

# Santa Clarita Watershed Recreation and Conservation Authority

Santa Clarita, California

*Basic Financial Statements and  
Independent Auditors' Report*

*For the year ended June 30, 2011*



**Santa Clarita Watershed Recreation and Conservation Authority**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Santa Clarita Watershed Recreation and Conservation Authority (Authority), as of and for the year ended June 30, 2011, 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Authority as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors

Santa Clarita Watershed Recreation and Conservation Authority  
Santa Clarita, California  
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The Authority has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
February 3, 2012

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# **BASIC FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**Santa Clarita Watershed Recreation and Conservation Authority**  
**Statement of Net Assets**  
**June 30, 2011**

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 273,030
Capital assets:	
Nondepreciable	5,266,990
Depreciable, net	<u>102,912</u>
Capital assets, net	<u>5,369,902</u>
<b>Total assets</b>	<u>5,642,932</u>
<b>NET ASSETS</b>	
Invested in capital assets	5,369,902
Unrestricted	<u>273,030</u>
<b>Total net assets</b>	<u>\$ 5,642,932</u>

See accompanying Notes to Basic Financial Statements.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2011**

<b>Functions/Programs</b>	Expenses	Net (Expense) Revenue and Changes in Net Assets
<b>Governmental activities:</b>		
Recreation and conservation	\$ 13,584	\$ (13,584)
<b>Total governmental activities</b>		<u>(13,584)</u>
<b>General revenues:</b>		
Investment income		<u>141</u>
<b>Total general revenues</b>		<u>141</u>
<b>Changes in net assets</b>		(13,443)
<b>Net assets:</b>		
Beginning of year		<u>5,656,375</u>
End of year		<u><u>\$ 5,642,932</u></u>

See accompanying Notes to Basic Financial Statements.

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# FUND FINANCIAL STATEMENTS

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**Santa Clarita Watershed Recreation and Conservation Authority**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 273,030
<b>Total assets</b>	<u>\$ 273,030</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Fund Balance:</b>	
Unassigned	\$ 273,030
<b>Total fund balance</b>	<u>273,030</u>
<b>Total liabilities and fund balance</b>	<u>\$ 273,030</u>

See accompanying Notes to Basic Financial Statements.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2011**

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<b>Total Fund Balance - Total Governmental Funds</b>		<b>\$ 273,030</b>
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Amounts reported for governmental activities in the Government-Wide Statement of Net Assets are different because:

In governmental funds, only current assets are reported. In the Statement of Net Assets, capital assets net of accumulated depreciation are reported.

Nondepreciable capital assets	\$ 5,266,990		
Depreciable capital assets, net	<u>102,912</u>	<u>5,369,902</u>	

<b>Net assets of governmental activities</b>		<b>\$ 5,642,932</b>
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**Santa Clarita Watershed Recreation and Conservation Authority**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>General Fund</u>
<b>REVENUES:</b>	
Interest	<u>\$ 141</u>
<b>Total revenues</b>	<u>141</u>
<b>EXPENDITURES:</b>	
Current:	
Contractual services	<u>9,159</u>
<b>Total expenditures</b>	<u>9,159</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(9,018)
<b>FUND BALANCE:</b>	
Beginning of year	<u>282,048</u>
End of year	<u><u>\$ 273,030</u></u>

See accompanying Notes to Basic Financial Statements.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2011**

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Net change in fund balance - total governmental funds: \$ (9,018)

Amounts reported for governmental activities in the Statement of Activities are different because:

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in the governmental funds. (4,425)

Change in net assets of governmental activities \$ (13,443)

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**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Santa Clarita Watershed Recreation and Conservation Authority (Authority) is a joint powers authority formed under the provision of Section 6500 of the California Government Code in 1993 by the City of Santa Clarita (City) and the Santa Monica Mountains Conservancy (Conservancy). The primary purpose of the Authority is to cooperatively plan for preservation of open space, trails, parkland, and watershed protection in the Santa Clarita area and the upper Santa Clara River Watershed.

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.

**B. Basis of Accounting**

The Authority's Basic Financial Statements are prepared in conformity with generally accepted accounting principles in the United States. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

**Government-Wide Financial Statements**

The Authority's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets.

The Government-Wide Financial Statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

**Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*B. Basis of Accounting, Continued*

**Governmental Fund Financial Statements, Continued**

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority are earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Major Funds**

The Authority reported the following major governmental fund in the accompanying financial statements:

*The General Fund* - The General Fund is the main operating fund and the only fund of the Authority.

