

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** MARCH 11, 2014

**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer

**TO:** LOCAL AGENCY FORMATION COMMISSION



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**SUBJECT:** Agenda Item #8 – Status Report on Rim of the World Recreation and Park District Compliance with LAFCO Conditions on Service Review

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## **RECOMMENDATION:**

Staff recommends that the Commission:

1. Direct staff to continue to monitor the District's compliance with the condition related to financial reporting outlined in Resolution No. 3095;
2. Set another status report for presentation at the September 2014 hearing following adoption of the District's Final Budget; and,
3. Note receipt of the Status Report and file.

## **BACKGROUND:**

At the July 2010 hearing the Commission completed its service review for the Rim of the World Recreation and Park District ("District") through adoption of Resolution No. 3095. The Commission identified a number of financial issues which prompted it to question the District's financial solvency at that time. The Commission, in adopting its resolution making determinations on the service review, included four conditions that required ongoing monitoring of the District. Three of the four conditions have been met previously leaving a single item for ongoing monitoring:

*For the next five years the District is required to provide the Commission annually with a copy of its adopted proposed and final budget, its mid-year budget review and financial reports and copies of the audits presented to the District.*

At the October 7 2013, hearing the Commission was updated on progress made by the District. It was noted that the Audit for FY 2011-12 had been completed and presented but that questions remained on the items of deficiency identified by the District's audit team, as well as ongoing questions on the District's financial management systems. The matter was continued to allow for completion of the FY 2012-13 Audit.

On February 18, 2014, LAFCO staff received the Audit for 2012-13 from the District. However, staff noted that the Agenda for the District's January 27<sup>th</sup> meeting identifies that the audit to be approved was a "draft" not the final. The District responded to staff's questions noting its policy that the Audit is considered "draft" until approved by the Board of Directors. That approval was received at the January 27<sup>th</sup> meeting so the document included as Attachment #1 to this report is the final audit.

The weaknesses identified by the District's audit team, Rogers Anderson Malody and Scott (RAMS) were both significant and material weaknesses in the District's internal controls. These are the same weaknesses identified in the 2012 Audit report (copy included as Attachment #2) which were noted as being addressed by District staff. Since the two audits were completed within only a few months of each other, it is understandable that these are ongoing concerns. LAFCO staff would note that reconciliation of accounts was identified as a material weakness, which has contributed in the past to the questions on development of budgets and outstanding payments. The District, again, identified that it is taking the steps necessary to address these deficiencies.

The following outlines the status of the District's compliance with conditions imposed by the Commission:

1. Condition No. 1 requires the District to provide the Commission with copies of its proposed and final budget, its mid-year budget review and financial reports and audits. District staff has provided the documents upon request of LAFCO staff.
2. The District is now current with its Audits having completed the 2013 Audit as outlined above. The 2013 Audit identifies that the District has again exceeded its expenditure authority during the fiscal year. This concern has been identified on several occasions by LAFCO staff and the District's Auditors have made the same observation and expression of concern for the audit years of 2010-11, 2011-12, and 2012-13. However for FY 2012-13 the District did adopt a revised budget, through adoption of Revised Resolution 06122012-4A on August 26, 2013 (included as a part of Attachment #1); however, it appears this correction was not reflected in the Audit.

In the past two reviews of the audits for the District, LAFCO staff has questioned the terminology that identifies the District's revenue as "special assessment" revenue rather than its true nature being a special tax. It is possible that this distinction is not material to the audit team, but to the general public and the District the restrictions and uses are significantly different and should be addressed accurately.

3. The following chart, with information extracted from the adopted audits, identifies that the District has reined in expenses for the last two years when FY 2011-12 was restated in the 2012-13 Audit. This appears to be a product of the District's contract with RAMS to provide for an update in its chart of accounts and methods for reconciliation and is a positive step for the District to address the concerns of past practices.

