Agenda Item VI
SCWRCA
6/25/15

Santa Clarita Watershed Recreation and Conservation Authority

Financial Report
Year Ended June 30, 2013

Contents

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Santa Clarita Watershed Recreation and Conservation Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2013, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McGladrey LLP

Irvine, CA
January 29, 2014

Basic Financial Statements

Government-Wide Financial Statements

Santa Clarita Watershed Recreation and Conservation Authority

Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Cash	$ 270,259
Due From Other Governments	715,000
Capital Assets	
Nondepreciable assets	9,738,207
Depreciable assets, net	94,062
Capital assets, net	9,832,269
Total assets	10,817,528
Liabilities	
Due to Other Funds of the City of Santa Clarita	715,000
Total liabilities	715,000
Net Position	
Net Investment in Capital Assets	9,832,269
Unrestricted	270,259
Total net position	$ 10,102,528

See Notes to Financial Statements.

Santa Clarita Watershed Recreation and Conservation Authority

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue: Capital Contributions and Grant	Net (Expense) Revenue and Changes in Net Position
Governmental activities:			
Recreation and conservation	$ 109,154	$ 4,574,400	$ 4,465,246
Total governmental activities	$ 109,154	$ 4,574,400	4,465,246
General revenues:			
Investment income			137
Total general revenues			137
Change in net position			4,465,383
Change in net position:			
Net position, beginning			5,637,145
Net position, end of year			$ 10,102,528

See Notes to Financial Statements.

Fund Financial Statements

Santa Clarita Watershed Recreation and Conservation Authority

Balance Sheet—Governmental Fund
June 30, 2013

Assets	General Fund
Cash	$ 270,259
Due From Other Governments	715,000
Total assets	$ 985,259

Liabilities and Fund Balance	
Liabilities	
Due to other funds of the City of Santa Clarita	$ 715,000
Total liabilities	715,000
Fund Balance	
Unassigned	270,259
Total fund balance	270,259
Total liabilities and fund balance	$ 985,259

See Notes to Financial Statements.

Santa Clarita Watershed Recreation and Conservation Authority

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2013

Fund balance of governmental funds	$	270,259
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those capital assets consist of:		
Nondepreciable assets		9,738,207
Depreciable assets, net of accumulated depreciation		94,062
Net position of governmental activities	$	10,102,528

See Notes to Financial Statements.

Santa Clarita Watershed Recreation and Conservation Authority

Statement of Revenues, Expenditures and Changes in Fund Balance—
Governmental Fund
For the Year Ended June 30, 2013

		General Fund
Revenues:		
Investment income	$	137
		137
Expenditures:		
Current:		
Recreation and conservation		1,546
Net change in fund balance		(1,409)
Fund balance, beginning of year		271,668
Fund balance, end of year	$	270,259

See Notes to Financial Statements.

Santa Clarita Watershed Recreation and Conservation Authority

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balance—total governmental fund	$	(1,409)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.		(4,425)
Revenues were recognized for the contribution of land in Soledad Canyon. The contribution of capital assets do not provide financial resources and are not reported as revenues in the governmental funds.		4,574,400
Expenses related to the removal of capital assets do not require the use of current financial resources and therefore are not reported as expenditures in government funds.		(103,183)
	$	4,465,383

See Notes to Financial Statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: The Santa Clarita Watershed Recreation and Conservation Authority (the 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 (the City) and the Santa Monica Mountains Conservancy (the 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.

A summary of the Authority's significant accounting policies is as follows:

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 (i.e., the Statement of Net Position and the Statement of Activities) report information on all the activities of the Authority.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

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 position. The statement of activities presents changes in net position. 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: The Authority's governmental fund statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance.

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 sheet. The statement of revenues, expenditures and changes in fund balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The primary revenue sources are member contributions and investment earnings. 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. Revenues are considered to be available to pay liabilities of the current period. Revenues are considered available if they are collected within 90 days of the end of the current fiscal period.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Major fund: The Authority reported the General Fund as the major governmental fund in the accompanying financial statements. The General Fund is the main operating fund and the only fund of the Authority.

Cash: The Authority's cash consists of cash on hand and demand deposits.

Capital assets: Capital assets, which include land and buildings and improvements, are reported in the government-wide financial statements. Capital assets are defined as assets having an initial cost of more than $5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The normal costs of maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

The Authority has assigned the useful lives listed below to capital assets:

	Useful Lives (Years)
Buildings and improvements	10-35

The governmental fund financial statements do not present capital assets. Instead, capital asset purchases are reported as capital outlay expense. As such, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.

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. As of June 30, 2013, there were no member contributions made.

Net position and fund balances:

Government-wide financial statements: In the government-wide financial statements, net position represents the difference between assets and deferred outflows, liabilities and deferred inflows, and is classified into three categories:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and excludes unspent debt proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.

