fund</u>	<u>Transfers Out of Fund</u>	<u>Amount</u>
General	Transit Enterprise Fund	\$ 763,000
	Other Governmental Funds	1,892,215
Other Governmental Funds	General	3,632,459
	Transit Enterprise Fund	37,501
	Other Governmental Funds	1,540,437
Transit Enterprise Fund	Other Governmental Funds	9,219,605
Internal Service Funds	General	<u>3,125,000</u>
		<u>\$ 20,210,217</u>

Transfers provide funding for capital projects, capital acquisitions and debt service.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

7. INDIVIDUAL FUND DISCLOSURES:

A. Deficit Fund Balances:

Funds which have a deficit fund balance at June 30, 2006, are as follows:

Other Governmental Funds:

State Park	\$	544,297
TDA		17,071
Miscellaneous Grants		991,298
Sewer Maintenance		18,930
BJA Law Enforcement		8,519
Supplemental Law Grant		745
Redevelopment Agency Debt Service Fund		4,743,697

The City plans to remove the deficit in the Other Governmental Funds through transfers from the General Fund, receipt of developer fees, receipt of tax increment revenues and receipt of deferred grant revenues from other governmental agencies.

B. Expenditures Exceeding Appropriations:

For the year ended June 30, 2006, expenditures exceeded appropriations in the following programs/functions (the legal level of budgetary control) of the respective funds:

	<u>Program/Function</u>	<u>Excess Expenditures</u>
Major Governmental Fund:		
General	Capital outlay	\$ 3,018,600
Bridge and Thoroughfare	Debt service	433,160

8. 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.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

8. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Funding Policy:

Participants are required to contribute 8% 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, 2006, was 12.11% for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost:

For 2006, the City's annual pension cost of \$3,578,128 for CalPERS was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The contributions were determined as a level percent of payroll over an average remaining period of fifteen years from the valuation date. The actuarial assumptions included (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.25% to 14.45%, depending on age, service and type of employment, (c) an inflation rate of 3.00%, (d) a payroll growth rate of 3.25%, and (e) individual salary growth based on a merit scale that varies by duration of employment, coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. 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 three-year period (smoothed market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 1,881	100%	\$ -
2005	2,394	100%	-
2006	3,578	100%	-

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

8. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Annual Pension Cost (Continued):

Schedule of Funding Progress
(\$ Amounts 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]
6/30/03	\$ 29,215	\$ 27,723	\$ 1,492	94.9 %	\$ 17,866	8.4 %
6/30/04	38,485	31,567	6,918	82.0 %	19,144	36.1 %
6/30/05	44,138	36,024	8,114	81.6 %	19,842	40.9 %

9. POST EMPLOYMENT BENEFITS:

In addition to the retirement benefits described in Note 8, 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 \$854 per month.

The City funds these amounts on a pay-as-you-go basis. For the year ended June 30, 2006, there were 20 eligible participants for which the City paid \$120,883 for medical insurance premiums.

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 \$15,000 per participant per year. Employee contributions to certain plans are voluntary. During the year ended June 30, 2006, there were 22 participants in the plans. The City contributions totaled \$68,748, and employees' contributions totaled \$22,946.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

11. RESERVES AND DESIGNATIONS OF FUND BALANCES:

A city may set up "reserves" of fund equity to segregate fund balances or net assets which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" of unreserved fund balances 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, 2006, are tabulated below, followed by explanations as to the nature and purpose of each reserve and designation.

	General Fund	Bridge and Thoroughfare	Developer Fees	Federal Grants	Other Governmental Funds
Reserves:					
Encumbrances	\$12,890,316	\$ 32,540,256	\$ 1,668,221	\$ 1,254,464	\$ 37,049,078
Prepaid costs	68,354	-	-	-	1,211
Debt service	-	-	-	-	174,028
Land held for resale	-	-	-	-	763,436
Low/moderate income housing	-	-	-	-	1,488,695
Advance to other funds	<u>7,827,370</u>	<u>-</u>	<u>5,460,000</u>	<u>-</u>	<u>-</u>
Total Reserves	<u>\$20,786,040</u>	<u>\$ 32,540,256</u>	<u>\$ 7,128,221</u>	<u>\$ 1,254,464</u>	<u>\$ 39,476,448</u>
Designations:					
Self-insurance	\$ 220,616	\$ -	\$ -	\$ -	\$ -
Special revenue purposes	-	-	-	-	25,286,682
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,921</u>
Total Designations	<u>\$ 220,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,351,603</u>

- 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 Prepaid Costs - This reserve is for prepaid costs since they are not available as a resource to meet expenditures of the current year.
- C. Reserved for Debt Service - These reserves represent amounts accumulated in accordance with a bond indenture or similar covenant.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

11. RESERVES AND DESIGNATIONS OF FUND BALANCES (CONTINUED):

- D. Reserved for Land Held for Resale - This reserve is for land held for resale by the Agency since it is not available as a resource to meet expenditures of the current year.
- E. 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.
- F. Reserved for Advances to Other Funds - This reserve is established to reflect the advances to the Redevelopment Agency, so they will not be considered as current funds available.
- G. Designated for Self-insurance - This designation is held to cover any shortfalls in the Self-insurance Internal Service Fund.
- H. Designated for Special Revenue Purposes - These funds are designated for specific special revenue purposes, 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.

12. SELF INSURANCE:

The City joined Special Districts Risk Management Authority (SDRMA) in the fall of 2005. SDRMA is a self insurance risk pool that serves as a not-for-profit public agency to its members. Through SDRMA the City currently holds a \$500 general liability deductible. All general liability claims above \$500 and up to a limit of \$10,000,000 are handled by SDRMA. On June 30, 2006, \$566,632 was accrued by the City for general liability claims that were received prior to the partnership with SDRMA. While the ultimate amounts of losses that occurred prior to SDRMA are dependent of 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.

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, 2006.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

12. SELF INSURANCE (CONTINUED):

Changes in the reported liability since June 30, 2004, resulted in the following:

Liability as of June 30, 2004	\$ 813,432
Claims and changes in estimates during the year ended June 30, 2005	(653,225)
Claims payments during the year ended June 30, 2005	<u>987,860</u>
Liability as of June 30, 2005	1,148,067
Claims and changes in estimates during the year ended June 30, 2006	(2,078,478)
Claims payments during the year ended June 30, 2006	<u>1,497,043</u>
Liability as of June 30, 2006	<u>\$ 566,632</u>

13. SEGMENT INFORMATION:

Net working capital (deficit) of the Transit Enterprise System at June 30, 2006, was as follows:

Current assets	\$ 4,492,517
Current liabilities payable from current assets	<u>(5,248,190)</u>
Net working capital (deficit)	<u>\$ (755,673)</u>

14. NO COMMITMENT DEBT:

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, 2006, was \$615,000.
- 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, 2006, was \$645,000.

See independent auditors' report.

CITY OF SANTA CLARITA

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

14. NO COMMITMENT DEBT (CONTINUED):

Community Facilities District No. 2002-1 Special Tax Bonds

On October 29, 2002, \$17,370,000 of Special Tax bonds were issued for Community Facilities District No. 2002-1. The Special Tax 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, 2006, was \$17,330,000.

15. 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.

Financial statements of the Authority may be obtained at the City's administrative offices.

See independent auditors' report.