MOUNTAINS RECREATION AND CONSERVATION AUTHORITY

FINANCIAL STATEMENTS
June 30, 2007

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mountains Recreation and Conservation Authority
Los Angeles, California

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Mountains Recreation and Conservation Authority (the Authority), as of and for the fiscal year ended June 30, 2007, 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 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 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 financial statements referred to above present fairly in all material respects the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Mountains Recreation and Conservation Authority as of June 30, 2007, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented management's discussion and analysis that the Governmental Accounting Standards Board have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 21, 2008, on our consideration of the Mountains Recreation and Conservation Authority's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, grant agreements, and other matters. 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 read in conjunction with this report in considering the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 21, 2008

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June 30, 2007

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2007

		Governmental Activities
ASSETS		
Cash and investments	$	2,855,787
Restricted cash and investments		1,010,164
Receivables:		
Interest		33,974
Accounts		7,239,337
Prepaid items		39,015
Capital assets:		
Nondepreciable		271,364,865
Depreciable, net		5,696,874
Total assets		288,240,016
LIABILITIES		
Accounts payable		3,715,026
Accrued expenses		246,160
Line of credit payable		1,400,000
Deferred revenue		730,531
Noncurrent liabilities:		
Due less than one year		107,169
Due in more than one year		806,509
Total liabilities		7,005,395
NET ASSETS		
Invested in capital assets, net of related debt		276,571,271
Unrestricted		4,663,350
Total net assets	$	281,234,621

The notes to basic financial statements are an integral part of this statement.

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

		Program Revenues	
	Expenses	Charges for Services	Operating Contributions and Grants
Governmental activities:			
Parks and recreation	$ 13,491,291	$ 3,978,401	$ 6,638,252
Total governmental activities	$ 13,491,291	$ 3,978,401	$ 6,638,252

General Revenues
Investment income
Assessment districts
Other

Total general revenues

Change in net assets

Net assets at beginning of fiscal year

Prior period adjustment

Net assets at beginning of fiscal year, restated

Net assets at end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Assets
$ 16,759,620	$ 13,884,982
$ 16,759,620	13,884,982
	89,840
	234,300
	432,641
	756,781
	14,641,763
	266,553,973
	38,885
	266,592,858
	$ 281,234,621

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2007

		General Fund
ASSETS		
Cash and investments	$	2,855,787
Restricted cash and investments		1,010,164
Prepaid items		39,015
Interest receivable		33,974
Accounts receivable		7,239,337
Total assets	$	11,178,277
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$	3,715,026
Accrued expenses		246,160
Line of credit payable		1,400,000
Deferred revenue		730,531
Total liabilities		6,091,717
Fund Balance:		
Reserved:		
Reserved for prepaid items		39,015
Reserved for mitigation projects		2,192,793
Unreserved:		
Undesignated		2,854,752
Total fund balance		5,086,560
Total liabilities and fund balance	$	11,178,277

The notes to basic financial statements are an integral part of this statement.

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL
FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balance, governmental fund			$	5,086,560
Amounts reported for governmental activities in the statement of net assets are different because:				
In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.				
Capital assets at historical cost	$	279,251,204		
Accumulated depreciation		(2,189,465)		
Net				277,061,739
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
Capital leases payable		(490,468)		
Compensated absences payable		(423,210)		
Total				(913,678)
Total net assets, governmental activities			$	281,234,621

The notes to basic financial statements are an integral part of this statement.

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2007

	General Fund
Revenues:	
Grants	$ 23,397,872
Interest	89,840
Fees, permits, and leases	3,978,401
Other	27,557
Assessment districts	234,300
Donations	203,394
Total revenues	27,931,364
Expenditures:	
Current:	
Salaries and employee benefits	5,943,954
Services and supplies	6,716,255
Capital outlay	14,567,161
Debt service	126,556
Total expenditures	27,353,926
Excess of revenues over (under) expenditures	577,438
Other Financing Sources:	
Proceeds from capital leases	557,527
Proceeds from sale of capital assets	306,690
Total other financing sources	864,217
Net change in fund balance	1,441,655
Fund balance - beginning of fiscal year	3,644,905
Fund balance - end of fiscal year	$ 5,086,560

The notes to basic financial statements are an integral part of this statement.

MOUNTAINS 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 Fiscal Year Ended June 30, 2007

Net change in fund balance - governmental fund	$ 1,441,655
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets are reported in governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of $ 14,102,535 exceeds depreciation expense $284,789 in the period.	13,817,746
Disposal of capital assets decrease net assets for the cost of the capital assets net of accumulated depreciation	(110,000)
Repayment of long-term debt is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	104,507
Addition of capital lease is recorded as a revenue in the governmental fund, but the addition increases long-term liabilities in the statement of net assets.	(557,527)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount financial resources used (essentially the amounts paid). This fiscal year, vacation earned was greater than amounts used by $55,683.	(55,683)
In the governmental fund, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Matured interest paid during the period but owing from the prior period was:	1,065
Change in net assets - governmental activities	$ 14,641,763

The notes to basic financial statements are an integral part of this statement.

