COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

February 11, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT FOR THE YEAR ENDED JUNE 30, 2004**

Attached are the financial statements for the Los Angeles County Regional Park and Open Space District (District) for the year ended June 30, 2004. Pursuant to Government code section 26909, the statements have been audited by a Certified Public Accountant; Conrad and Associates, L.L.P.

The attached auditor's report concludes that the financial statements are presented fairly in conformance with generally accepted accounting principles and State regulations governing special districts. The auditors did note that the District needs to ensure that agencies receiving funds retain supporting documentation for maintenance and service costs incurred. This issue is discussed further in the auditor's attached management letter.

If you have any questions, please contact me or your staff may call Ian Clark at (626) 293-1104.

JTM:MO:MP:VT:kr
Attachments

c: David E. Janssen, Chief Administrative Officer
Russ Guiney, Director, Department of Parks and Recreation
Ilona Volkmann, Interim Administrator, Regional Park and Open Space District
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Financial Statements and
Supplementary Information

Year Ended June 30, 2004

(With Independent Auditors' Report Thereon)

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Financial Statements and Supplementary Information

Year Ended June 30, 2004

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CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Supervisors
Los Angeles County Regional Park and Open Space District
Los Angeles, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the management of the District. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 respective financial position of the governmental activities and each major fund of the Los Angeles County Regional Park and Open Space District as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS OF AICPA AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES PRACTICE SECTION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Conrad and Associates, L.L.P.

December 9, 2004

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Management's discussion and analysis of the Los Angeles County Regional Park and Open Space District (the District) provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the accompanying financial statements, footnotes, and supplementary information.

Financial Highlights

- As more fully explained in the government-wide financial analysis below and in footnote 10 to the financial statements, net assets were negative $69 million at June 30, 2004.
- During the current year, the District's net assets increased by $4 million.
- The District's General Fund fund balance decreased by $14 million to $239 million.
- The District reduced its outstanding debt during fiscal year 2004 by $18.5 million.

Financial Statement Overview

This annual report consists of a series of financial statements: 1) government-wide financial statements, 2) fund based financial statements, and 3) notes to the financial statements. In addition to the financial statements, this report contains required supplementary information and additional supplementary schedules.

Government-wide financial statements: The government-wide financial statements are designed to provide a broad overview of the District's activities and present a longer-term view of the District's finances.

- The Statement of Net Assets presents all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the District is improving or deteriorating.

- The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets (revenues and expenses) are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported in this statement for items that will result in cash flows in future fiscal periods (e.g., uncollected assessment revenues, and accrued but unpaid interest expenses).

The government-wide financial statements can be found on pages 9-10 of this report.

Fund based financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the District are Governmental fund types.

- Governmental Funds – All of the District's activities are reported in governmental funds. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed view of the District's operations. Governmental fund information helps to determine the amounts of financial resources used to finance the District's programs.

Net asset/net equity differences between the government-wide and fund based statements are highlighted on pages 12 and 22-24 and are primarily the result of the inclusion of bonds payable, accrued interest on bonds payable, and deferred revenue in the government-wide liabilities.

The difference between the change in net assets/fund balances on the government-wide versus fund based statements is highlighted on pages 14 and 25-27 and is primarily the result of reporting the repayment of bond principal as an expenditure in the fund based statements.

Notes to the Financial Statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund based financial statements.

Government-wide Financial Analysis

Our government-wide analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) for the District's governmental activities.

Table 1
Net Assets
(in Thousands)

	Governmental Activities	
	FY 2004	FY 2003
Current and other assets	$ 320,499	$332,951
Total assets	320,499	332,951
Long-term debt outstanding	376,210	394,735
Other liabilities	13,652	11,809
Total liabilities	389,862	406,544
Net assets-		
Unrestricted	(69,363)	(73,593)
Total net assets	$ (69,363)	$ (73,593)

GASB Statement 34 requires that the government-wide statements reflect a liability for the $376.2 million in outstanding bonds issued to finance grants made to other governmental agencies, but does not permit the recognition of assets for future assessment revenues that are pledged for the annual debt service payments on the bonds. Amounts distributed to the cities and other eligible entities are recorded as expenses by the District and no capital assets are recorded. As a result, the Statement of Net Assets shows negative net assets of approximately $69 million. The bond covenants require the County to levy property taxes in future years to specifically repay the principal and interest on the bonds. Accordingly, the deficit related to these bonds is expected to be funded by the dedicated tax levy and the deficit will gradually diminish as the bonds are redeemed.

