

# **Audit for Fiscal Year 2011-12**

**Attachment 2**

# Memorandum

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**To:** Rim of the World Recreation and Park District  
Board of Directors and;

Rogers, Anderson, Malody & Scott, LLP

**From:** Karen Reams, General Manager  
Robyn Sydow, Finance Manager

**Date:** June 10, 2013

**Re:** Management Review of 2011 and 2012 Audit

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Listed below is the Audit Report for the 2011 and 2012 Audit of the Rim of the World Recreation and Park District. You will also find the Auditors Observation, Recommendations, and the ROWRPD staff's Management Response.

*From the Auditors Report:*

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Rim of the World Recreation and Park District (the District) as of and for the year ended June 30, 2011, and June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain

deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in District's internal control to be material weaknesses (items 1-5).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the District's internal control to be significant deficiencies (items 6-8).

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

## ***MATERIAL WEAKNESSES***

(1)

### ***Accounting policies and procedures manual***

#### *Observation*

During our review of internal controls, we noted that the District does not have a current written policies and procedures manual for accounting practices and procedures. The current manual was adopted in 1987. Updated manuals are needed in order to stay current with the District's operating and compliance environment. An updated accounting and procedures manual, adopted by the District Board, would help to ensure that the District's financial activity is recorded and reported in an accurate and timely manner, even when there is a change in staff. Such a manual could greatly minimize the time required to train any new staff members with accounting responsibilities. Issues that can be addressed in such a manual include, but are not limited to, specifying closing practices to be followed for preparation of financial reports, journal entry processes, cash receipts and disbursement

procedures, descriptions of responsibilities for personnel involved in the accounting process, and the approval process.

*Recommendation*

We recommend that the District update its current written manual addressing all pertinent accounting policies and procedures that have developed over the past 20 years.

*Management Response*

*We agree that our manual should be updated and kept current to reflect any new policies and procedures that are implemented as our operations are streamlined. We are in the process of getting this policy manual approved by the Board of Directors in 2013/14.*

(2)

***Fraud risk assessment***

*Observation*

While performing our review of the District's internal control over financial reporting, we noted that the District has not developed a fraud risk assessment program. A formal fraud risk assessment program is an essential part of internal control over financial reporting. The assessment should address such issues as management's understanding of fraud within the government (including specific fraud risks to be identified), programs and controls implemented to address identified fraud risks (or otherwise help prevent, deter, and detect fraud), management's understanding of the susceptibility of the government's operating locations to fraud and how those locations are to be monitored and how ethical behavior is to be communicated to employees.

*Recommendation*

Therefore, in order to strengthen internal controls over financial reporting, we recommend that the District adopt a formal fraud risk assessment program, at a minimum covering the above-mentioned items.

*Management Response*

*We agree that a fraud risk assessment program should be developed. To achieve this goal, it would be beneficial if staff seeks out examples from other organizations of our similar size and structure whom have implemented such a program.*

(3)

**Segregation of duties**

*Observation*

During our audit of the District, we noted a lack of segregation of duties in the District's accounting process. Proper segregation of duties dictates that the functions of recording, authorization, custody and execution are not dominated by one individual. This separation reduces the possibility of fraud and defalcations from occurring and provides adequate controls to ensure the integrity of the information provided by the District's financial reporting system. As stated above, an adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. However, we realize that this is due to the limited number of employees available to the District to perform numerous, and sometimes incompatible, duties. As such, there may be no practical corrective action possible for this inherent weakness. However, we believe it is important for management and the Board to be aware that whenever a limited number of people are in control of the accounting process, the system is far more susceptible to errors or other irregularities, either intentional or unintentional, not being discovered.

*Recommendation*

We recommend the District implement other safeguards, such as heavy management/board oversight, requiring various approvals for disbursements and other transactions such as nonrecurring journal entries, and requiring two signatures on all checks to help mitigate any effects of the above condition.

*Management Response*

*We have recently or are in the process of implementing the following: 1) review and approval by the General Manager of each bi-weekly payroll; 2) preparation of vendor checks only under the terms of an approved purchase order or blanket purchase order; and, 3) front desk signage telling our customers to always obtain a receipt for any monies given to the District. Separate personnel then reconcile receipt book detail to aggregate deposits made into the District's operating bank account.*

(4)

***Financial statement close process/material misstatements***

*Observation*

We noted in the audit process the District's financial close process is flawed which resulted in material misstatements in the financial statements. We believe there are ineffective controls to ensure timely review of all account reconciliations and significant financial statement amounts. These conditions could potentially result in a material misstatement to the District's financial statements that would not be prevented or detected on a timely basis.