		For the Year Ended June 30		
		2013	2012	2011
		Restated		
<b>REVENUE</b>				
Special Tax Proceeds		\$757,828.00	\$736,369.00	\$731,394.00
Delinquent Tax and Interest		\$9,370.00	\$9,762.00	\$8,058.00
Rents and Concessions		\$80,932.00	\$74,695.00	\$86,945.00
Intergovernmental		\$0.00	\$39,950.00	\$0.00
Charges for Service:				
Recreation		\$158,881.00	\$144,800.00	\$86,477.00
Childcare		\$141,512.00	\$179,111.00	\$148,491.00
Contributions and Donations		\$0.00	\$470.00	\$16,871.00
Other		\$2,495.00	\$8,254.00	\$28,022.00
<b>TOTAL REVENUES</b>		<b>\$1,151,018.00</b>	<b>\$1,193,411.00</b>	<b>\$1,106,258.00</b>
<b>Insurance Recovery</b>		<b>\$89,066.00</b>		
<b>Revenues</b>		<b>\$1,240,084.00</b>		
<b>EXPENDITURES</b>				
Administration:				
Salaries and Benefits		\$310,312.00	\$264,961.00	\$183,231.00
Services and Supplies		\$167,010.00	\$266,803.00	\$233,957.00
Utilities		\$83,960.00	\$74,540.00	\$81,204.00
Total Administration		\$561,282.00	\$606,304.00	\$498,392.00
Recreation				
Salaries and Benefits		\$48,832.00	\$51,734.00	\$55,730.00
Services and Supplies		\$230,062.00	\$98,394.00	\$39,338.00
Total Recreation		\$278,894.00	\$150,128.00	\$95,068.00
Child Care:				
Salaries and Benefits		\$129,979.00	\$149,828.00	\$153,806.00
Services and Supplies		\$16,564.00	\$31,426.00	\$66,062.00
Utilities		\$2,064.00	\$1,826.00	\$2,339.00
Total Child Care		\$148,607.00	\$183,080.00	\$222,207.00
Debt Service				
Principal		\$115,639.00	\$214,679.00	\$213,779.00
Interest		\$33,100.00	\$34,894.00	\$79,351.00
Total Debt Service		\$148,739.00	\$249,573.00	\$293,130.00
<b>TOTAL EXPENDITURES</b>		<b>\$1,137,522.00</b>	<b>\$1,189,085.00</b>	<b>\$1,108,797.00</b>
Beginning Fund Balance		\$179,326.00	\$175,000.00	-\$322,461.00
Ending Fund Balance		\$281,888.00	\$179,326.00	\$175,000.00

While these positive activities are noted; two items remain a concern to LAFCO staff: (1) the information shows that the Recreation activities are not self-sufficient requiring subsidies from the District's primary source of revenue, its special tax. In Fiscal Year 2012-13 the subsidy required was approximately \$31,000 when the insurance recovery is factored in; and (2) the Child Care activities also require an annual subsidy but its annual requirement has been substantially reduced. However, the mid-year budget review for the District (copy included as Attachment #3) identifies that there have been significant reductions in participation in this program. In general terms, both of these activities are considered to be enterprise activities as the District charges for the service which should come close to cost recovery. As the District considers additional programs for delivery in the future the questions regarding recovery of true costs should be addressed.

4. In the past LAFCO staff has identified as an ongoing concern that the District has not included a Management Discussion and Analysis (MD&A) within its audits. For the audit prepared for Fiscal Year 2012-13 this document has been included and the District has presented a response to the material and significant deficiencies identified by the Audit. The District's development of a new chart of accounts to allow it to reconcile its finances in a timelier manner is a positive step for the District and over time should allow it to better address its financial position. These are the types of steps the Commission envisioned when conducting its service review.
5. Since the last status report in October, the District has finalized its termination of participation in the San Bernardino County Employee Retirement Association (SBCERA) effective December 2, 2013. The actuarially determined unfunded liability for the District as of May 31, 2013 (the last date employees participated in SBCERA) is \$669,204. The District requested and has been authorized to pay this amount over a 20 year period at a rate of \$2,788.35 per month (copy of Resolution 01272014-2 included as Attachment #4) This is a new obligation for the District which required an amendment to the budget for the six payments to be processed in FY 2013-14 beginning January 2014. The total increase is \$16,730 for the current year and \$33,460 each year thereafter. No mention is made in the materials if there is interest to be charged on this debt.

With this new information, LAFCO staff has prepared a forecast of expenditures and revenues for the next two years, through to FY 2015-16. This forecast anticipates no change in special tax revenues, projects revenues based upon audited data, maintains charges for recreation and child care services at prior audit year levels, applies a 2.5% increase to audited salaries and services and supplies line items, retains the level of maintenance activities (excluding the flood damage expense) as this was the main emphasis in the special tax increase election, and included the new requirement for SBCERA repayment. As the chart which follows illustrates, there is the potential for the District to begin to reverse its positive financial gains in the coming years.

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Rim of the World Recreation and Park District  
March 11, 2014