Total assets of the District decreased by 3.9% from the prior year to $320 million due to an $11.3 million decrease in pooled cash and investments and a $1.1 million decrease in assessments receivable.

Total liabilities of the District decreased by 4.1% from the prior year to $389.9 million due to a $18.5 million decrease in long-term liabilities (bonds payable), a $0.8 million decrease in arbitrage, interest, and other payables, partially offset by a $2.6 million increase in project related expenditure accruals.

Total net assets increased $4.2 million to negative $69.4 million due to an excess of general revenues ($80.7 million in assessment revenue and investment income) over government expenses ($76.5 million in grants to other agencies, bond interest expense, maintenance and administration).

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities (Summary of Statement of Activities)	
	FY 2004	FY 2003
Revenues		
General revenues		
Assessment	$77,672	$78,411
Investment income	2,848	10,580
Other revenue	214	1,240
Total revenues	80,734	90,231
Expenses		
General government	56,581	59,729
Interest expense	19,923	20,943
Total expenses	76,504	80,672
Increase (decrease) in net assets	$ 4,230	$ 9,559

Investment income decreased by $7.7 million in 2004 due to lower investment yields and cash balances as well as a reduction of arbitrage rebate liability which occurred only in 2003. The District spent $3.1 million less on park improvements and maintenance in 2004.

Fund Based Financial Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined fund balances of $305.5 million, a decrease of $13.4 million from the prior year. Current year revenues from the governmental funds were $81.9 million, a decrease of 9.3% from the previous year. Expenditures in the current year were $95.3 million, a decrease of 3.2% from the previous year.

Debt Management

At June 30, 2004, the District had Bonds Payable of $376,210,000, the proceeds of which are being used to fund various park improvement projects and a debt service reserve fund. The debt service payments are secured by the District's annual benefit assessment to each assessable parcel as approved by the voters in 1992 and 1996. The District reduced its outstanding debt by $18.5 million during fiscal year 2004.

Budgets

There were no changes between the District's original and final budget.

In the District's General Fund, the budgeted expenditures included encumbrances of $78.6 million reflecting the District's obligations to fund future park improvements. These future expenditures will be funded with additional debt proceeds or assessment revenues (shown as Long-Term Debt Proceeds in the budget). During fiscal year 2004, the District spent much less than the amount budgeted for park grants, projects, and maintenance. No new bonds were issued during the fiscal year.

In the District's Debt Service Fund, budgeted debt service includes interest amounts due in the subsequent period. The associated variance of $29.4 million was appropriated in the following year to meet debt service.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, California 90012.

BASIC FINANCIAL STATEMENTS

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Net Assets

June 30, 2004

(in Thousands)

	Governmental Activities	
ASSETS:	2004	2003
Pooled cash and investments (note 6)	$309,615	320,911
Assessments receivable	9,563	10,689
Interest receivable	1,321	1,351
Total assets	320,499	332,951
LIABILITIES:		
Accounts payable	5,346	2,767
Accrued interest payable	4,916	5,176
Arbitrage payable	-	204
Due to Los Angeles County (note 5)	3,390	3,662
Long-term liabilities (note 7):		
Due within one year	19,565	18,525
Due in more than one year	356,645	376,210
Total liabilities	389,862	406,544
NET ASSETS:		
Unrestricted (note 10)	(69,363)	(73,593)
Total net assets (deficit)	$ (69,363)	(73,593)

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Activities

Year Ended June 30, 2004

(in Thousands)

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities 2004	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities 2003
Governmental activities:						
Recreation and cultural services	$56,581	-	-	-	(56,581)	(59,729)
Interest expense	19,923	-	-	-	(19,923)	(20,943)
Totals	$76,504	-	-	-	(76,504)	(80,672)
General revenues:						
Assessment revenue					77,672	78,411
Investment income					3,662	10,029
Net change in fair value of investments					(814)	551
Other revenue					214	1,240
Total general revenues					80,734	90,231
Change in net assets					4,230	9,559
Net assets (deficit) at beginning of year					(73,593)	(83,152)
Net assets (deficit) at end of year					$(69,363)	(73,593)

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

(in Thousands)

