

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** FEBRUARY 10, 2016  
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION



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**SUBJECT:** Agenda Item #11 – Status Report on Rim of the World Recreation and Park District

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## **RECOMMENDATION:**

Staff recommends that the Commission:

1. Set another status report for presentation at the August 2016 hearing; and,
2. 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 District has satisfied all of the conditions outlined in the Commission’s resolution from the service review, and many of the questions and concerns identified by the Commission are being addressed.

At the March 2015 scheduled update, the Commission determined that it would be prudent to continue monitoring the District for one additional year. As indicated in the staff report from March 2015, although the District has made great strides in operational management and its finances, the Commission should 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, hiring of a financial position, and assimilating budget cuts.

The following is the conclusion from the previous status update, August 2015.

The District’s financial situation seems to be improving after years on unsure ground. The District has made strides in its financial reporting, and the hope is that continuing attention to its governance and financial issues

will preclude the problems of the past from resurfacing as its special tax is a flat rate without benefit of inflationary increases. However, more understanding and timely reporting of reserves and fund balances are needed as well as assurances that maintenance of the District's facilities are not being defunded.

The District has two more status reports scheduled: February 2016 (2014-15 audit and 2015-16 mid-year) and August 2016 (2015-16 year-end and 2016-17 budget).

### **CURRENT UPDATE ANALYSIS:**

This status update will review the FY 2014-15 audit and FY 2015-16 mid-year position to include reporting of its reserves and fund balances.

### **FY 2014-15 Audit and Fiscal Indicators**

The District provided LAFCO staff with its FY 2014-15 year-end estimates for the August status update. Therefore, the Commission is aware of the financial status of the District up to that point. The following is a review of the District's financial position from its audited financial statements. On the whole, the financial position of the District is improving and the following information points to sustainability.

### **Fund Balance**

For the past four years, the fund balance of the District has improved. In turn, reserve levels exceed the minimum recommended level of 10% of expenditures. As of June 30, 2015, the decrease in patronage of the District's childcare service has leveled.

Item # 11 – Status Report for  
Rim of the World Recreation and Park District  
February 10, 2016

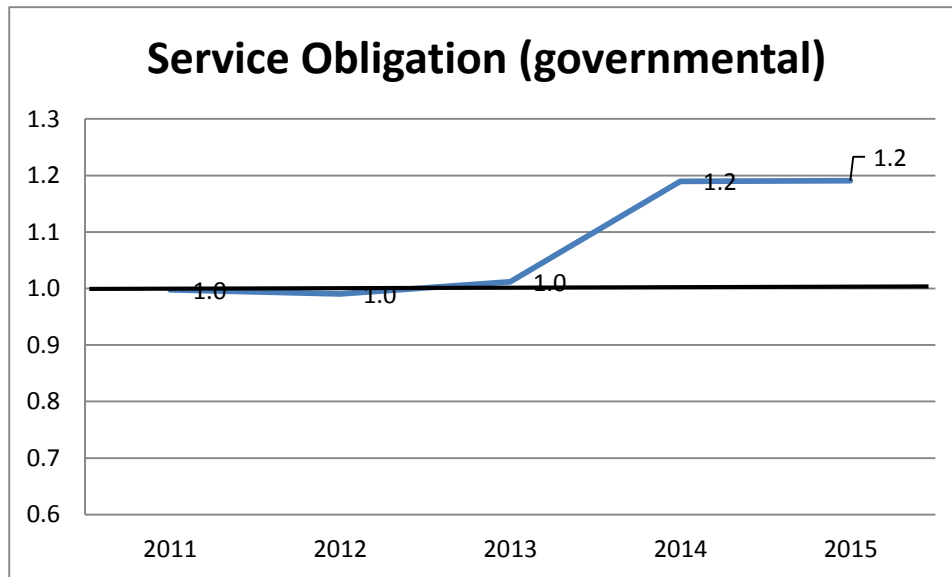
	<b>AUDITS</b>			
	For the Year Ended June 30			
	2011-12	2012-13	2013-14	2014-15
	Restated	Restated		
<b>REVENUE</b>				
Special Tax Proceeds	\$736,369	\$757,828	\$769,139	\$784,182
Delinquent Tax and Interest	9,762	9,370		
Rents and Concessions	74,695	80,932	96,627	93,864
Intergovernmental	39,950			
Charges for Service:				
Recreation	144,800	158,881	151,436	128,444
Childcare	179,111	141,512	108,025	109,010
Contributions and Donations	470		3,280	5,018
Other	8,254	2,495	9,964	4,313
<b>TOTAL REVENUES</b>	<b>\$1,193,411</b>	<b>\$1,151,018</b>	<b>\$1,138,471</b>	<b>\$1,124,831</b>
<b>EXPENDITURES</b>				
Administration:				
Salaries and Benefits	\$264,961	\$310,312	\$322,206	\$341,618
Services and Supplies	266,803	167,010	130,325	141,594
Utilities	74,540	83,960		
Total Administration	606,304	561,282	452,531	483,212
Recreation				
Salaries and Benefits	51,734	48,832	25,436	31,572
Services and Supplies	98,394	230,062	270,435	207,177
Total Recreation	150,128	278,894	295,871	238,749
Child Care:				
Salaries and Benefits	149,828	129,979	133,152	114,939
Services and Supplies	31,426	16,564	10,259	23,527
Utilities	1,826	2,064		
Total Child Care	183,080	148,607	143,411	138,466
Debt Service				
Principal	214,679	115,639	33,392	56,650
Interest	34,894	33,100	31,778	27,471
Total Debt Service	249,573	148,739	65,170	84,121
<b>TOTAL EXPENDITURES</b>	<b>\$1,189,085</b>	<b>\$1,137,522</b>	<b>\$956,983</b>	<b>\$944,548</b>
<b>OTHER FINANCING</b>				
Insurance Recovery		89,066		
Issuance of debt				500,000
Refunding of debt				(491,311)
<b>GAIN (LOSS)</b>	<b>4,326</b>	<b>13,496</b>	<b>181,488</b>	<b>188,972</b>
Beginning Fund Balance	175,000	179,326	219,339	400,827
<b>Ending Fund Balance</b>	<b>\$179,326 *</b>	<b>\$219,339 *</b>	<b>\$ 400,827</b>	<b>\$ 589,799</b>
* Ending Fund Balance restated				
<b>RESERVES</b>				
<b>Non Spendable</b>				
Prepaid Expenses				2,562
<b>Assigned</b>				
Operating			39,410	39,410
Capital replacement			7,200	7,200
Capital acquisition			24,000	24,000
Unassigned	179,326	219,339	330,217	516,627
<b>Total Fund Balance</b>	<b>\$179,326 *</b>	<b>\$219,339 *</b>	<b>\$ 400,827</b>	<b>\$ 589,799</b>

