ROGERS, ANDERSON, MALODY & SCOTT, LLP
*CERTIFIED PUBLIC ACCOUNTANTS*

ROBERT B. MEMORY, C.P.A. (1945-2009)

OF COUNSEL
JAY H. ZERCHER, C.P.A.

RECEIVED
AUG 27 2010
BY: AJ

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TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
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KATHERINE J. MUIR, C.P.A.
MAYA IVANOVA, C.P.A.
CHRISTOPHER MONTOYA, C.P.A.

August 24, 2010

Board of Directors
Rim of the World Recreation and Park District
PO Box 8
Rimforest, California 92378

We are pleased to confirm our understanding of the services we are to provide the Rim of the World Recreation and Park District (District) for the years ending June 30, 2007, 2008, 2009 and 2010. We will audit the financial statements of the governmental activities, business-type activities and each major fund, which collectively comprise the entity's basic financial statements of the District as of and for the year ending June 30, 2007, 2008, 2009 and 2010. The documents we submit to you will include the following supplementary information required by generally accepted accounting principles that will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis and
2. GASB 34 required budgetary comparison schedules.

***Audit Objectives***

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on -

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards.*

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • *290 NORTH "D" STREET* • *SUITE 300*
*SAN BERNARDINO, CA 92401*
*(909) 889-0871* • *(909) 824-6736* • *FAX (909) 889-5361*
*Website: www.ramscpa.net*

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of accounting records, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

***Management Responsibilities***

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for establishing internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities and each major fund of the District and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud, or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

As part of the audit, we will prepare a draft of your financial statements, and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

***Audit Procedures - General***

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation 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. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorney(s) as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

***Audit Procedures - Internal Control***

In planning and performing our audits, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on the District's financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by *Government Auditing Standards*.

***Audit Procedures - Compliance***

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

***Audit Administration, Fees, and Other***

The audit documentation for this engagement is the property of Rogers, Anderson, Malody and Scott, LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to federal cognizant or grantor agencies, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve any audit findings or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of our personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the date the auditors' report is issued or for any additional period requested by the District. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Individual hourly rates vary according to the degree of responsibility involved and skill required. Interim billings will be submitted as work progresses and as expenses are incurred. Our fees for the services described in this letter will be as follows:

| | |
|---|---|
| Fiscal year 2006/07 | $ 9,750 |
| Fiscal year 2007/08 | 10,350 |
| Fiscal year 2008/09 | 11,000 |
| Fiscal year 2009/10 | 11,600 |

If a single audit (OMB Circular A-133) is required, our fee will be $1,850 per major program.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. A copy of our most recent external quality control review dated September 2, 2009 for the year ended November 30, 2008 is attached.

We appreciate the opportunity to be of service to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

***ROGERS, ANDERSON, MALODY AND SCOTT, LLP***

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Response:

This letter correctly sets forth the understanding of the Rim of the World Recreation and Park District.

Signature: _____

Title: Secretary, Board of Directors

Date: September 2, 2010

# Rim of the World Recreation and Park District

P.O. Box 8 - 26577 State Highway 18
Rimforest, California 92378
(909) 337-7275
Fax: (909) 336-5239
www.rim-rec.org


July 13, 2010

Julie Underwood
San Bernardino County Employee Retirement Association
348 W. Hospitality Lane
Third Floor
San Bernardino, CA 92415-0014

RE: Audit of Rim of the World Recreation and Park District
Fiscal Years Ended June 30, 2007, 2008, 2009 and 2010

Dear Mrs. Underwood:

In connection with the audit of our financial statements for the years ended June 30, 2007, 2008, 2009 and 2010, we are requesting that you send directly to our auditors, Rogers, Anderson, Malody & Scott, LLP, 290 North "D" Street, Suite 300, San Bernardino, CA 92401, Attention: Scott Manno, the following information:

1. Date of the most recent actuarial valuation.
2. Unfunded prior service cost at the most recent valuation date.
3. Actuarially computed value of unfunded vested benefits.
4. Total assets of the pension fund.
5. A statement identifying or describing the employee groups covered.
6. Amount contributed by the District for the years ended June 30, 2007, 2008,2009 and 2010
7. Amount required to be contributed by the District for the years ended June 30, 2007, 2008, 2009 and 2010 .
8. The excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund as of June 2007, 2008, 2009 and 2010 .
9. A statement describing the nature and effect of any significant matters which affected the plan such as changes in actuarial cost methods, treatment of actuarial gains and losses, changes in actuarial assumptions, etc

Please mail your reply directly to Rogers, Anderson, Malody & Scott, LLP, with a copy to our attention.