*Recommendation*

To improve the financial close process, we recommend the District establish a monthly reconciliation process of all significant balance sheet and income statement accounts which include proper reviews and approvals. By doing this throughout the year, the District will be better prepared for the audit at year-end thus reducing the risk of a material misstatement due to error. In addition, timely reconciliations are a strong deterrent to misappropriation of assets or fraudulent financial reporting.

*Management Response*

*We agree. Moreover, in light of the amount of time which has transpired since some accounts were last reconciled, combined with our limited staff resources, the Board of Directors will need to make decisions regarding the allocation of District resources which will determine the time frame and scope of our implementation.*

(5)

***Aged accounts receivable maintenance***

*Observation*

Over the past few years, the amount of accounts receivable due over one year has not been properly monitored. Currently, Management does not prepare periodic aging analyses of customer accounts receivable balances. Periodic preparation and review of such an analysis would allow for prompt action on delinquent accounts. Collections on delinquent accounts are likely to be better the earlier the collection

efforts are started. We believe that once a receivable is over 90 days old, it becomes increasingly difficult to collect. Uncollectible accounts should be written off and sent to collections (if desired).

In addition, the detail of all accounts receivable should be reviewed on a monthly basis for the following unusual items:

1. Unusually large entries or transactions.
2. Unusual credits.
3. Credit balances.
4. Significant delinquent balances.
5. Unusual items or patterns (such as an unusual number or credits or write-offs by one employee).
6. Unusual credit memos or voids, late charges or misclassifications.
7. Accounts written off shortly after being established, particularly ones on which no payments were recorded.

#### *Recommendation*

We recommend the District implement procedures to address the above conditions. As of now, valuing accounts receivable is already a difficult endeavor, but if the issues above are not addressed in a timely manner, valuation of accounts receivable will only become more cumbersome and difficult.

#### *Management Response*

*Management agrees with this and has set in to practice in fiscal year 2013 to address these conditions. These accounts will be monitored on a monthly basis.*

### **SIGNIFICANT DEFICIENCIES**

(6)

#### ***Delinquent accounts receivable write-offs***

#### *Observation*

In coordination with item 5 above, delinquent accounts deemed to be uncollectible should be written off by the District. After an analysis of uncollectible accounts, the District general manager or the board should authorize the write-off of identified accounts.

*Recommendation*

We recommend the District implement procedures to address the above conditions.

*Management Response*

*Management agrees with this and will bring a new policy in fiscal year 2013 by authorizing the Board of Directors to write-off of identified accounts.*

(7)

**Update signature cards**

*Observation*

During our audit of cash balances, we noted that persons no longer associated with the District are still listed on the District's signature card for the Union Bank checking account. Such a situation is a security risk over the District's checking account.

*Recommendation*

We recommend the District update its authorized check signers immediately by contacting the bank, in writing, as soon as possible. To prevent its recurrence, we recommend that the District periodically check the signature cards and make any updates as necessary and that the bank be promptly and formally notified.

*Management Response*

*This has been corrected in fiscal year 2011.*

(8)

**Outstanding checks**

*Observation*

Our review of accounting procedures revealed that several checks and deposits from 2005 are still showing as outstanding as of the latest 2011 bank reconciliation. Having outstanding checks for long periods of time hinders the accounting personnel's ability to reflect an accurate cash balance and adds necessary steps to the bank reconciliation process.

*Recommendation*

We recommend District personnel investigate all outstanding checks on a regular basis. Stop payment notices should be sent as needed and checks should be written off when deemed necessary. This practice will provide a much stronger control over cash and the bank reconciliation process.

*Management Response*

*District staff is in the process of reconciling these outstanding checks. This process will be complete in fiscal year 2013 and will continue to be completed on a monthly basis.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Local Agency Formation Commission for San Bernardino County (Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the financial statements as outlined in the table of contents.

### Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how the services were financed in the short-term as well as what remains for future spending.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts - management's discussion and analysis (this section), and the basic financial statements. The basic financial statements provide both long-term and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements also include additional budgetary information.

### Reporting the Commission as a Whole

The accompanying Government-wide financial statements include two statements that present financial data for the Commission as a whole. An important question to be asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

The statements report the Commission's net assets and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities - as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in the Commission's revenues, to assess the overall health of the Commission.

