

# **Santa Clarita Watershed Recreation and Conservation Authority**

Report to the Board of Directors  
January 29, 2014



January 29, 2014

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

We are pleased to present this report related to our audit of the basic financial statements of Santa Clarita Watershed Recreation and Conservation Authority (SCWRCA or the Authority) as of and for the year ended June 30, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Authority.

*McGladrey LLP*

## **Contents**

Required Communications	1-2
Summary of Significant Accounting Estimates	3
Summary of Recorded Audit Adjustments	4
Exhibit A—Letter Communicating Material Weaknesses in Internal Control Over Financial Reporting	
Exhibit B—Significant Written Communications Between Management and Our Firm Representation Letter	

## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process:

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated August 30, 2013.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b></p> <p>Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b></p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. The Authority did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.</p> <ul style="list-style-type: none"><li>For the period ended June 30, 2013, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 63, <i>Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i>, and GASB Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i>.</li></ul> <p>The implementation of these GASB Statements impacted certain terminology used; however, there was no impact on the change in net position or ending net position as of June 30, 2013.</p> <p><b>Significant or Unusual Transactions</b></p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>

Area	Comments
<b>Accounting Policies and Practices (Continued)</b>	<b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
<b>Audit Adjustments</b>	Audit adjustments proposed by us and recorded by the Authority are shown in the attached Summary of Recorded Audit Adjustments.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements, other than misstatements that are clearly trivial.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Letter Communicating Material Weaknesses in Internal Control Over Financial Reporting</b>	We have separately communicated the material weaknesses in internal control over financial reporting identified during our audit of the basic financial statements, and this communication is attached as Exhibit A.
<b>Significant Written Communications Between Management and Our Firm</b>	A copy of significant written communications between our Firm and the management of the Authority, which is the representation letter provided to us by management, is attached as Exhibit B.

**Santa Clarita Watershed Recreation and Conservation Authority**  
**Summary of Significant Accounting Estimates**  
**Year Ended June 30, 2013**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Authority's June 30, 2013 basic financial statements:

<b>Estimate</b>	<b>Accounting Policy</b>	<b>Management's Estimation Process</b>	<b>Basis for Our Conclusions on Reasonableness of Estimate</b>
<b>Useful Lives of Long-Lived Assets</b>	<p>The estimated useful lives determined for assets have the following range:</p> <p>Buildings and improvements, 10 to 35 years.</p> <p>Land is a long-lived asset but is not depreciated.</p> <p>Construction in progress is not depreciated until placed into service.</p>	<p>Management determines useful lives based on past experience, engineer estimates and industry norms. Management monitors and updates useful lives on a regular basis. The impacts of prominent events or circumstances may require management to assess whether an impairment of a capital asset has occurred.</p>	<p>We have tested the reasonableness of information underlying management's estimation on the useful lives of long-lived assets. Based on our procedures, we concluded that assigned useful lives of capital assets are reasonable.</p>

**Santa Clarita Watershed Recreation and Conservation Authority  
Summary of Recorded Audit Adjustments  
Year Ended June 30, 2013**

**CJE #10**

Land	\$4,574,400	
Investment in fixed assets		\$4,574,400

To record the purchase of 1,030 acres in Soledad Canyon. The purchase was made with various funding sources (OSPD, MRC grant and State of CA—Wildfire Conservation Board grant). Title was assigned to SCWRCA.

**CJE #24**

Due from state	\$715,000	
Due to City Nomin		\$715,000

Record receivable and payable in SCWRCA fund for amounts loaned from the City of Santa Clarita to purchase assets.