	AUDITS			ADOPTED BUDGET 2014 Revised	FORECAST	
	For the Year Ended June 30				YEAR ENDING JUNE 30	
	2011	2012 Restated	2013		2015	2016
<b>REVENUE</b>						
Special Tax Proceeds	\$731,394.00	\$736,369.00	\$757,828.00	\$750,000.00	\$757,828.00	\$757,828.00
Delinquent Tax and Interest	\$8,058.00	\$9,762.00	\$9,370.00		\$9,500.00	\$9,500.00
Rents and Concessions	\$86,945.00	\$74,695.00	\$80,932.00	\$73,476.00	\$65,000.00	\$65,000.00
Intergovernmental	\$0.00	\$39,950.00	\$0.00			
Charges for Service:						
Recreation	\$86,477.00	\$144,800.00	\$158,881.00	\$170,000.00	\$158,881.00	\$158,881.00
Childcare	\$148,491.00	\$179,111.00	\$141,512.00	\$145,000.00	\$140,000.00	\$140,000.00
Contributions and Donations	\$16,871.00	\$470.00	\$0.00	\$1,000.00	\$0.00	\$0.00
Other	\$28,022.00	\$8,254.00	\$2,495.00	\$3,500.00	\$5,000.00	\$5,000.00
<b>TOTAL REVENUES</b>	<b>\$1,106,258.00</b>	<b>\$1,193,411.00</b>	<b>\$1,151,018.00</b>	<b>\$1,142,976.00</b>	<b>\$1,136,209.00</b>	<b>\$1,136,209.00</b>
Insurance Recovery			\$89,066.00			
Revenues			\$1,240,084.00			
<b>EXPENDITURES</b>						
Administration:						
Salaries and Benefits	\$183,231.00	\$264,961.00	\$310,312.00	\$330,069.80	\$338,321.55	\$346,779.58
Services and Supplies	\$233,957.00	\$266,803.00	\$167,010.00	\$183,185.25	\$187,764.88	\$192,459.00
Utilities	\$81,204.00	\$74,540.00	\$83,960.00	\$86,059.00	\$88,210.48	\$90,415.74
SBCERA Termination Payment				\$16,730.10	\$33,460.20	\$33,460.00
Total Administration	\$498,392.00	\$606,304.00	\$561,282.00	\$616,044.15	\$647,757.10	\$663,114.32
Recreation						
Salaries and Benefits	\$55,730.00	\$51,734.00	\$48,832.00	\$50,291.80	\$51,549.10	\$52,837.82
Services and Supplies	\$39,338.00	\$98,394.00	\$230,062.00	\$157,813.55	\$161,758.89	\$165,802.86
Total Recreation	\$95,068.00	\$150,128.00	\$278,894.00	\$208,105.35	\$213,307.98	\$218,640.68
Child Care:						
Salaries and Benefits	\$153,806.00	\$149,828.00	\$129,979.00	\$133,228.48	\$136,559.19	\$139,973.17
Services and Supplies	\$66,062.00	\$31,426.00	\$16,564.00	\$32,211.65	\$33,016.94	\$33,842.36
Utilities	\$2,339.00	\$1,826.00	\$2,064.00	\$2,115.60	\$2,168.49	\$2,222.70
Total Child Care	\$222,207.00	\$183,080.00	\$148,607.00	\$167,555.73	\$171,744.62	\$176,038.23
Debt Service						
Principal	\$213,779.00	\$214,679.00	\$115,639.00	\$16,661.00	\$17,658.00	\$18,740.00
Interest	\$79,351.00	\$34,894.00	\$33,100.00	\$31,886.00	\$30,782.00	\$29,700.00
Total Debt Service	\$293,130.00	\$249,573.00	\$148,739.00	\$48,547.00	\$48,440.00	\$48,440.00
<b>TOTAL EXPENDITURES</b>	<b>\$1,108,797.00</b>	<b>\$1,189,085.00</b>	<b>\$1,137,522.00</b>	<b>\$1,040,252.23</b>	<b>\$1,081,249.70</b>	<b>\$1,106,233.24</b>
<b>Change in Fund Balance</b>		<b>\$4,326.00</b>	<b>\$13,496.00</b>	<b>\$102,723.78</b>	<b>\$54,959.30</b>	<b>\$29,975.76</b>
Beginning Fund Balance	-\$322,461.00	\$175,000.00	\$179,326.00	\$281,888.00	\$384,611.78	\$439,571.07
Ending Fund Balance	\$175,000.00	\$179,326.00	\$281,888.00	\$384,611.78	\$439,571.07	\$469,546.83

In concluding this status report on compliance, the District continues to work toward resolution of its financial reporting and management issues as identified by LAFCO staff and its Audit team. LAFCO staff believes that many of the questions and concerns identified by the Commission are being addressed. However, staff has outlined its concern that the District may be moving toward an unsustainable position, much as it was before the increase in the special tax was approved. LAFCO staff feels confident that the District and its staff will provide the attention to this issue needed to preclude the problems of the past from resurfacing.

LAFCO staff recommends that a further status report on compliance be scheduled for the September 2014 hearing in order to review the final budget materials for Fiscal Year 2014-15 and other information provided by the District. Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM

Attachments:

1. [Audit for Fiscal Year 2012-13 and Copy of Action Item #1 from August 26, 2013 Board of Directors Meeting Amending FY 2012-13 Budget](#)
2. [Audit for Fiscal Year 2011-12](#)
3. [District Mid-Year Budget Review Including Resolution No. 01272014-1 Increasing Expenditure Authority and Resolution 01272014-2 for Settlement Agreement with SBCERA](#)
4. [District Resolution No. 01272014-2 For Settlement Agreement with San Bernardino County Employees' Retirement Association for Termination of Participation](#)