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April 23, 2014

To the Board of Directors  
of the Mountains Recreation & Conservation Authority  
Los Angeles, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mountains Recreation & Conservation Authority (the "Authority") for the year ended June 30, 2013, and have issued our report thereon dated April 23, 2014. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated December 16, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the Authority. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our responsibility for the Supplementary Information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Planned Scope and Timing of the Audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriations of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to you.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

#### *New Accounting Standards*

GASB has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (“SCA”)*. The requirements of this statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This statement became effective for periods beginning after December 15, 2011 and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement became effective for periods beginning after June 15, 2012 and did not have a significant impact on the Authority’s financial statements for year ended June 30, 2013.

GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement combines the authoritative accounting and financial reporting of the FASB and the American Institute of Certified Public Accountants (“AICPA”). The statement eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. This statement became effective for period beginning after December 15, 2011 and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirement of this statement standardizes the presentation of the deferred inflows and outflows of resources and their effects on a government’s net position. This statement became effective for periods beginning after December 15, 2011. The implementation of this statement to the Authority was limited to renaming of “Net Assets” to “Net Position”.

No other new accounting policies were adopted and existing policies were not changed during the year ended June 30, 2013. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the investment fair market value is based on information provided by the State of California for investment in the Local Agency Investment Fund and based on market prices provided by Union Bank, the trustee for investments in Guaranteed Investment Contracts. We evaluated the key factors and assumptions used to develop the investment fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1 – Summary of Significant Accounting Policies
- Note 7 – Retirement Plan
- Note 8 – Contingencies and Commitments
- Note 9 – Debt Issued without Government Commitment – Conduit Debt

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 23, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

With respect to the Supplementary Information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We also discussed the following matters with management:

### **Outstanding Checks**

The Authority does not have a formal policy to address outstanding stale dated checks. As of June 30, 2013, the outstanding checks over one year old amounted to \$107,435. We recommend that the Authority adopt a policy to investigate and resolve old outstanding checks.

### **Cash Receipts Process**

The Authority’s cash handling protocols are not applied consistently throughout all departments. At times, Finance is not made aware of activities at the other departments and locations and is unable to identify the purpose and sources for its cash receipts. In addition, there is no tracking mechanism for Finance to determine if all receipts have been collected from customers for events and facility rentals. We recommend that the Authority adopt a formal policy for a centralized invoicing system and tracking of revenues to be received to ensure the completeness and accuracy of cash receipts.

### **Capital Assets for the Benefit Assessment Districts**

The Authority purchases vacant land within the Benefit Assessment Districts’ geographical areas using the proceeds of a bond issue. Property owners are assessed to pay for the debt service on the bonds and to provide for some maintenance of the properties.

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During our audit, we noted that there is not a formal policy that provides for the recording of the Benefit Assessment District purchased properties in the Authority's financial statements. We recommend that the Authority develop and implement such a policy.

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

Very truly yours,

Handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive style with a large, stylized "P" and "M".

Irvine, California