	General	Debt Service	Totals 2004	Totals 2003
Assets				
Pooled cash and investments (note 6)	$ 242,864	66,751	309,615	320,911
Assessments receivable	9,563	-	9,563	10,689
Interest receivable	1,157	164	1,321	1,351
Total assets	$ 253,584	66,915	320,499	332,951
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 5,346	-	5,346	2,767
Arbitrage payable	-	-	-	204
Due to Los Angeles County (note 5)	3,390	-	3,390	3,662
Deferred revenue	6,273	-	6,273	7,476
Total liabilities	15,009	-	15,009	14,109
Fund balances:				
Reserved:				
Encumbrances	91,211	-	91,211	133,055
Debt Service	-	66,915	66,915	66,770
Unreserved:				
Undesignated	147,364	-	147,364	119,017
Total fund balances	238,575	66,915	305,490	318,842
Total liabilities and fund balances	$ 253,584	66,915	320,499	332,951

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Governmental Funds

June 30, 2004

(in Thousands)

Fund balances of governmental funds	$305,490
Amounts reported for governmental activities in the statement of net assets are different because:	
Revenues that do not provide current financial resources are not reported as revenues in the funds.	6,273
The following long-term liabilities, are not due and payable in the current period therefore are not reported in the funds:	
Bonds Payable	(376,210)
Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on Bonds Payable.	(4,916)
Net assets (deficit) of governmental activities	$ (69,363)

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2004

(in Thousands)

	General	Debt Service	Totals 2004	Totals 2003
Revenues:				
Assessments	$ 78,875	-	78,875	78,433
Investment income	3,578	84	3,662	10,029
Net change in fair value of investments	(695)	(119)	(814)	551
Other revenue	214	-	214	1,240
Total revenues	81,972	(35)	81,937	90,253
Expenditures:				
Current:				
Services and supplies	4,760	-	4,760	4,369
Park improvements	39,505	-	39,505	41,921
Maintenance and servicing costs	12,316	-	12,316	13,439
Debt service:				
Principal	-	18,525	18,525	17,560
Interest	-	20,183	20,183	21,184
Total expenditures	56,581	38,708	95,289	98,473
Excess (deficiency) of revenues over (under) expenditures	25,391	(38,743)	(13,352)	(8,220)
Other financing sources (uses):				
Transfers in (note 8)	-	38,888	38,888	38,632
Transfers out (note 8)	(38,888)	-	(38,888)	(38,632)
Total other financing sources (uses)	(38,888)	38,888	-	-
Net changes in fund balances	(13,497)	145	(13,352)	(8,220)
Fund balances at beginning of year	252,072	66,770	318,842	327,062
Fund balances at end of year	$ 238,575	66,915	305,490	318,842

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2004

(in Thousands)

Net changes in fund balances - total governmental funds	$(13,352)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,203)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net net assets.	18,525
Accrued interest for Bonds Payable. This is the net change in accrued interest for the current period.	260
Changes in net assets of governmental activities	$ 4,230

See accompanying notes to the basic financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2004

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) History and Organization

The following is a summary of the significant accounting policies of the Los Angeles County Regional Park and Open Space District (the "District"):

General

Proposition A was passed by the voters on November 3, 1992, which provided for the formation of the assessment district "Regional Park and Open Space District" (the "District"). The District was formed and the assessments levied pursuant to Sections 5538.9 and 5539.9 of the California Public Resources Code. The objectives of the District are to improve the quality of life in the County of Los Angeles through the preservation of beaches, parks, and wild lands; the construction, renovation and improvement of new and existing recreational facilities; and the restoration of rivers, streams, and trails. These powers are exercised through the County of Los Angeles (the "County") Board of Supervisors, which acts as the governing body of the District. Among its duties, it approves the District's budget, determines the District's assessment rates, approves contracts, and determines when to issue bonds authorized by the voters of the District. On November 5, 1996, the voters approved the Safe Neighborhood Parks Proposition 1996, which provided for the District to levy additional assessments and to amend the method of assessments within the District.

Reporting Entity

The District is a component financial reporting unit of the County of Los Angeles, as the governing board of the County also serves as the District's governing board, and the County is financially accountable for the District.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(a) History and Organization, (Continued)

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles ("GAAP"). The District does not have any components units.