Sincerely,

Cynthia Stevens

CYNTHIA STEVENS
Administrative Assistant


RECEIVED
JUL 30 2010
SBCERA

SB cera
San Bernardino
County Employees' Retirement Association

RECEIVED
AUG 0 3 2010
BY: AM

August 4, 2010

Rogers, Anderson, Malody & Scott, LLP
290 North "D" Street, Suite 300
San Bernardino, CA 92401

Dear Scott Manno:

The following information is being provided per the request received from the Rim of the World Recreation and Park District:

1. The most recent actuarial valuation is dated June 30, 2009.
2. The Unfunded Actuarial Accrued Liability (UAAL) for SBCERA was $630,146,000 as of June 30, 2009.
3. See # 2 above.
4. The assets of the pension fund were $4,934,213,430 as of June 30, 2009.
5. Attached is a copy of the 1st page of the "Note 1 – Significant Provisions of the Plan" from the audited financial statements for FY 2008/2009 which identifies or describes the employee groups covered.
6. Our records indicate Rim of the World Recreation and Park District's total contributions for the years ended June 30:

| Date | Employer Match | Employer Offset | Employer Survivor | Employee Survivor | Total |
|---|---|---|---|---|---|
| 2007 | 28,212.25 | 15,961.20 | 196.13 | 196.13 | 44,565.71 |
| 2008 | 31,159.96 | 17,730.57 | 200.83 | 200.83 | 49,292.19 |
| 2009 | 8,706.06 | 4,474.04 | 54.71 | 54.71 | 13,289.52 |
| 2010 (Unaudited) | 4,696.36 | 2,409.45 | 22.39 | 22.39 | 7,150.59 |
| Total | 72,774.63 | 40,575.26 | 474.06 | 474.06 | 114,298.01 |

7. Contributions listed for #6 above were 100% paid by Rim of the World Recreation and Park District.
8. The fund had an Unfunded Actuarial Accrued Liability (UAAL) as follows:

   June 30, 2007 429,613,000
   June 30, 2008 432,098,000
   June 30, 2009 630,146,000
   June 30, 2010 Not available until November 2010 when actuarial report issued.

9. See attached copy of Significant Issues identified in the Actuarial report dated 6/30/09.

A complete copy of the actuarial report dated 6/30/09 is located on-line at www.sbcera.org. If you have any questions or need further assistance, please contact me at (909) 885-7980 ext. 330.

Sincerely,

Julie Underwood

Julie Underwood
Interim, Chief Fiscal Services

Attachments: 1)1st Page of Financial Statement Note 1
2)Significant Issues in Actuarial Report

cc: Cynthia Stevens, Rim of the World Recreation and Park District

# Notes to Financial Statements

June 30, 2009 and 2008 ( Amounts in Thousands )

## NOTE 1 – SIGNIFICANT PROVISIONS OF THE PLAN

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost sharing multiple employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (the Act) and covering substantially all employees of the County of San Bernardino (the County), City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (AQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Parks and Recreation, San Bernardino County Employees' Retirement Association (SBCERA), City of Chino Hills, Crest Forest Fire District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), and the Superior Courts, collectively referred to as the "Participating Members." SBCERA is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives its own independent audit. SBCERA is a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2009. The San Bernardino County Board of Retirement consists of nine members and one alternate member, four are appointed by the County's Board of Supervisors, five are elected by the members of SBCERA, and the County Treasurer is an ex-officio member.