### Reporting the Commission's Fund Activity

The fund financial statements provide detailed information about the Commission's governmental fund as it operates under a single-program government fund. All of the Commission's basic services are reported in its General Fund. The fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. We describe the relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) in the reconciliation following the fund financial statements.

The following table provides the Statement of Net Assets for the past two fiscal years:

**TABLE 1  
NET ASETS – GOVERNMENTAL ACTIVITIES**

	2011-12	2010-11	Difference
<b>Assets:</b>			
Cash and investments	\$ 481,982	\$ 305,056	\$ 176,926
Capital assets, net of depreciation	7,022	8,192	(1,170)
Accounts receivable	5,596	0	5,596
<b>Total Assets</b>	<b>494,600</b>	<b>313,248</b>	<b>181,352</b>
<b>Liabilities:</b>			
Accounts payable	24,982	5,915	19,067
Salaries and benefits payable	28,122	23,674	4,448
Unearned revenue	7,832	15,642	(7,810)
Deposits payable	2,593	16,647	(14,054)
Compensated absences	70,604	57,675	12,929
<b>Total Liabilities</b>	<b>134,133</b>	<b>119,553</b>	<b>14,580</b>
<b>Net Assets:</b>			
Invested in capital assets	7,022	8,192	(1,170)
Unrestricted	353,445	185,503	167,942
<b>Total Net Assets</b>	<b>\$ 360,467</b>	<b>\$ 193,695</b>	<b>\$ 166,772</b>

The following table provides the Statement of Activities for the past two fiscal years:

**TABLE 2  
CHANGE IN NET ASETS – GOVERNMENTAL ACTIVITIES**

	2011-12	2010-11	Difference
<b>Revenues</b>			
Charges for services	\$ 58,930	\$ 92,509	\$ (33,579)
Operating contributions	933,639	1,033,911	(100,272)
Interest	3,992	6,569	(2,577)
<b>Total Revenues</b>	<b>996,561</b>	<b>1,132,989</b>	<b>(136,428)</b>
<b>Expenses</b>	<b>829,789</b>	<b>976,769</b>	<b>(146,980)</b>
<b>Change in Net Assets</b>	<b>166,772</b>	<b>156,220</b>	<b>10,552</b>
Net Assets Beginning	193,695	37,475	156,220
<b>Net Assets Ending</b>	<b>\$ 360,467</b>	<b>\$ 193,695</b>	<b>\$ 166,772</b>

The tables presented above show an overall reduction in the receipt of revenues, as well as reductions in expenditures for both personnel and operations. Some of the more significant

reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Table 1 -- The return of the Executive Officer as a contract employee for the entire fiscal year reduced overall salaries and benefits.
- Table 2 -- Revenues related to proposal activity were significantly reduced (\$33,579 less than prior year or 36%) due to the economic climate within the region which translates into a corresponding reduction in proposal activity.
- Table 2 - Apportionment contributions decreased by \$100,272 during the period due to the Commission's determination to reduce overall costs.
- Table 2 -- Overall, total expenditures decreased by \$146,980 over the prior year. Therefore, Net Assets Ending continues to show movement in a positive direction.

The following table provides a summary of the Long Term Liabilities for the past two fiscal years:

**TABLE 3  
LONG-TERM LIABILITIES**

	<b>2011-12</b>	<b>2010-11</b>	<b>Difference</b>
<b>Compensated Absences</b>	\$ 70,604	\$ 57,675	\$ 12,929

Compensated Absences is comprised of the year-end balances for administrative, holiday, vacation, and sick leaves. For sick-leave calculations, LAFCO's Benefits Plan Section 108 (E) – Retirement Medical Trust – states that those employees with more than five years of service shall receive 75% of their accumulated sick leave, up to a max of 1,400 hours, paid into the Trust at their current rate of pay upon leaving the employ of the Commission. The calculation within the financial statements of compensated absences accommodates this Benefit Plan determination. During Fiscal Year 2011-12 compensated absences increased by \$12,929, calculated as follows:

- Additions of \$51,327 comprised of natural balance accruals for four employees and one employee becoming vested for accumulated sick leave.
- Additions of \$6,182 due to Administrative Leave now being counted as a liability.
- Deletions of \$44,580 comprised of leave taken during the fiscal year for four employees.

The total for Reserves and Contingencies increased from \$159,305 in FY 2010-11 to \$339,510. Contingencies and General Reserve each increased from the prior year. Also, the Commission established two additional reserve categories to accommodate future costs related to the Countywide Cost Allocation Plan (COWCAP) and compensated absences.