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY

GENERAL FUND

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

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Grants	$ 28,914,787	$ 28,914,787	$ 23,397,872	$ (5,516,915)
Interest			89,840	89,840
Fees, permits, and leases	3,018,555	3,018,555	3,978,401	959,846
Other	484,310	484,310	27,557	(456,753)
Assessment districts			234,300	234,300
Donations	180,915	180,915	203,394	22,479
Total revenues	32,598,567	32,598,567	27,931,364	(4,667,203)
Expenditures:				
Current:				
Salaries and employee benefits	6,492,204	6,492,204	5,943,954	548,250
Services and supplies	6,808,446	6,808,446	6,716,255	92,191
Grants	55,000	55,000		55,000
Capital outlay	20,128,246	20,128,246	14,567,161	5,561,085
Debt service			126,556	(126,556)
Total expenditures	33,483,896	33,483,896	27,353,926	6,129,970
Excess of revenues over (under) expenditures	(885,329)	(885,329)	577,438	1,462,767
Other Financing Sources:				
Proceeds from capital leases			557,527	557,527
Proceeds from sale of capital assets	306,680	306,680	306,690	10
Total other financing sources	306,680	306,680	864,217	557,537
Net change in fund balance	(578,649)	(578,649)	1,441,655	2,020,304
Fund balance - beginning of fiscal year	3,644,905	3,644,905	3,644,905	
Fund balance - end of fiscal year	$ 3,066,256	$ 3,066,256	$ 5,086,560	$ 2,020,304

MOUNTAINS RECREATION AND CONSERVATION AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

		Agency Funds
Assets		
Cash and investments	$	537,548
Cash and investments with fiscal agent		15,185,985
Interest receivable		5,398
Total assets		15,728,931
Liabilities		
Accounts payable		99,262
Due to bondholders		15,629,669
Total liabilities		15,728,931
Net Assets		
Unrestricted		
Total net assets	$	-

The notes to basic financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Mountains Recreation and Conservation Authority (the Authority), was established on June 27, 1985, under a joint powers agreement entered into by the Conejo Recreation and Park District (the District) and the Santa Monica Mountains Conservancy for and with the purpose of acquiring, developing, and conserving additional park and green space land with special emphasis on water-oriented recreation and conservation projects within both the Santa Monica Mountains Zone and the District's boundaries. On August 3, 1987, the Rancho Simi Recreation and Park District became a party to the joint powers agreement and a member of the Authority.

B. Reporting Entity

The reporting entity is the Mountains Recreation and Conservation Authority. There are no component units included in this report which meet the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39.

C. Basis of Presentation

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Authority does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Authority, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Authority.

Fund Financial Statements:

Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, "available" means collectible within the current period or within 60 days after fiscal year-end.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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.

E. Fund Accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The Authority's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority's accounts are organized into major and fiduciary funds, as follows on next page:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

Major Governmental Fund:

The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the Authority acts as an agent. The Authority maintains two agency funds.

F. Budgets and Budgetary Accounting

The Authority adopts a preliminary annual budget before July 1 and a final budget before August 31. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various Authority departments.

The Board of Directors may amend the budget by motion during each fiscal year. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. The original and revised budgets are presented for the General Fund in the financial statements.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Operating lease contracts entered into by the Authority are subject to annual review by the Board of Directors; hence, they legally are one year contracts with an option for renewal for another fiscal year.

G. Investments

Investments are stated at fair value.

H. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the Authority.

I. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $3,000 and estimated useful life in excess of two years.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the governmental column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. The estimated useful lives are as follows:

Equipment	3 to 10 years
Improvements	5 to 20 years
Structures	20 years

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

L. Compensated Absences

The Authority accrues accumulated vacation leave and then expenses the cost as paid in the General Fund. It is the policy of the Authority to pay all accumulated vacation leave when an employee retires or is otherwise terminated.

Sick leave costs are expensed as paid in the General Fund. Employees have no vested rights in their accumulated unpaid sick leave upon retirement or termination.

Vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

M. Fund Equity

- Reserved Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes.

- Designated Fund Balance indicates that portion of fund equity for which the Board of Directors has made tentative plans for financial resource utilization in a future period.

- Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The Authority pools idle cash from all funds for the purpose of increasing income through investment. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balances of each fund. On June 30, 2007, the Authority had the following cash and investments on hand:

Cash in bank	$ 1,513,477
Restricted cash in bank	730,531
Investments	17,345,476
Total cash and investments	$ 19,589,484

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash and investments, statement of net assets	$ 2,855,787
Restricted cash and investments, statement of net assets	1,010,164
Cash and investments, statement of fiduciary net assets	537,548
Cash and investments with fiscal agent, statement of fiduciary net assets	15,185,985
Total cash and investments	$ 19,589,484

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

The table below identifies the investment types that are authorized for the Authority's investment policy. 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
U.S. Treasury Obligation	5 years	10%	None
U.S. Agency Securities	5 years	10%	None
Bankers' Acceptance	180 years	10%	30%
Commercial Paper	270 years	10%	10%
Negotiable Certificates of Deposit	5 years	10%	None
Repurchase Agreements	1 year	10%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Guaranteed Investment Contracts	N/A	None	None
Money Market Mutual Funds	N/A	None	None

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

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

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

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Los Angeles County Investment Pool	$ 279,633	$ 279,633	$ -	$ -	$ -
LAIF	1,879,857	1,879,857			
Held by Bond Trustees:					
Money Market Funds	1,396,250	1,396,250			
Guaranteed Investment Contracts	13,789,736		12,226,556		1,563,180
Total	$ 17,345,476	$ 3,555,740	$ 12,226,556	$ -	$ 1,563,180

Disclosures Relating to Credit Risk

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

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	Not Rated
Los Angeles County Investment Pool	$ 279,633	N/A	$ -	$ -	$ -	$ 279,633
LAIF	1,879,857	N/A				1,879,857
Held by Bond Trustees:						
Money Market Funds	1,396,250	N/A				1,396,250
Guaranteed Investment Contracts	13,789,736	N/A		13,789,736		
Total	$ 17,345,476		$ -	$ 13,789,736	$ -	$ 3,555,740

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of total Authority investments is as follows:

Issuer	Investment Type	Reported Amount
FSA	Guaranteed Investment Contracts	$ 13,789,736

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 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.

As of June 30, 2007, none of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2007, the Authority's investments in the following types were held by the same broker-dealer (counterparty) that was used by the Authority to buy securities:

Investment Type	Amount
Money Market Funds	$ 1,396,250
Guaranteed Investment Contracts	13,789,736

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 Authority's investment policy contains policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Los Angeles County Investment Pool).

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at July 1, 2006	Additions	Deletions	Prior period adjustments	Balance at June 30, 2007
Governmental activities					
Nondepreciable capital assets					
Land	$ 257,788,740	$ 2,966,089	$ (105,000)	$ 38,885	$ 260,688,714
Construction in progress	676,502	10,004,649	(5,000)		$ 10,676,151
Total nondepreciable capital assets	258,465,242	12,970,738	(110,000)	38,885	271,364,865
Depreciable capital assets					
Building and improvements	4,890,530	566,810			5,457,340
Equipment	1,864,012	564,987			2,428,999
Total depreciable capital assets	6,754,542	1,131,797			7,886,339
Less accumulated depreciation:	(1,904,676)	(284,789)			(2,189,465)
Net depreciable capital assets	4,849,866	847,008			5,696,874
Net capital assets	$ 263,315,108	$ 13,817,746	$ (110,000)	$ 38,885	$ 277,061,739

NOTE 4 – LINE OF CREDIT PAYABLE

On August 10, 2006, the Authority obtained a $1,000,000 operating line of credit and a $3,000,000 capital line of credit from Zions First National Bank. Draws on the lines accrue interest at the rate of 90% and 65% of the Prime Rate, respectively. The interest rate is reset at the beginning of each calendar month. The balance outstanding at June 30, 2007 was $ 1,400,000, borrowed for construction costs of Vista Hermosa. The lines of credit are secured by Authority owned property.

NOTE 5 - LONG-TERM DEBT SCHEDULE OF CHANGES

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Current Portion
Capital leases	$ 37,448	$ 557,527	$ 104,507	$ 490,468	$ 107,169
Compensated absences	367,527	55,683		423,210	
Total	$ 404,975	$ 613,210	$ 104,507	$ 913,678	$ 107,169

A. The Authority leases equipment valued at $885,712, under agreements which provides for title to pass upon expiration of the lease period. Future minimum payments are as follows:

Fiscal Year Ending June 30,		Lease payment
2008		$ 131,013
2009		126,915
2010		126,915
2011		126,915
2012		38,738
	Total	550,496
Less amount representing interest		60,028
Present value of net minimum lease payments		$ 490,468

The total amount of interest charged for the period ending June 30, 2007, was $21,726.

NOTE 5 - LONG-TERM DEBT SCHEDULE OF CHANGES (Continued)

B. Compensated Absences

The Authority accrues accumulated vacation leave and then expenses the cost as paid in the General Fund. It is the policy of the Authority to pay all accumulated vacation leave when an employee retires or is otherwise terminated.

