SANTA CLARITA WATERSHED RECREATION AND CONSERVATION AUTHORITY

BASIC FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2006

SANTA CLARITA WATERSHED RECREATION
AND CONSERVATION AUTHORITY

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March 28, 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Santa Clarita Watershed Recreation
And Conservation Authority
Santa Clarita, California

We have audited the accompanying statement of net assets and governmental fund balance sheet of the Santa Clarita Watershed Recreation and Conservation Authority (the Authority) as of June 30, 2006, and the related statement of activities and governmental fund revenues, expenditures and changes in fund balance and statement of revenues, expenditures and changes in fund balance - budget to actual for the year then ended, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the accompanying statements referred to above present fairly, in all material respects, the net assets and governmental fund balance sheet of the Santa Clarita Watershed Recreation and Conservation Authority as of June 30, 2006, and the related statement of activities and governmental fund revenues, expenditures and changes in fund balance and statement of revenues, expenditures and changes in fund balance for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Management of the Santa Clarita Watershed Recreation and Conservation Authority have not presented the Management's Discussion and Analysis information that is a required supplement, although not a required part of the basic financial statements, prepared in accordance with accounting principles generally accepted in the United States of America.

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SANTA CLARITA WATERSHED RECREATION
AND CONSERVATION AUTHORITY

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

	General Fund	Adjustments (Note 1D)	Statement of Net Assets Totals
ASSETS			
Cash (Note 3)	$ 409,749	$ -	$ 409,749
Capital assets, net of depreciation (Note 4)	-	5,248,096	5,248,096
TOTAL ASSETS	$ 409,749	5,248,096	5,657,845
CURRENT LIABILITIES			
Due to other agencies	$ 350	-	350
FUND BALANCE / NET ASSETS			
FUND BALANCE:			
Unreserved	409,399		
TOTAL LIABILITIES AND FUND BALANCE	$ 409,749		
NET ASSETS:			
Invested in capital assets, net of related debt			5,248,096
Unrestricted			409,399
TOTAL NET ASSETS			$ 5,657,495

See independent auditors' report and notes to basic financial statements.

SANTA CLARITA WATERSHED RECREATION
AND CONSERVATION AUTHORITY

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

For the year ended June 30, 2006

	General Fund	Adjustments (Note 1D)	Statement of Activities
PROGRAM EXPENSES:			
Contractual services	$ 11	$ -	$ 11
Professional services	-	-	-
Capital outlay (Note 5)	44,672		44,672
Depreciation expense	-	4,425	4,425
TOTAL PROGRAM EXPENSES	44,683	4,425	49,108
PROGRAM REVENUES	-	-	-
NET PROGRAM EXPENSES	(44,683)	(4,425)	(49,108)
GENERAL REVENUE:			
Investment income	3,682	-	3,682
CHANGE IN FUND BALANCE/ NET ASSETS	(41,001)	$ (4,425)	(45,426)
FUND BALANCE:			
BEGINNING OF YEAR	450,400		
END OF YEAR	$ 409,399		
NET ASSETS:			
BEGINNING OF YEAR			5,702,921
END OF YEAR			$ 5,657,495

See independent auditors' report and notes to basic financial statements.

SANTA CLARITA WATERSHED RECREATION
AND CONSERVATION AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the year ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Investment income	$ 2,500	$ 2,500	$ 3,682	$ 1,182
EXPENDITURES:				
Contractual services	-	-	11	(11)
Professional services	5,450	5,450	-	5,450
Capital outlay	431,350	431,350	44,672	386,678
TOTAL EXPENDITURES	436,800	436,800	44,683	392,117
NET CHANGE IN FUND DEFICIT	(434,300)	(434,300)	(41,001)	393,299
FUND BALANCE:				
BEGINNING OF YEAR	450,400	450,400	450,400	-
END OF YEAR	$ 16,100	$ 16,100	$ 409,399	$ 393,299

See independent auditors' report and notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Statement Presentation:

Government entities are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. The governmental fund financial statements (i.e., balance sheet and the statement of revenues, expenditures and changes in fund balance) report information on individual funds of the government. A fund is considered to be separate accounting entity with a self-balancing set of accounts.

Since the Santa Clarita Watershed Recreation and Conservation Authority (the Authority) is engaged in a single governmental activity, and it has no component units, the government-wide and governmental fund financial statements have been combined with a reconciliation of the individual line items in a separate column entitled "Adjustments" on the financial statements. The government-wide financial statements are reported in the "Statement of Net Assets" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "General Fund" column.