Restricted: Represents the net position that is constrained for use by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Unrestricted: Represents the residual of amounts not classified in the other two categories and represents the net equity available for the Authority.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Fund financial statements: In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable: Include amounts that cannot be spent because they are either (a) not in a spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: Include amounts that are constrained for use by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed: Include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Authority's highest authority, the Board of Directors. The formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution.

Assigned: Include amounts that are constrained by the Authority's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Directors has not delegated the authority to assign fund balance; therefore, these amounts are determined by the Board of Directors.

Unassigned: Include the residual amounts that have not been restricted, committed or assigned to specific purposes. All of the fund balance is classified as unassigned as of June 30, 2013.

Spending policy:

Government-wide financial statements: When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is to apply restricted net position 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:

- Restricted
- Committed
- Assigned
- Unassigned

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.

Pronouncements issued but not yet adopted: The GASB has issued pronouncements that have an effective date subsequent to June 30, 2013, which may impact future financial presentations. Except as noted below, management has not currently determined what, if any, impact implementation of the following statements may have on future financial statements of the Authority:

- GASB Statement No. 66, *Technical Corrections—2012*: Effective for the Authority's year ending June 30, 2014.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*: Effective for the Authority's fiscal year ending June 30, 2015. Management believes that there will be a significant impact on liabilities and net position when this statement is implemented; however, the amount of the impact has not yet been determined.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*: Effective for the Authority's fiscal year ending June 30, 2015.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*: Effective for the Authority's fiscal year ending June 30, 2014.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB Statement No. 68:* Effective simultaneously with GASB Statement No. 68.

Adoption of accounting standards: The Authority implemented the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013. The implementation of GASB 63 resulted in new financial reporting presentation of deferred outflows of resources, deferred inflows of resources, and net position. The implementation of GASB 65 applies to accounting and financial reporting for governmental activities, business-type activities, proprietary funds and fiduciary funds. The implementation of GASB 65 resulted in net position being restated as of June 30, 2012.

The Authority also implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The purpose of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the various pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Note 2. Cash and Investments

Cash consisted of the following at June 30, 2013:

Total cash	$ 270,259

Cash deposits: The carrying amount and bank balances of the Authority's cash deposits were $270,259 at June 30, 2013, 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.

Note 2. Cash and Investments (Continued)

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
U.S. Treasury Obligations	5 years	None	None
Federal Agencies	5 years	None	None
Time Certificate of Deposit	5 years	30%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	2%	None
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, 2013.

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 percent 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 percent of the secured public deposits.

Note 3. Capital Assets

At June 30, 2013, the Authority's capital assets consisted of the following:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 5,266,990	$ 4,574,400	$ (103,183)	$ 9,738,207
Total capital assets, not being depreciated	5,266,990	4,574,400	(103,183)	9,738,207
Capital assets, being depreciated:				
Buildings and improvements	138,312	-	-	138,312
Total capital assets, being depreciated	138,312	-	-	138,312
Less accumulated depreciation:				
Buildings and improvements	(39,825)	(4,425)	-	(44,250)
Total accumulated depreciation	(39,825)	(4,425)	-	(44,250)
Total depreciable assets, net	98,487	(4,425)	-	94,062
Total capital assets, net	$ 5,365,477	$ 4,569,975	$ (103,183)	$ 9,832,269

Depreciation expense of $4,425 was charged to recreation and conservation for the year ended June 30, 2013.

Note 4. Expenditures in Excess of Appropriations

For the year ended June 30, 2013, expenditures exceeded appropriations in the following fund:

Funds	Appropriations	Expenditures	Expenditures Over Appropriations
General Fund:			
Recreation and conservation	$ 1,500	$ 1,546	$ 46

Note 5. Contingencies

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.

Required Supplementary Information (Unaudited)

Santa Clarita Watershed Recreation and Conservation Authority

Budgetary Comparison Schedule
For the Year Ended June 30, 2013

	Original	Final	Actual	Variance with Final Budget Positive/ (Negative)
Revenues:				
Investment income	$ -	$ -	$ 137	$ 137
Total revenues	-	-	137	137
Expenditures:				
Current:				
Recreation and conservation	1,500	1,500	1,546	(46)
Total expenditures	1,500	1,500	1,546	(46)
Net change in fund balance	$ (1,500)	$ (1,500)	(1,409)	$ 91
Fund balance, beginning of year			271,668	
Fund balance, end of year			$ 270,259	

See Note to Required Supplementary Information.

Santa Clarita Watershed Recreation and Conservation Authority

Note to Required Supplementary Information

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States for all governmental funds, except that encumbrances are shown in the year incurred for budgetary purposes. All annual appropriations lapse at fiscal year-end.

At the Board meeting in June of each year, the draft budget is presented by the Executive Officer to the Governing Board for approval. The appropriated budget is prepared by function. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.