**TABLE 4  
CONTINGENCIES AND RESERVES**

	<b>2011-12</b>	<b>2010-11</b>
<b>Contingencies</b>	\$ 41,507	\$ 35,197
<b>General Reserve</b>	180,000	124,108
<b>COWCAP Reserve</b>	56,000	--
<b>Compensated Absences Reserve</b>	62,003	--
<b>Total</b>	<b>\$ 339,510</b>	<b>\$ 159,305</b>

***Contacting the Commission's Financial Management:***

This financial report is designed to provide our citizen's, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 215 North D Street, Suite 204, San Bernardino, CA 92415-0490.

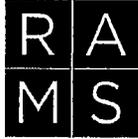
Rim of the World Recreation and Park District

Report on Audit

June 30, 2012

**Rim of the World Recreation and Park District  
Basic Financial Statements  
Table of Contents**

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Assets	3
Statement of Activities	4
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Fund	5
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	8
<b>Notes to the Basic Financial Statements</b>	9 – 21
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	22
Notes to Required Supplementary Information	23



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Board of Directors  
Rim of the World Recreation and Park District

**PARTNERS**

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Matthew B. Wilson, CPA, MSA, CGMA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

**MANAGERS / STAFF**

Nancy O'Rafferty, CPA, MBA  
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Jenny Liu, CPA, MST  
Papa Matar Thlaw, CPA, MBA  
Maya S. Ivanova, CPA, MBA  
Peter E. Murray, CPA  
Seong-Hyea Lee, CPA, MBA  
Charles De Simoni, CPA  
Yiann Fang, CPA

**MEMBERS**

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Rim of the World Recreation and Park District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the 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 the major fund of the District as of June 30, 2012, 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.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Rogers Anderson Maloney & Scott, LLP*

August 1, 2013

**Rim of the World Recreation and Park District  
Statement of Net Assets  
June 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 312,151
Accounts receivable, net	17,837
Intergovernmental receivables	19,437
Capital assets not being depreciated	1,312,849
Capital assets being depreciated, net	<u>1,168,606</u>
Total assets	<u>2,830,880</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	122,374
Other current liabilities	63,430
Noncurrent liabilities:	
Due within one year	117,730
Due in more than one year	<u>513,130</u>
Total liabilities	<u>816,664</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,957,843
Unrestricted	<u>56,373</u>
Total net assets	<u><u>\$ 2,014,216</u></u>

*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District  
Statement of Activities  
For the year ended June 30, 2012**

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net Governmental Activities</u>
Governmental activities:					
Administration	\$ 562,639	\$ 820,826	\$ 40,070	\$ -	\$ 298,257
Recreation	200,517	144,800	4,533	-	(51,184)
Childcare	187,649	179,111	277	-	(8,261)
Interest expense	<u>34,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,894)</u>
Total governmental activities	<u>\$ 985,699</u>	<u>\$ 1,144,737</u>	<u>\$ 44,880</u>	<u>\$ -</u>	203,918
General revenues:					
Other					<u>3,794</u>
Total general revenues					<u>3,794</u>
Change in net assets					207,712
Net assets, beginning of year					<u>1,806,504</u>
Net assets, end of year					<u>\$ 2,014,216</u>

*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District  
Balance Sheet  
Governmental Fund  
June 30, 2012**

**ASSETS**

Cash	\$ 312,151
Accounts receivable, net	17,837
Intergovernmental receivable	<u>19,437</u>
Total assets	<u><u>\$ 349,425</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities:

Accounts payable and accrued liabilities	\$ 122,374
Other current liabilities	<u>63,430</u>
Total liabilities	<u>185,804</u>

Fund balance:

Unassigned	<u>163,621</u>
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Total fund balance	<u>163,621</u>
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Total liabilities and fund balance	<u><u>\$ 349,425</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District  
Reconciliation of the Balance Sheet of the Governmental Fund  
to the Statement of Net Assets  
Governmental Fund  
June 30, 2012**

<b>Fund balance of governmental fund</b>	<b>\$ 163,621</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,481,455
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds.	
Notes payable - Union Bank	(523,612)
County loan payable	(100,000)
Compensated absences payable	<u>(7,248)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 2,014,216</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the year ended June 30, 2012**

**REVENUES**

Special assessments	\$ 736,369
Delinquent assessments and interest	9,762
Rents and concessions	74,695
Intergovernmental	39,950
Charges for services:	
Recreation	128,892
Childcare	179,111
Contributions and donations	470
Other	24,162
	<hr/>
Total revenues	1,193,411