B. Measurement Focus:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded, regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the governmental fund financial statements, all funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Measurement Focus (Continued):

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Also in the governmental fund types, amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets, the proceeds of long-term debt are recorded as other financing sources, rather than as a fund liability, and amounts paid to reduce long-term indebtedness are reported as fund expenditures.

C. Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

For government-wide financial reporting, the Authority has elected to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Accounting (Continued):

In the governmental fund financial statements, funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. "Measurable" means that the amounts can be estimated, or otherwise determined. "Available" means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. The Authority considers investment income to be available if it is collected within 60 days of the end of the current fiscal period. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Voluntary, non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

D. Reconciliation of Fund Financial Statements to Government-wide Financial Statements:

In order to adjust the fund balance on the governmental (general) fund balance sheet to arrive at net assets on the statement of net assets, certain adjustments are required. For the year ended June 30, 2006, the following adjustments were required:

Capital assets used in the governmental activity are not current financial resources and are not reported in the governmental (general) fund. Capital assets, net of accumulated depreciation, totaled $5,248,096 as of June 30, 2006. This amount has been reported on the statement of net assets.

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In order to arrive at total program expenses on the statement of activities, depreciation expense of $4,425 has been added.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgetary Practices:

The Authority adopts an annual operating budget that is substantially on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control, that is, the level at which expenditures cannot exceed appropriations, is at the fund level.

F. Member Contributions:

Member contributions are amounts assessed to the Authority's members in order to pay for costs of operations and management of Authority-owned, open-space property. No member contributions were made during the year ended June 30, 2006.

G. Investments:

Investments, if any, are recorded at fair value (quoted market price or best available estimate thereof). For the year ended June 30, 2006, the Authority did not purchase, sell, or hold any investments.

H. Capital Assets:

Capital assets, which consist of land and improvements and structures and improvements, are reported in the statement of net assets. The Authority capitalizes assets costing $5,000 or more with a useful life in excess of two years. All capital assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend its life, are not capitalized. Structures and improvements are depreciated using the straight-line method over estimated useful lives of either 10 or 35 years. Land and improvements are not depreciated.

I. Use of Estimates:

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, and affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

See independent auditors' report.

2. REPORTING ENTITY:

The Santa Clarita Watershed Recreation and Conservation Authority was formed pursuant to the provisions of Section 6500 of the California Government Code in 1993 under a joint exercise of powers agreement between the City of Santa Clarita, California (the City) and the Santa Monica Mountains Conservancy (the Conservancy). 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 Agreement shall remain in effect until terminated by either party. The distribution of any property shall be made to the parties from which the funds or personal property were obtained, except as mutually agreed by the parties. All real property owned by the Authority shall be conveyed to the City, unless the Authority has deemed otherwise.

The Authority has a four-member Board of Directors consisting of two members appointed by the Conservancy and two members from the City. The Authority prepares an annual budget, which is submitted for approval to the City and the Conservancy.

3. CASH AND INVESTMENTS:

Investment Authorized by the California Government Code:

The table below identifies the investment types that are authorized for the Authority by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States (U.S.) Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entity Securities	5 years	None	40%
Banker's Acceptances	180 days	40%	10%
Time Certificates of Deposit	5 years	25%	None
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	2%	None
Medium-Term Corporate Notes	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	$ 40,000,000

N/A - Not Applicable

The Authority did not purchase, sell, or hold any investments during the year ended June 30, 2006.

See independent auditors' report.

3. CASH AND INVESTMENTS (CONTINUED):

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 does 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 the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, the Authority had deposits totaling $309,749 that were secured by the collateral pool described above.

4. CAPITAL ASSETS:

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

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital				
Capital assets, not being depreciated:				
Land and improvements	$ 5,123,059	$ -	$ -	$ 5,123,059
Capital assets being depreciated:				
Structures and improvement	138,312	-	-	138,312
Less: Accumulated depreciation	(8,850)	(4,425)	-	(13,275)
Total capital assets being depreciated, net	129,462	(4,425)	-	125,037
Total capital assets, net	$ 5,252,521	$ (4,425)	$ -	$ 5,248,096

See independent auditors' report.

5. CAPITAL OUTLAY:

On April 11, 2006, the Authority contributed $44,672 to the Mountains Recreation & Conservation Authority (MRCA) to assist in the acquisition of a certain tax-defaulted property from the County of Los Angeles located within the Santa Clara River watershed. This property will be added to MRCA's public open-space holdings.