

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** MARCH 11, 2014

**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
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**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #7 – 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. Continue monitoring the District for one additional year, until July 2016;
2. Set another status report for presentation at the September 2015 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.*

District staff has provided the documents upon request of LAFCO staff.

The following outlines the status of issues identified by LAFCO staff in previous update reports and a review of the FY 2013-14 audit and FY 2014-15 mid-year report:

1. In the 2012 and 2013 audits reports, the independent auditors identified both significant and material weaknesses in the District's internal controls, notably reconciliation of accounts which has contributed in the past to the questions on development of budgets and outstanding payments. District staff has addressed these weaknesses, and the 2014 audit does not identify any significant or material weaknesses.
2. In the past three 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 which is subject to an appropriation limit as required by the State Constitution. 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 figure which follows identifies the revenues, expenditures, and fund balance for the past four audits. As shown for these audit years, generally revenues have remained steady with a decrease in expenditures. This appears to be a product of the District's efforts to properly account for its activities through a chart of accounts and methods for reconciliation. The District now employs a staff accountant and reconciles its activities.

#### Comparison of FY 2013-14 Audit and Budget

The FY 2013-14 audit restates the FY 2012-13 equity by a \$62,549 reduction to account for a San Bernardino County negative interest loan. This was an unrecorded liability stemming from the withdrawal from the County Treasury from a prior year, which is recognized in the FY 2013-14 audit. In comparing the FY 2013-14 audit to the budget, actual revenues were near the budgeted amount. However, significant savings in Services and Supplies expenditures occurred due to fewer repairs needed and a decrease in debt service due to the County loan being paid off in FY 2012-13.

#### Comparison of FY 2014-15 Budget to LAFCO Forecast from March 2014

At the March 2014 review of the district, LAFCO provided a forecast for FY 2014-15 based upon information at that time. As compared to the LAFCO forecast, the budget revenues are approximately \$37,000 less with expenditures \$25,000 less. This leaves a net variance of \$12,000, a figure that is not statistically significant. However, as discussed in the next section, the Mid-Year report identifies significant cost savings through the mid-year which anticipates a significant gain in fund balance for the year.

#### Comparison of FY 2014-15 Budget to Mid-Year Report

For FY 2014-15, the mid-year report identifies revenues exceeding expenditures. As shown in the figure below, the expenditure categories of the budget and mid-year (categorized by activity, e.g. all salaries) are represented differently than the audit

(categorized by service, e.g. salaries for Admin). Therefore, only Total Expenditures is shown in the figure below.

- Through the mid-year, 57% of revenues have been received and 45% of expenditures have occurred.
- Declines in use of the Recreation contract classes and special events resulted in revenue shortages of \$21,653 compared to the mid-year target. The information shows that the Recreation activities continue to lack self-sufficiency requiring subsidies from the District's primary source of revenue, its special tax.
- Revenue for Childcare exceeded budget by 30%. This was not offset by any increase in expenses, so the gain is based on higher patronage of this service. This is reversing a steady decline in use of this service. Historically, the Child Care activities also require an annual subsidy but its annual requirement has been substantially reduced.
- The charges for completion of the annual audit was \$24,300 under the budgeted amount. This is due to the District having an adopted chart of accounts and a staff position for finance. As a result, the audit was completed earlier than in the previous fiscal year.
- The absence of major repairs and maintenance resulted in savings of \$14,738. The question remains as to whether ongoing maintenance activities are being deferred or conducted routinely to prevent large expenses in the future.

Item # 7 – Status Report for  
Rim of the World Recreation and Park District  
March 11, 2015