**EXPENDITURES**

Administration:	
Salaries and benefits	264,961
Services and supplies	282,508
Utilities	74,540
Recreation:	
Salaries and benefits	100,047
Services and supplies	50,081
Childcare:	
Salaries and benefits	149,828
Services and supplies	31,426
Utilities	1,826
Debt service:	
Principal	214,679
Interest	34,894
	<hr/>
Total expenditures	1,204,790
Net change in fund balance	(11,379)
Fund balance, beginning of year	175,000
	<hr/>
Fund balance, end of year	\$ 163,621

*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balance of the Governmental Fund to the  
 Statement of Activities  
 For the year ended June 30, 2012**

**Net change in fund balance - total governmental fund** \$ (11,379)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized, less net book value of disposals	69,735
Depreciation expense	(66,814)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payment on loans	214,679
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Compensated absences expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	1,491
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**Change in net assets of governmental activities** **\$ 207,712**

*The accompanying notes are an integral part of these financial statements.*

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 1: Summary of Significant Accounting Policies**

The accounting policies of the Rim of the World Recreation and Park District (the District) conform to generally accepted accounting principles.

***Organization***

The District was established on December 5, 1985 by the issuance of the Certificate of Completion by the Local Agency Formation Commission (LAFCO). The District is governed by an elected Board of Directors, elected by District voters.

The District acquires and manages parks for public use, organizes and manages recreational activities, as well as assisting other groups and organizations with recreational endeavors. Childcare is also provided at various locations within the District to provide recreational activities for children as well as providing needed daytime child supervision for the individuals within the District.

The District's primary source of revenue comes from a \$22 per parcel special parcel tax for each non-exempt parcel (parcels located within Cedar Pines Park as well as government owned parcels are considered exempt) within the District boundaries. In April 2010, the District held a successful election which increased the per parcel special parcel tax from \$10 to \$22 annually. In addition, the District charges childcare fees, recreational fees for various programs as well as facilities use fees, including reimbursements for various costs such as ball field lighting. The District has no power to levy and collect taxes.

***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 basic financial statements

***Government-wide financial statements***

Government-wide financial statements display information about the reporting government as a whole; except for any fiduciary activities (the District has no fiduciary activities). Those statements include separate columns for the governmental and business-type activities of the entity (including any blended component units), as well as its discretely presented component units. The District has no business-type activities or component units.

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 expenditures 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.

**Rim of the World Recreation and Park District**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**Note 1: Summary of Significant Accounting Policies (continued)**

Program revenues include charges for services and payments made by parties outside of the reporting government'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.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds from debt issued are recorded as a liability in the government-wide financial statements, rather than as *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.

***Net asset flow assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net assets and unrestricted - net assets in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

***Fund financial statements***

The underlying account 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, fund equity, revenues and expenditures or expenses, as appropriate. 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 District's governmental fund 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. Currently, the District has only one fund.

***Governmental funds***

In the fund financial statements, the governmental fund is presented using the *modified-accrual basis of accounting*. 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 the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The District uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental fund in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided.) *Locally imposed derived 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 were 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.

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 1: Summary of Significant Accounting Policies (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 spendable 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 spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental 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 debt issued are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

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

***Fund balance flow assumptions***

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Accounts receivable***

Accounts receivable are reported at their estimated net realizable value. The allowance for doubtful accounts is estimated based on the District's historical losses and existing economic conditions. Because of the inherent uncertainty in estimating bad debts, it is reasonably possible that the estimates used to calculate the allowance will change in the near term. Currently, accounts receivable are reported in the financial statements as follows:

Accounts receivable	\$	34,570
Allowance for uncollectible accounts		<u>(16,733)</u>
Net realizable value	\$	<u>17,837</u>

***Fund classifications***

The following fund is presented as a major fund in the accompanying basic financial statements:

The *General Fund* is used to account for all activity not required to be accounted for in another fund.

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 1: Summary of Significant Accounting Policies (continued)**

***Fair value investments***

GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

***Cash and investments***

Cash and investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* include interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

***Capital assets***

Capital assets of \$5,000 or more are capitalized. Capital assets are recorded at cost for asset purchases where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution.

The estimated useful lives of capital assets using the straight-line method of depreciation are as follows:

Category	Useful life
Buildings and improvements	10 – 50 years
Machinery and equipment	2 – 20 years

***Compensated absences***

Salaried full-time employees earn vacation and sick leave benefits, and can accumulate a balance from year to year. The amount payable in future years when used by the District's employees amounted to \$7,248 at June 30, 2012.