The District is included as a component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2004.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(b) Basis of Accounting and Measurement Focus, (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. These statements include separate columns for the government and business-type activities of the primary government. The District does not have business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they are allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting District's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program. The District did not have any program revenues for the year then ended.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(b) Basis of Accounting and Measurement Focus, (Continued)

Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate 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.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. The District has no non-major funds.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Fund Types

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. For this purpose, the District uses an availability period of 60 days for assessment revenues and 1 year for investment income.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the district.

Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they are imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(b) Basis of Accounting and Measurement Focus, (Continued)

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus.* This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available expendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available expendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available expendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables.

Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(b) Basis of Accounting and Measurement Focus, (Continued)

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources and then from unrestricted resources.

(c) Major Funds

The major funds of the District are as follows:

General Fund:

The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund:

The Debt Service Fund is used to account for accumulation of resources for, and the payment of principal and interest.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are reported as Net Change in Fair Value of Investments. *Investment income* includes interest earnings and any gains or losses realized upon the liquidation, maturity, or sale of investments.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(d) Cash and Investments, (Continued)

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in this pool is displayed in the accompanying financial statements as pooled *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on fund's average cash and investment balance, as provided by California Government Code Section 53647.

(e) Capital Assets

The District provides funding to other entities, including the County, for purposes of acquiring real property. Title to properties acquired is recorded in the name of the purchasing entity, not the District. Accordingly, there are no capital assets recorded on the statement of net assets.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the District's governmental funds were $305,490,000, which differs from the "net assets" of governmental activities amount of $(69,363,000), reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental fund balance sheets. The following adjustments have been made to effect this difference and are further illustrated in the accompanying schedule.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Long-term Debt Transactions

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds payable	$376,210,000

Accrued Interest

Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on bonds payable.

Accrued interest added	$4,916,000

Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

Deferred revenue	$6,273,000

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated.

(in Thousands)

	Total Governmental Funds	Certain Deferred Revenue	Long-term Debt Transactions	Interest Payable	Reclassification and Eliminations	Statement of Net Assets
ASSETS:						
Pooled cash and investments	$309,615	-	-	-	-	309,615
Assessment receivable	9,563	-	-	-	-	9,563
Interest receivable	1,321	-	-	-	-	1,321
Total assets	$320,499	-	-	-	-	320,499
LIABILITIES AND FUND BALANCES/NET ASSETS:						
Accounts payable	$ 5,346	-	-	-	-	5,346
Accrued interest	-	-	-	4,916	-	4,916
Due to Los Angeles County	3,390	-	-	-	-	3,390
Deferred revenue	6,273	(6,273)	-	-	-	-
Long-term liabilities - due within one year	-	-	-	-	19,565	19,565
Long-term liabilities – noncurrent	-	-	376,210	-	(19,565)	356,645
Total liabilities	15,009	(6,273)	376,210	4,916	-	389,862
Fund balances/net assets	305,490	6,273	(376,210)	(4,916)	-	(69,363)
Total liabilities and fund balances/net assets	$320,499	-	-	-	-	320,499

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for governmental funds was $(13,352,000), which differs from the "change in net assets" for governmental activities of $4,230,000 reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the government funds. The following adjustments are explained below and are illustrated in the following schedule.

Long-term Debt Transactions

Repayment of bond principal is reported as an expenditure in governmental funds operating statement and, therefore, has the effect of reducing fund balance because current financial resources have been used. For the District as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

Principal payments made	$18,525,000

Accrued Interest

This is the net change in accrued interest for the current period.

Accrued interest	$260,000

Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

Deferred revenue	$(1,203,000)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities, (Continued)

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocation must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated. Certain reclassifications are made to convert expenditure classifications in the fund financial statements to those required for the statement of activities.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities, (Continued)

(in Thousands)

	Total Governmental Funds	Certain Deferred Revenue	Long-term Debt Transactions	Interest Payable	Reclassification and Eliminations	Statement of Net Assets
REVENUES:						
Assessment revenue	$ 78,875	(1,203)	-	-	-	77,672
Investment income	3,662	-	-	-	-	3,662
Net change in fair value of investments	(814)	-	-	-	-	(814)
Other revenue	214	-	-	-	-	214
Total revenues	81,937	(1,203)	-	-	-	80,734
EXPENDITURES:						
Current:						
Recreation and cultural services	56,581	-	-	-	-	56,581
Debt service:						
Principal	18,525	-	(18,525)	-	-	-
Interest	20,183	-	-	(260)	-	19,923
Total expenditures	95,289	-	(18,525)	(260)	-	76,504
Excess (deficiency) of revenues over (under) expenditures	(13,352)	(1,203)	18,525	260	-	4,230
OTHER FINANCING SOURCES (USES):						
Transfers in	38,888	-	-	-	(38,888)	-
Transfers out	(38,888)	-	-	-	38,888	-
Total other financing sources (uses)	-	-	-	-	-	-
Net changes in fund balances/ net assets	(13,352)	(1,203)	18,525	260	-	4,230
Fund balances/net assets, at beginning of year	318,842	7,476	(394,735)	(5,176)	-	(73,593)
Fund balances/net assets, at end of year	$305,490	6,273	(376,210)	(4,916)	-	(69,363)