**Exhibit A—Letter Communicating Material Weaknesses in Internal Control Over  
Financial Reporting**





## Communication of Material Weaknesses in Internal Control

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

In planning and performing our audit of the financial statements of the Santa Clarita Watershed Recreation and Conservation Authority (the Authority) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a 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. We consider the following deficiency in the Authority's internal control to be a material weakness:

### Audit Adjustments

During the fiscal year ended June 30, 2013, the Authority received over 1,030 acres of land that was contributed from various sources. The land was not recorded as a capital asset addition, and required an audit adjustment for \$4,574,400 to recognize the land and related capital contribution in the government-wide financial statements. Furthermore, as a result of the various funding sources that contributed the assets, an additional adjustment of \$715,000 was required to record the receivable from a granting agency and a corresponding payable to the City of Santa Clarita.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "McGladrey LLP".

Irvine, CA  
January 29, 2014

**Exhibit B—Significant Written Communications Between Management and Our Firm**



City of  
**SANTA CLARITA**

23920 Valencia Boulevard • Suite 300 • Santa Clarita, California 91355-2196

Phone: (661) 259-2489 • FAX: (661) 259-8125

[www.santa-clarita.com](http://www.santa-clarita.com)

January 29, 2014

McGladrey LLP  
18401 Von Karman Avenue, Floor 5  
Irvine, CA 92612

This representation letter is provided in connection with your audit of the 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, 2013 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of January 29, 2014, the following representations made to you during your audit:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated August 30, 2013, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related-party transactions, including those with the City of Santa Clarita, other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting Authority's financial statements to be misleading or incomplete, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Net positions and fund balance classifications.
  - b. The fair value of investments.
  - c. All significant estimates and material concentrations known to management which are required to be disclosed.





9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
  - a. The Authority has no significant amounts of idle property and equipment or property or equipment.
  - b. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
  - a. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
11. There are no:
  - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
  - c. Guarantees, whether written or oral, under which the Government is contingently liable.
  - d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - e. Line of credit or similar arrangements.
  - f. Agreements to repurchase assets previously sold.
  - g. Security agreements in effect under the Uniform Commercial Code.
  - h. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
  - i. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
  - j. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
  - k. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
  - l. Debt issue provisions.
  - m. Authorized but unissued bonds and/or notes.
  - n. Risk financing activities.
  - o. Derivative financial instruments.
  - p. Special and extraordinary items.
  - q. Deposits and investment securities categories of risk.
  - r. Arbitrage rebate liabilities.
  - s. Impairment of capital assets.

12. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10.
13. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
14. The Authority has satisfactory title to all owned assets.
15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
16. Net positions invested in capital assets, and unrestricted and fund balances are properly classified and, when applicable, approved.
17. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
18. Revenues are appropriately classified in the statements of activities within program revenues and general revenues.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
20. We have no knowledge of any uncorrected misstatements in the financial statements.

*Information Provided*

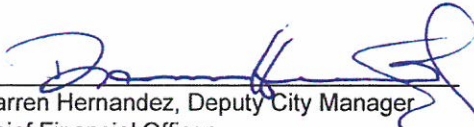
21. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing board, or summaries of actions of recent meetings for which minutes have not yet been prepared.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
24. We have no knowledge of allegations of fraud or suspected fraud, affecting the Authority's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements received in communications from employees, former employees, regulators, or others.
26. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.

27. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
28. We have disclosed to you the all of the Authority's related parties and all the related-party relationships and transactions of which we are aware.
29. We have informed you of all material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's ability to record, process, summarize, and report financial data. We are not aware of any significant deficiencies.
30. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

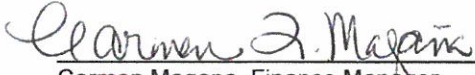
*Supplementary Information*

31. With respect to Budgetary Comparison Schedules presented as required by Governmental Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed Governmental Accounting Standards Board.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
32. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.
33. The City has designated Carmen Magaña, Finance Manager, a senior member of management, who has sufficient skills, knowledge, and experience; has supervised, reviewed, and approved, and we take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

City of Santa Clarita, California

  
Darren Hernandez, Deputy City Manager  
Chief Financial Officer

3-24-14  
Date

  
Carmen Magana, Finance Manager

3-24-14  
Date