***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period.

***Property taxes/assessments***

The County of San Bernardino (County) bills and collects property taxes/assessments on behalf of numerous special districts and incorporated cities, including the District. The District's collections of current year taxes/assessments are received through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes/assessments attach a lien on the property on March 1. Taxes/assessments are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 1: Summary of Significant Accounting Policies (continued)**

***Implementation of new pronouncements***

Beginning with the current fiscal year, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The District Board (the highest level of authority), establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Board has not formally authorized any individual or body to assign fund balance.

**Note 2: Cash and Investments**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash	\$ 312,151
	<hr/>
Total cash and investments	\$ 312,151
	<hr/> <hr/>

Cash and investments as of June 30, 2012 consist of the following:

Cash in County pool	\$ 267,378
Bank deposits	35,363
Petty cash and undeposited funds	9,410
	<hr/>
Total cash and investments	\$ 312,151
	<hr/> <hr/>

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 2: Cash and Investments (continued)**

***Equity in the cash and investment pool of the County of San Bernardino***

Cash and investments includes the cash balance of monies deposited with the County of San Bernardino Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2012. The District's balance at the County's cash and investment pool was \$267,378 at year end. Fair value is based on data provided by the County. The County pool is not rated.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**Investments authorized by the California Government Code and the District's investment policy**

The table below identifies the *investment types* that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Investment types authorized by investment policy	Maximum maturity*	Maximum percentage of portfolio*	Maximum investment in one issuer*
Bonds issued by the District	5 years	None	None
US Treasury bills, notes and bonds	5 years	None	None
Registered State warrants, notes or bonds	5 years	None	None
Local Agency debt	5 years	None	None
US Agency obligations	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	180 days	15%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20%	None
Corporate medium term notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass through securities	5 years	20%	None

\* = Based on state law requirements or investment policy requirements, whichever is more restrictive.

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 2: Cash and Investments (continued)**

**Disclosure relating to interest rate risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by diversifying its investment maturities evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

<u>Investment type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
County pool	<u>\$ 267,378</u>	<u>\$ 267,378</u>

***Disclosures relating to interest rate risk, credit risk and custodial credit risk***

The Federal Deposit Insurance Corporation insures all accounts at each bank up to \$250,000 through December 31, 2013. At June 30, 2012, the District had aggregate deposits of \$53,296 with Bank of America and \$2,315 with Union Bank of California.

***Disclosures relating to credit risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Currently the County pool is unrated.

***Custodial credit risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Rim of the World Recreation and Park District**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**Note 2: Cash and Investments (continued)**

**Concentration of credit risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of *total District investments* for the year ended June 30, 2012.

**Note 3: Capital Assets**

Changes in capital assets for the fiscal year ended June 30, 2012, were as follows:

	Beginning balance	Additions	Deletions	Ending balance
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 574,257	\$ -	\$ -	\$ 574,257
Improvements to land	738,592	-	-	738,592
<b>Total capital assets not being depreciated</b>	<b>1,312,849</b>	<b>-</b>	<b>-</b>	<b>1,312,849</b>
Capital assets being depreciated:				
Structures and improvements	1,805,213	8,000	-	1,813,213
Equipment	114,720	35,695	-	150,415
Depreciable improvements to land	38,544	26,040	-	64,584
<b>Total capital assets being depreciated</b>	<b>1,958,477</b>	<b>69,735</b>	<b>-</b>	<b>2,028,212</b>
Less accumulated depreciation	(792,792)	(66,814)	-	(859,606)
<b>Total capital assets being depreciated, net</b>	<b>1,165,685</b>	<b>2,921</b>	<b>-</b>	<b>1,168,606</b>
<b>Total capital assets, net</b>	<b>\$ 2,478,534</b>	<b>\$ 2,921</b>	<b>\$ -</b>	<b>\$ 2,481,455</b>

Depreciation expense has been charged to the following functions as follows:

Administration	\$ 11,165
Recreation	50,649
Childcare	5,000
<b>Total depreciation expense</b>	<b>\$ 66,814</b>

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 4: Long-Term Liabilities**

Changes in long-term debt for the fiscal year ended June 30, 2012, were as follows:

	Beginning balance	Additions	Deletions	Ending balance	Current portion
Note payable - Union Bank	\$ 538,291	\$ -	\$ (14,679)	\$ 523,612	\$ 15,556
County loan	300,000	-	(200,000)	100,000	100,000
Compensated absences	8,739	-	(1,491)	7,248	2,174
Total long-term liabilities	<u>\$ 847,030</u>	<u>\$ -</u>	<u>\$(216,170)</u>	<u>\$ 630,860</u>	<u>\$ 117,730</u>

Outstanding at  
June 30, 2012

**Note payable - Union Bank**

In November 2005, the District refinanced its \$600,000 note payable, which was due on March 3, 2006, for \$606,000. The note requires monthly payments of \$4,037 based on a 25 year amortization schedule at an interest rate of 6.35%. At the end of the tenth year, a balloon payment of the remaining balance is due and payable.

\$ 523,612

**Loan payable - County of San Bernardino**

In July 2010, the District received a loan from the County of San Bernardino in the amount of \$500,000 to be used to eliminate amounts owed to the Registrar of Voters and the County Treasury Pool. The loan is to be repaid in five equal installments with payments due in April and December. Interest on the loan shall be charged at the same rate the County applies to funds on deposit with the County treasury.

100,000

Total notes and loans payable

\$ 623,612

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 4: Long-Term Liabilities (continued)**

The annual requirements to amortize the Union Bank note payable outstanding as of June 30, 2012, including interest payments to maturity, are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 15,556	\$ 32,883
2014	16,573	31,886
2015	17,658	30,782
2016	<u>473,825</u>	<u>8,693</u>
Totals	<u>\$ 523,612</u>	<u>\$ 104,244</u>

The annual requirements to amortize the County Loan payable outstanding as of June 30, 2012, including interest payments to maturity, are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	<u>\$ 100,000</u>	<u>\$ 197</u>

**Note 5: Employees' Retirement Plans**

Currently, the District participates in the following retirement plans:

*San Bernardino County Employees' Retirement Association (SBCERA) – defined benefit*

***Plan description***

The SBCERA is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, there are approximately 19 other local government agencies in the plan including the District. The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement at 348 W. Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary responsibility***

The 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. The SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The SBCERA is also a legally separate entity from the County and not a component unit.

**Rim of the World Recreation and Park District**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**Note 5: Employees' Retirement Plans (continued)**

**Funding policy**

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 7.42% - 12.95% and safety members 9.54% - 15.32% of their annual covered salaries. All employers combined are required to contribute 15.4% of the current year covered payroll.

The County's (as a whole) annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2012, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$ 229,169
Interest on pension assets	(55,733)
Adjustment to the annual required contribution	73,086
Annual pension cost	246,522
Annual contributions made	229,169
Increase/(decrease) in pension assets	(17,353)
Pension assets, beginning of year	719,134
Pension assets, end of year	\$ 701,781

The following table shows the County's (as a whole) required contributions and percentage contributed, for the current year and two preceding years:

Year ended June 30,	Annual contributions made (in thousands)		Percentage contributed
	SBCERA	County	
2010	\$ 243,773	\$ 197,097	100%
2011	258,128	213,311	100%
2012	278,091	229,169	100%

The County, along with the SCAQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the SCAQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The current amount outstanding at June 30, 2012 is \$401,650,000.

During the current fiscal year, the District contributed \$13,077 to the plan.

**Rim of the World Recreation and Park District**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**Note 5: Employees' Retirement Plans (continued)**

*Accumulation Program for Part-time and Limited Service Employees (APPLE) – defined contribution*

The District currently offers a defined contribution plan for employees classified as part-time, seasonal or temporary and who are not eligible to participate in the PERS 457 plan. The plan is administered by Keenan & Associates and MidAmerica Administrative Services. The District contributes 3.75% percent of the employee's compensation. In addition, each participant is required to contribute 3.75% of their salary. For the current year, the District contributed \$1,640 in matching funds on behalf of District employees in the plan.

*PERS 457 Plan – defined contribution*

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Currently, the District contributes 10% of the employee salary. Pursuant to the IRC 457 subsection (g): all amounts of compensation deferred under the plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the plan. Deferred compensation funds are not subject to claims of the District's general creditor; consequently the assets and related liabilities of the plan are not included within the District's financial statements.

**Note 6: Commitments and Contingencies**

The District, from time to time, receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. District management believes such disallowances, if any, would not have a material effect on the District's financial position.

**Note 7: Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters for which the District carries commercial insurance.

*Insurance pooling* - The District participates in the California Association for Park and Recreation Indemnity (CAPRI) insurance program. CAPRI is a joint powers agency comprised of California special districts.