	AUDITS				LAFCO FORECAST from March 2014 for 2014-15	BUDGET 2014-15		
	For the Year Ended June 30					ADOPTED	MID-YEAR	
	2010-11	2011-12	2012-13	2013-14			Thru Mid-Year	% of Budget
		Restated	Restated					
<b>REVENUE</b>								
Special Tax Proceeds	\$731,394	\$736,369	\$757,828	\$769,139	\$757,828	\$760,000	\$453,432	60%
Delinquent Tax and Interest	8,058	9,762	9,370	0	9,500			
Rents and Concessions	86,945	74,695	80,932	96,627	65,000	88,164	47,808	54%
Intergovernmental	0	39,950	0					
Charges for Service:								
Recreation	86,477	144,800	158,881	151,436	158,881	155,600	73,077	47%
Childcare	148,491	179,111	141,512	108,025	140,000	95,000	54,010	57%
Contributions and Donations	16,871	470	0	3,280	0		2,552	
Other	28,022	8,254	2,495	9,964	5,000		711	
<b>TOTAL REVENUES</b>	<b>\$1,106,258</b>	<b>\$1,193,411</b>	<b>\$1,151,018</b>	<b>\$1,138,471</b>	<b>\$1,136,209</b>	<b>\$1,098,764</b>	<b>\$631,590</b>	<b>57%</b>
<b>EXPENDITURES</b>								
Administration:								
Salaries and Benefits	183,231	264,961	310,312	322,206	338,322	338,932		
Services and Supplies	233,957	266,803	167,010	130,325	221,225	345,675		
Utilities	81,204	74,540	83,960		88,210	65,500		
Total Administration	498,392	606,304	561,282	452,531	647,757	750,107		
Recreation								
Salaries and Benefits	55,730	51,734	48,832	25,436	51,549	37,958		
Services and Supplies	39,338	98,394	230,062	270,435	161,759	119,693		
Total Recreation	95,068	150,128	278,894	295,871	213,308	157,651		
Child Care:								
Salaries and Benefits	153,806	149,828	129,979	133,152	136,559	138,597		
Services and Supplies	66,062	31,426	16,564	10,259	33,017	9,890		
Utilities	2,339	1,826	2,064		2,168			
Total Child Care	222,207	183,080	148,607	143,411	171,744	148,487		
Debt Service								
Principal	213,779	214,679	115,639	33,392	17,658			
Interest	79,351	34,894	33,100	31,778	30,782			
Total Debt Service	293,130	249,573	148,739	65,170	48,440	0		
<b>TOTAL EXPENDITURES</b>	<b>1,108,797</b>	<b>1,189,085</b>	<b>1,137,522</b>	<b>956,983</b>	<b>1,081,249</b>	<b>1,056,245</b>	<b>470,786</b>	<b>45%</b>
<b>OTHER FINANCING</b>								
Insurance Recovery			89,066					
Withdraw from retirement								
Liability to withdraw				(669,204)				
240 monthly payments for liability				669,204				
Beginning Fund Balance	(322,461)	175,000	179,326	219,339	384,612	400,827	400,827	
<b>Ending Fund Balance</b>	<b>\$ 175,000</b>	<b>\$179,326 *</b>	<b>\$219,339 *</b>	<b>\$ 400,827</b>	<b>\$ 439,571</b>	<b>\$ 443,346</b>	<b>\$500,683**</b>	
* Ending Fund Balance restated								
** Ending Fund Balance estimated by LAFCO staff								
<b>RESERVES</b>								
Operating Reserve				\$ 39,410			\$ 74,425	
Capital Replacement Reserve				7,200			7,200	
Capital Acquisition Reserve				24,000			24,000	
Unassigned				330,217	\$ 439,571		395,059	
<b>Total Fund Balance</b>				<b>\$ 400,827</b>	<b>\$ 439,571</b>		<b>\$500,683**</b>	

4. As of June 30, 2014, the District reported a fund balance of \$400,827 in its Audit. Of this amount, \$330,217 is unassigned and \$70,610 has been assigned for various

reserve accounts by policy of the District adopted in September 2014. However, no official action has been provided allocating these funds. The following is a breakdown of the reserve accounts as of June 30, 2014 as shown in the Audit for the District.

- Operating Reserve \$39,410
- Capital Replacement Reserve 7,200
- Capital Acquisition Reserve 24,000

Neither the FY 2014-15 Budget nor the mid-year report identify these reserves. For transparency and planning, LAFCO staff recommends that this information be included in these documents.

The guideline for special districts is to have a reserve of at least 10% of expenditures. The reserve total of \$70,610 is 7.4% of the FY 2013-14 budget with a large amount of fund balance classified as unassigned. The District has stated to LAFCO staff that at its March 23, 2015 hearing it will increase the reserve levels to be at least 10% of operating expenditures.

As the Commission may recall, 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, or \$33,460 annually. The mid-year report identifies six payments through the mid-year.

### **CONCLUSION:**

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.

The remaining condition from the 2010 service review requires monitoring of the District's finances and governance for five years. This will end July 2015. While the FY 2013-14 audit and FY 2014-15 mid-year report appear positive, LAFCO staff expresses caution given this small sample. As stated by LAFCO staff before, the District and its staff need to continue to provide attention to its governance and financial issues to preclude the problems of the past from resurfacing as its special tax is a flat rate without benefit of inflationary increases.

LAFCO staff recommends that it would be prudent to continue monitoring the District for one additional year. As indicated in this report, the District has made great strides in management and its finances and this recommendation is not punitive. Rather, staff feels that it would be prudent to review another year's worth of data since it takes a few years for changes to come to fruition such as management changes at the District, recent hiring of a financial position, and budget cuts.

Additionally, LAFCO staff recommends that the next status report on compliance be scheduled for the September 2015 hearing in order to review the year-end report for FY 2014-15 and the final budget for FY 2015-16. Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM/MT

Attachments:

1. [Audit for Fiscal Year 2013-14](#)
2. [Mid-Year Budget Review for Fiscal Year 2014-15](#)