### *At June 30, 2009 and 2008, SBCERA membership consisted of the following:*

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | General | Safety | Total | General | Safety | Total |
| Retirees and beneficiaries currently receiving benefits | 7,247 | 1,272 | 8,519 | 6,739 | 1,232 | 7,971 |
| Terminated employees – vested | 3,468 | 167 | 3,635 | 3,268 | 162 | 3,430 |
| Current employees – vested | 10,662 | 1,627 | 12,289 | 10,983 | 1,600 | 12,583 |
| Current employees – nonvested | 6,007 | 659 | 6,666 | 6,214 | 617 | 6,831 |
| **Total** | **27,384** | **3,725** | **31,109** | **27,204** | **3,611** | **30,815** |

Employees become eligible for membership on their first day of regular employment and become fully vested after five years. General members are eligible for early retirement benefits upon completion of 10 years of service and attaining age 50, or 30 years of service regardless of age. Law enforcement and fire suppression employees (safety members) are eligible for retirement benefits upon completion of 10 years of service and attaining age 50, or 20 years of service regardless of age. Retirement benefits are calculated at 2% for General and 3% for Safety of final compensation, as defined in Section 31462 of the Retirement Law of 1937, for each completed year of service based on a normal retirement age of 55 for general members and 50 for safety members.

## SIGNIFICANT ISSUES IN THIS VALUATION

The following key findings were the result of this actuarial valuation:

*Ref: Pg. 10*

*Ref: Pg. 17*

- The market value of assets earned a return of -26.0% for the July 1, 2008 to June 30, 2009 plan year. The actuarial value of assets earned a return of 0.1% for the July 1, 2008 to June 30, 2009 plan year due to the deferral of most of the current year investment losses and the recognition of prior investment gains. This resulted in an actuarial loss when measured against the assumed rate of return of 8.00%. This actuarial investment loss increased the Plan's required contribution by 1.88% of compensation.

*Ref: Pg. 38*

- The ratio of the actuarial value of assets to actuarial accrued liabilities decreased from 93.6% to 91.0%. The Association's Unfunded Actuarial Accrued Liability (UAAL) increased from $432.1 million as of June 30, 2008 to $630.1 million as of June 30, 2009. The increase in the UAAL is mainly due to lower than expected actuarial investment return and other experience losses, offset to some degree by lower than expected salary increases and a transfer from undesignated excess earnings. A reconciliation of the Association's unfunded actuarial accrued liability is provided in Section 3, Exhibit I.

*Ref: Pg. 17*

- The aggregate employer rate increased from 14.15% of payroll to 15.40% of payroll. The contribution rate for the employer increased mainly due to the lower than expected investment return. A reconciliation of the Association's aggregate employer rate is provided in Section 2, Subsection D (see Chart 15).

*Ref: Pg. 18*

- The average member rate decreased from 9.37% to 9.31% of payroll. This decrease is primarily due to changes in the member population for the June 30, 2009 valuation. A reconciliation of the Association's average member rate is provided in Section 2, Subsection D (see Chart 16).

*Ref: Pg. 37*

- During 2008-2009 $68.5 million was transferred from undesignated excess earnings to reduce the contra account, thereby increasing the valuation value of assets.
- For the year ending June 30, 2009, there was not enough investment earnings (after "smoothing") to credit all valuation reserves with the assumed return, so that the 2% additional contingency reserve was used for interest crediting. The remaining shortfall in interest to be credited was $332 million and was allocated to the contra account.

*Ref: Pg. 5*

- As indicated in Section 2, Subsection B (see Chart 7) of this report, the total unrecognized investment loss as of June 30, 2009 is $1.8 billion. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes over the next few years. This means that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a **market value** basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would increase over the next few years as those losses are recognized.

- The unrecognized investment losses represent about 41% of the market value of assets. Unless offset by future investment gains or other favorable experience, the recognition of the $1.8 billion market losses is expected to have a significant impact on the Association's future funded ratio and the aggregate employer contribution rate. This potential impact may be illustrated as follows:
  - If the deferred losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 91.0% to 64.8%.
  - If the deferred losses were recognized immediately in the actuarial value of assets, the aggregate employer contribution rate would increase from 15.40% to 26.11%.
- The actuarial report as of June 30, 2009 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the plan, while increases will decrease the actuarial cost of the plan.

Impact of Future Experience on Contribution Rates

Future contribution requirements may differ from those determined in the valuation because of:

- Difference between actual experience and anticipated experience;
- Changes in actuarial assumptions or methods;
- Changes in statutory provisions; and
- Difference between the contribution rates determined by the valuation and those adopted by the Board.