- *General liability* – Coverage with a \$1,000,000 limit per occurrence. CAPRI also purchases an excess policy with limits of \$24 million excess of \$1,000,000. There is no deductible for general liability claims.
- *Public officials and employee liability* – Coverage with an aggregate limit of \$25,000,000 per member district because of wrongful acts. For each covered claim, there is a \$20,000 deductible.
- *All risk property loss* – Coverage with an annual aggregate limit of \$1,000,000,000, subject to a \$2,000 deductible. Earthquake coverage has an annual aggregate limit of \$5,000,000 and flood with an annual limit of \$10,000,000. The deductible for all loss or damage arising from the risks of flood/earthquake is \$50,000 per occurrence or 5% of the value of the building, contents and/or structure damage, whichever is greater.

Major loss risks are covered by umbrella policies, but several losses and multiple deductible losses to the group could result in additional assessments to the District. The pool has substantial reserves and has not requested additional assessments of members since the District began participation. Management considers the likelihood of such an assessment to be remote.

**Rim of the World Recreation and Park District  
Notes to the Basic Financial Statements  
June 30, 2012**

**Note 7: Risk Management (continued)**

Workers compensation coverage is provided by the Special District Risk Management Authority (SDRMA). SDRMA is an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq.. Statutory limits per occurrence for workers compensation and \$5,000,000 for employers liability coverage.

**Note 8: County Advance Commitment**

Special assessments are collected and paid to the District by the County of San Bernardino in accordance with its property tax calendar (as described in Note 1 of these financial statements). The majority of the assessments are paid to the District in December and April. Assessments received by the District are used to pay current costs of ongoing operations incurred by the District. Since a majority of the assessments are received during two months of the year, the District seeks approval each year to receive an advance from the County against these anticipated revenues in order to cover operating costs during the remaining months.

**Note 9: Rental Agreements**

The District is currently the lessor of unused office space in its Rimforest office building, the Running Springs Hootman Center as well as various cell phone tower sites. The anticipated future revenues for the various leases are as follows:

Fiscal year ending June 30,	Amount
2013	\$ 73,300
2014	73,400
Total	\$ 146,700

**Required Supplementary Information**

**Required Supplementary Information**  
**Rim of the World Recreation and Park District**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the year ended June 30, 2012**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
<b>REVENUES</b>				
Special assessments	\$ 755,000	\$ 755,000	\$ 736,369	\$ (18,631)
Delinquent assessments and interest	-	-	9,762	9,762
Rents and concessions	71,909	71,909	74,695	2,786
Intergovernmental	-	-	39,950	39,950
Charges for services:				
Recreation	106,711	106,711	128,892	22,181
Childcare	148,289	148,289	179,111	30,822
Contributions and donations	15,000	15,000	470	(14,530)
Other	3,500	3,500	24,162	20,662
<b>Total revenues</b>	<b>1,100,409</b>	<b>1,100,409</b>	<b>1,193,411</b>	<b>93,002</b>
<b>EXPENDITURES</b>				
Administration:				
Salaries and benefits	268,805	268,805	264,961	3,844
Services and supplies	250,466	250,466	282,508	(32,042)
Utilities	80,527	80,527	74,540	5,987
Recreation:				
Salaries and benefits	101,497	101,497	100,047	1,450
Services and supplies	44,401	44,401	50,081	(5,680)
Child care:				
Salaries and benefits	152,000	152,000	149,828	2,172
Services and supplies	27,862	27,862	31,426	(3,564)
Utilities	1,973	1,973	1,826	147
Debt service:				
Principal	14,344	214,344	214,679	(335)
Interest	34,096	35,232	34,894	338
<b>Total expenditures</b>	<b>975,971</b>	<b>1,177,107</b>	<b>1,204,790</b>	<b>(27,683)</b>
Net change in fund balance	124,438	(76,698)	(11,379)	65,319
Fund balance, beginning of year	175,000	175,000	175,000	-
Fund balance, end of year	<u>\$ 299,438</u>	<u>\$ 98,302</u>	<u>\$ 163,621</u>	<u>\$ 65,319</u>

**Rim of the World Recreation and Park District  
Notes to Required Supplementary Information  
June 30, 2012**

**Note 1: Budgetary Control and Accounting**

The District adopts an annual budget prepared on the modified accrual basis of accounting for its governmental fund types.

During the fiscal year, the District expenditures were in excess of appropriations by \$27,683.