*C. Cash, Cash Equivalents, and Investments*

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Certain disclosure requirements, if applicable, are made for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

*D. Capital Assets*

Capital assets owned by the Authority are capitalized at historical cost. Capital assets are defined by the Authority as all land, improvements, buildings, and equipment, with an initial individual cost of \$5,000 or more. The estimated useful lives of structures and improvements range from ten to thirty-five years.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*D. Capital Assets, Continued*

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

	Useful Lives Years	Capitalization Threshold
Structures and Improvements	10-35	\$ 5,000

Major outlays for capital assets and improvements are capitalized as projects are constructed.

*E. Member Contributions*

Member contributions are received from the Authority's members in order to pay for cost of operations and management of Authority-owned, open-space property.

*G. Net Assets*

**Government-Wide Financial Statements** - In the government-wide financial statements, net assets are classified in the following:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**G. Net Assets, Continued**

**Fund Financial Statements** - In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them.

**H. Spending Policy**

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

Governmental Fund Financial Statements

When expenditures is incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the Authority's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*I. Use of estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**2. CASH AND INVESTMENTS**

Cash and investments consisted of the following at June 30, 2011:

Total cash and investments	<u>\$ 273,030</u>
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*A. Cash Deposits*

The carrying amount and bank of the Authority's cash deposits were \$273,030 and bank balances were \$273,030 at June 30, 2011, the total amount of which was insured or collateralized with securities held by the pledging financial institutions in the Authority's name.

The California Government Code requires California banks and savings and loan associations to secure the Authority's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority's name.

The market value of pledged securities must equal at least 110% of the Authority's cash deposits. California law also allows institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits. The Authority may waive collateral requirements for cash deposits, which are unlimited through December 31, 2012, by the Federal Deposit Insurance Corporation. The Authority, however, has not waived the collateralization requirements.

Investments Authorized by the California Government Code

Under the provisions of the California Government Code 53601, the Authority is authorized to invest or deposit in the following:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	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%
Time Certificate 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	\$50M

The Authority did not purchase, sell, or hold any investments during the year ended June 30, 2011.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH AND INVESTMENTS, Continued**

*A. Cash Deposits, Continued*

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit 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 California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 fair 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.

**3. CAPITAL ASSETS**

At June 30, 2011, the Authority's capital assets consisted of the following:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 5,266,990	\$ -	\$ -	\$ 5,266,990
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>5,266,990</u>	<u>-</u>	<u>-</u>	<u>5,266,990</u>
Capital assets, being depreciated:				
Buildings and improvements	138,312	-	-	138,312
Total capital assets, being depreciated	<u>138,312</u>	<u>-</u>	<u>-</u>	<u>138,312</u>
Less accumulated depreciation for:				
Buildings and improvements	(30,975)	(4,425)	-	(35,400)
Total accumulated depreciation	<u>(30,975)</u>	<u>(4,425)</u>	<u>-</u>	<u>(35,400)</u>
Total capital assets, being depreciated, net	<u>107,337</u>	<u>(4,425)</u>	<u>-</u>	<u>102,912</u>
<b>Total capital assets, net</b>	<u>\$ 5,374,327</u>	<u>\$ (4,425)</u>	<u>\$ -</u>	<u>\$ 5,369,902</u>

Depreciation expense for the depreciable capital assets was \$4,425 for the year ended June 30, 2011.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**4. EXPENDITURES IN EXCESS OF APPROPRIATIONS**

For the year ended June 30, 2011, expenditures exceeded appropriations in the following fund:

<u>Funds</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures over Appropriations</u>
<b>Santa Clarita Watershed Recreation and Conservation Authority</b>			
General Fund	\$ -	\$ 13,584	\$ 13,584

**5. CONTINGENT LIABILITIES**

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's management, there is no pending litigation that is likely to have a material adverse effect on the financial position of the Authority.

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors

Santa Clarita Watershed Recreation and Conservation Authority  
Santa Clarita, California

We have audited the basic financial statements of the Santa Clarita Watershed Recreation and Conservation Authority (Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 3, 2012. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors

Santa Clarita Watershed Recreation and Conservation Authority  
Santa Clarita, California  
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This report is intended for the information of the Board, management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
February 3, 2012