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and Debt Service Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2004.

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS, (CONTINUED)

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service have been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2004 (in Thousands):

	General Fund	Debt Service
Fund balance – budgetary basis	$125,761	29,589
Reserves and designations	91,211	37,516
Subtotal	216,972	67,105
Adjustments:		
Changes in accruals	21,603	(190)
Fund balance – GAAP basis	$238,575	66,915

4. BENEFITS ASSESSMENTS

The District's primary revenue source is the assessments which are levied annually on each of the approximately 2.2 million parcels within the District's boundaries. The District, as authorized by the Government Code, levied an assessment on each parcel of real property within the District. The rate and method of apportionment used in levying annual assessments for various categories of property is established in the Engineer's Report for County of Los Angeles Landscaping and Lighting District No. 92-1. The level of each assessment is based on the size and use of each parcel and the resulting benefit each parcel will receive from the proposed projects. The estimation of such benefit is quantified by benefit points, which is based on the 1996 Proposition.

The annual rate of each assessment may not exceed $14.46 per benefit point. The annual assessment for any parcel will consequently equal the annual rate multiplied by the number of benefit points applicable to each parcel. The assessment may be levied annually for a period of 22 years.

The expenditures of the District that are funded from the proceeds of the annual assessments levied and collected are distributed as follows: a minimum of 80% (but not more than 85%) of the assessments are used for the payment of debt service on bonds, notes and other obligations issued by the District and for the direct capitalized costs incurred on approved projects; 15% of assessments are used of for maintenance and servicing of completed projects; and up to 5% of the assessment are used to pay for the District's ongoing administrative expenses.

5. TRANSACTIONS WITH THE COUNTY AND OTHER AGENCIES

The County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Accordingly, the District has no salaries and employee benefit expenditures or supplies inventory. Accrued expenditures in the amount of $3,390,000 as of June 30, 2004, for services provided by the County and other agencies for reimbursable projects, have been recorded as "Due to Los Angeles County".

6. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. The District's share of the total pooled cash and investments, included in the accompanying combined balance sheet under "Pooled cash and investments," was $309,615 and represents approximately 1.99% of the total pool.

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool as an increase or reduction in interest earnings.

6. CASH AND INVESTMENTS, (CONTINUED)

Investments

The California Government Code, and the Los Angeles County Treasurer and Tax Collector's investment policy generally authorize the District to invest in obligations of the United States Treasury, federal agencies, certain municipal obligations, asset-backed securities, bankers' acceptance, negotiable certificates of deposit, corporate and depository notes, floating rate notes, commercial paper, money market mutual funds, repurchase agreements and reverse repurchase agreements.

In accordance with the Governmental Accounting Standards Board ("GASB") Statement Number 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", individual investments of the District are categorized separately to give an indication of the level of credit risk assumed by the District at year-end. The defined categories are as follows: Category 1 - investments that are insured or registered or for which the securities are held by the District or its custodial agent, which must be a different institution other than the party through which the District purchased the securities, in the agent's nominee name, with subsidiary records listing the District as the legal owner. Category 2 - uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name (except for those securities that are held by the same department or agent that purchased the securities for the District). Category 3 - uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the District's name. Category 3 also includes all securities held by the broker-dealer agent of the District (the party that purchased the securities for the District) regardless of whether or not the securities are being held in the District's name.

GASB Statement Number 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer pool is presented in the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004.

7. LONG-TERM OBLIGATIONS

On November 1, 1997, the District issued $510,185,000 in Limited Obligation Improvement Bonds, Series 1997A, with interest rates ranging from 4.2% to 6.0%. The bonds were issued to advance refund the outstanding principal of the Series 1994A Bonds, and for acquisition, restoration, improvement, and preservation of beach, park, wildlife, and open space resources within the District. The bonds are payable from the proceeds of annual assessments levied on parcels within the district boundaries. Interest is payable April 1 and October 1 of each year. Final bonds mature in 2019. The outstanding balance as of June 30, 2004 is $376,210,000.