Sick leave costs are expensed as paid in the General Fund. Employees have no vested rights in accumulated unpaid sick leave upon retirement or termination.

For the fiscal year ended June 30, 2007, the Authority recorded long-term debt for the estimated liability for compensated absences.

NOTE 6 - THE AUTHORITY'S EMPLOYEES' RETIREMENT PLAN

The Mountains and Recreation Conservation Authority's (the Authority) defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The PERS is part of the Public Agency portion of the California Public Employees' Retirement System, (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

<u>Funding Policy</u>

Active plan members in the PERS are required to contribute 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006/2007 was 6.38%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

<u>Annual Pension Cost</u>

For fiscal year 2006/2007, the Authority's annual pension cost was $245,940 and the Authority actually contributed $245,940. The required contribution for fiscal year 2006/2007 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) an 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service, and (c) a .25% merit adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Authority's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The Authority's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was 12 years.

<u>Three Year Trend Information for Mountains Recreation and Conservation Authority Employees' Retirement Plan</u>

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contribution	Net Pension Obligation
6/30/2005	$161,709	100%	$ -
6/30/2006	$243,413	100%	$ -
6/30/2007	$245,940	100%	$ -

NOTE 6 - THE AUTHORITY'S EMPLOYEES' RETIREMENT PLAN (Continued)

Required Supplementary Information

Funded Status of Plan (Pooled)

Valuation Date	Entry Normal Accrued Liability	Actual Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As % of Payroll
6/30/2004	$ N/A	$ N/A	$ N/A	N/A	$ N/A	N/A
6/30/2005	$ 484,351,523	$459,996,995	$ 24,354,528	95.0%	$174,127,476	14.0%
6/30/2006	$ 478,122,215	$454,602,459	$ 23,519,756	95.1%	$170,458,082	13.8%

NOTE 7 – CONTINGENCIES AND COMMITMENTS

According to the Authority's attorneys, no contingent liabilities are outstanding and no lawsuits of any real financial consequence are pending.

The Authority has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Such audits could generate expenditure disallowances under terms of the grants.

On April 1, 1999, the City of Los Angeles loaned the Authority $1,305,385 for the purchase of 6.8 acres in the Lawry's California Center. The loan proceeds were used to transform the property into and operate a "River Center", develop and maintain a 2.8 acre park with an adjoining parking lot, and preserve the existing gardens and buildings at the site. The loan will be repaid over a term of fifteen years at an annual rate of 8.47%. The payments will be made to the City of Los Angeles on a monthly basis. The collateral for the City of Los Angeles is a deed of trust in first lien position recorded against the 2.8 acre parcel of the Authority. In the agreement, if sales tax generated from the Center is adequate to repay the debt of the Authority, then the Authority will not be required to make their monthly payments. In the current fiscal year, the Authority was not required to service the debt because the sales tax generated was sufficient to cover the debt service. If the sales tax revenue is not sufficient to cover the debt, the Authority is liable for the shortfall. As of June 30, 2007, the principal balance outstanding on the loan totaled $871,259.

NOTE 8 – DEBT ISSUED WITHOUT GOVERNMENT COMMITMENT

Assessment District No. 2004-1

In March 2004, the Mountains Recreation and Conservation Authority (the Authority) issued $14,805,000 of Assessment District No. 2004-1 Limited Obligation Improvement Bonds, Series 2004 (the "Bonds"). The Bonds were issued to finance costs for acquiring and maintaining certain open space lands, hillsides, view sheds and water sheds, riparian corridors, wildlife corridors, parklands, and brush clearing within the Assessment District, establish the Reserve Fund, and to pay the cost of issuing the Bonds.

The Authority is in no way liable for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the bondholders, and initiating foreclosure proceedings for the benefit of the bondholders. For these reasons, neither the debt nor the related debt service transactions are recorded in the Authority's basic financial statements. The principal balance outstanding at June 30, 2007, is $13,620,000.

Assessment District No. 2004-02

In March 2004, the Mountains Recreation and Conservation Authority (the Authority) issued $13,165,000 of Assessment District No. 2004-02, Limited Obligation Improvement Bond Series 2004 (the "Bonds"). The Bonds were issued to finance costs for acquiring and maintaining certain open space lands, hillsides, view sheds and water sheds, riparian corridors, wildlife corridors, parklands, and brush clearing within the Assessment District, establish the Reserve Fund, and to pay the cost of issuing the Bonds.

The Authority is in no way liable for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings for the benefit of the bondholders. For these reasons, neither the debt nor the related debt service transactions are recorded in the Authority's basic financial statements. The principal balance outstanding at June 30, 2007, is $12,125,000.

NOTE 9 – NET ASSETS

The government-wide and fiduciary fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

Government-wide Governmental Activities:

A prior year adjustment in the government-wide financial statements in the amount of $38,855 was due to an understatement of capital assets.