The bond indentures require that the bond reserve be maintained in an amount, which is equal to the maximum amount of principal and interest becoming due in any single future six months period. The maximum amount of principal and interest becoming due in any single future six months period is $36,854,500. The District has established a reserve account in accordance with the bond indenture. The reserve account has a balance of $37,516,680 as of June 30, 2004.

A portion of the refunding bond proceeds were used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the refunded bonds are considered defeased and the liabilities for these bonds are not included in the Statement of Net Assets. As of June 30, 2004, $126,960,000 of the defeased 1994 bonds remains outstanding.

The following is a summary of the changes in outstanding bonded indebtedness during the fiscal year ended June 30, 2004:

Balance at July 1, 2003	Additions 2003-04	Reductions 2003-04	Balance at June 30, 2004	Amount Due Within One Year
$394,735,000	-	18,525,000	376,210,000	19,565,000

8. INTERFUND TRANSFERS

Transfers in and out for the year ended June 30, 2004 are as follows:

Transfers from	Transfers to	Amount
General Fund	Debt Service Fund	$38,888,000 (1)

(1) To transfer funds to cover debt service payment for Series 1997A Bond.

9. CONTINGENT LIABILITIES

Claims and suits have been filed against the District in the normal course of business. The outcome of these matters is not presently determinable. However, in the opinion of management, the resolution of these matters is not expected to have a significant impact of the financial condition of the District.

10. UNRESTRICTED NET ASSETS

GASB Statement No. 34 requires that local governments record in the statement of net assets the local government's liability for debt issued to finance the construction and acquisition of assets to be owned by other parties. GASB Statements No. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issuances. The negative equity resulting from the reporting of the District's liability for this debt is required by GASB No. 34 to be reported as unrestricted net assets.

REQUIRED SUPPLEMENTARY INFORMATION

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund

Year Ended June 30, 2004

(in Thousands)

	General Fund				
	Original Budget	Final Budget	2004 Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	2003 Actual (Budgetary Basis)
Revenues:					
Assessments	$ 78,874	78,874	78,448	(426)	77,992
Investment income	8,069	8,069	3,811	(4,258)	6,558
Total revenues	86,943	86,943	82,259	(4,684)	84,550
Expenditures:					
Current-Recreation and cultural services:					
Services and supplies	10,178	10,178	4,845	5,333	4,392
Other charges	257,614	257,614	40,568	217,046	62,536
Total expenditures	267,792	267,792	45,413	222,379	66,928
Excess (deficiency) of revenues over (under) expenditures	(180,849)	(180,849)	36,846	217,695	17,622
Other financing sources (uses):					
Transfers in	50,870	50,870	41,717	(9,153)	60,721
Transfers out	(89,583)	(89,583)	(80,605)	8,978	(99,353)
Long-term debt proceeds	125,980	125,980	-	(125,980)	-
Appropriation for contingencies	(1,915)	(1,915)	-	1,915	-
Changes in reserves and designations	(22,916)	(22,916)	7,976	30,892	36,616
Other financing sources (uses)	62,436	62,436	(30,912)	(93,348)	(2,016)
Net change in fund balance	(118,413)	(118,413)	5,934	124,347	15,606
Fund balance at beginning of year	119,827	119,827	119,827	-	104,221
Fund balance at end of year	$ 1,414	1,414	125,761	124,347	119,827

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to the Required Supplementary Information

Year ended June 30, 2004

1. BUDGETS AND BUDGETARY INFORMATION

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2004.

2. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Budgetary Comparison Schedule – General Fund has been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2004 (in Thousands):

	General Fund
Fund balance – budgetary basis	$125,761
Reserves and designations	91,211
Subtotal	216,972
Adjustments:	
Change in accruals	21,603
Fund balance – GAAP basis	$238,575

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OTHER SUPPLEMENTARY INFORMATION

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Debt Service Fund

Year Ended June 30, 2004

(in Thousands)

	Debt Service Fund				
	Original Budget	Final Budget	2004 Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	2003 Actual (Budgetary Basis)
Revenues:					
Investment income	$ 255	255	270	15	410
Total revenues	255	255	270	15	410
Expenditures:					
Debt Service					
Principal	18,525	18,525	18,525	-	17,560
Interest	49,582	49,582	20,183	29,399	21,185
Total expenditures	68,107	68,107	38,708	29,399	38,745
Excess (deficiency) of revenues over (under) expenditures	(67,852)	(67,852)	(38,438)	29,414	(38,335)
Other financing sources (uses):					
Transfers in	39,357	39,357	39,531	174	39,241
Transfers out	(644)	(644)	(643)	1	(609)
Other financing sources (uses) - net	38,713	38,713	38,888	175	38,632
Net change in fund balance	(29,139)	(29,139)	450	29,589	297
Fund balance at beginning of year	29,139	29,139	29,139	-	28,842
Fund balance at end of year	$ -	-	29,589	29,589	29,139

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Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Los Angeles, California

REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2004, and have issued our report thereon dated December 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one other matter, which we have communicated to the management of the District in a separate letter dated December 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters, which we have communicated to the management of the District in a separate letter dated December 9, 2004.

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

Conrad and Associates, L.L.P.

December 9, 2004

CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Supervisors
Los Angeles County Regional Park and Open Space District
Los Angeles, California

In planning and performing our audit of the financial statements of the Los Angeles Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2004, we considered its internal control structure and controls over compliance in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structures, nor render an opinion on compliance.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities that would be material to the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses or reportable conditions.

However, during our audit, we became aware of other matters that we see as opportunities for strengthening internal controls and operating efficiency. We offer the following recommendations for consideration by the District to strengthen its internal control structure and to ensure compliance government regulations.

(1) Verification of Maintenance and Servicing Costs Claimed for Reimbursement

The Safe Neighborhood Parks Propositions of 1992 and 1996 provide maintenance and servicing funds to eligible agencies to offset increased maintenance costs resulting from Proposition funded projects. The District disbursed approximately $12 million for maintenance and servicing costs during the fiscal year ended June 30, 2004. During our testing of these costs, we noted certain areas where improvements could be made.

- To adequately administer the maintenance and servicing funds, the District developed a written policy manual entitled "Policy Memorandum – Maintenance and Servicing". This memorandum establishes guidelines for the use of maintenance and servicing funds and procedures for obtaining them. We found the sixteen-page document to be very comprehensive and easy to follow. However, upon further review of this memorandum, we noted that eligible agencies seeking reimbursement for maintenance and servicing costs were not required to submit (or retain) support for expenditures claimed for reimbursement. Requiring eligible agencies to retain supporting documents would help ensure that maintenance and servicing funds are being expended for eligible purposes.

- Certain maintenance and servicing costs are funded prior to being incurred, which is a fairly common practice that can be continued. However, additional procedures should be performed to ensure that the maintenance and servicing funds are being used as intended. To provide additional assurance, the District should consider performing selected audits of eligible agencies that received these maintenance and servicing funds.

Recommendation

As previously recommended, the District should consider requiring eligible agencies to retain supporting documentation for maintenance and servicing costs incurred. The District may want to revise the "Policy Memorandum – Maintenance and Servicing" to include the following language: "An eligible agency is responsible for maintaining proof of expenditures for at least five (5) years from the date the expenditure was reimbursed." The District would also need to adequately communicate this change to the eligible agencies receiving reimbursement for maintenance and servicing costs to ensure compliance with the maintenance and servicing policy.

We also recommend that eligible agencies that received funding for maintenance and servicing costs be subjected to audit. It is the practice of the District to contract with independent accounting firms to perform selected audits of eligible agencies that received Proposition funding for project costs. This is done to provide assurance that eligible agencies are expending Proposition funds in accordance with the requirements of the Proposition. The District should consider expanding the universe of costs (projects) subjected to audit to include not only project costs but also costs incurred by other County departments and costs incurred for maintenance and servicing costs. The audits selected for maintenance and servicing costs could be based on the amount of funds provided to the eligible agencies.

District Response

As recommended, the District has revised the "Policy Memorandum - Maintenance and Servicing" advising agencies to retain cost documents to support expenditures for at least five years after they have been incurred. This revision to the memorandum was sent to all affected agencies in December of 2004.

As also recommended, the District will increase the scope of future grant audits to include maintenance and servicing costs.

This report is intended solely for the information and use of the Board of Supervisors, District management and the Los Angeles County Auditor-Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

December 9, 2004