## Fiscal Indicators

Currently, LAFCO's Fiscal Indicators program includes audited data through FY 2013-14. LAFCO staff has added FY 2014-2015 for the following indicators applicable to the District: Service Obligation, Liquidity, and Debt Service.

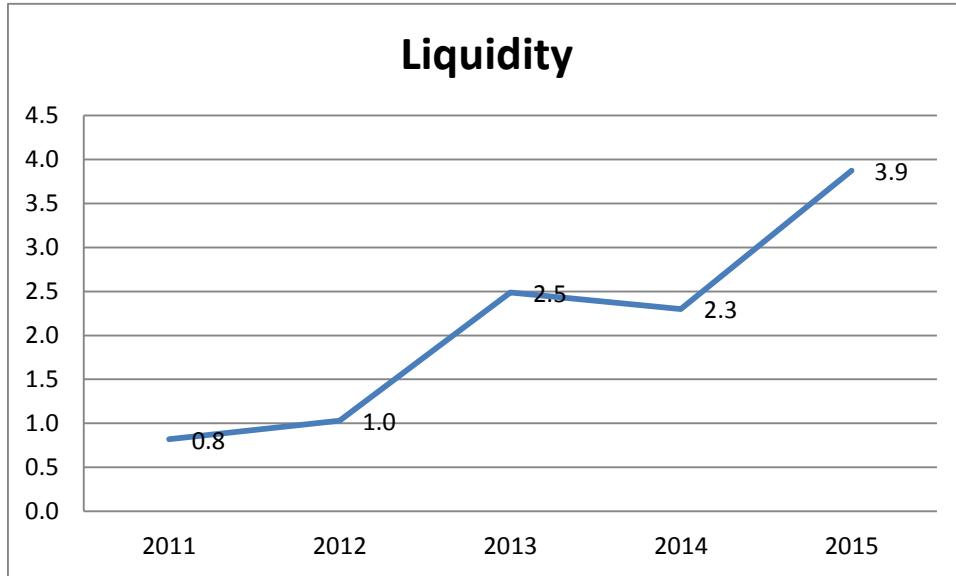
### *Service Obligation*

Service Obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. In most cases, as the percentage of general revenues decreases, an agency loses its ability to respond to changing conditions and to citizens' needs and demands. It is calculated by dividing operating expenditures by operating revenues. A ratio of one or higher indicates that a government lived within its annual revenues. On the whole, the District shows improvement in this indicator and is not slipping below the 1.0 benchmark.



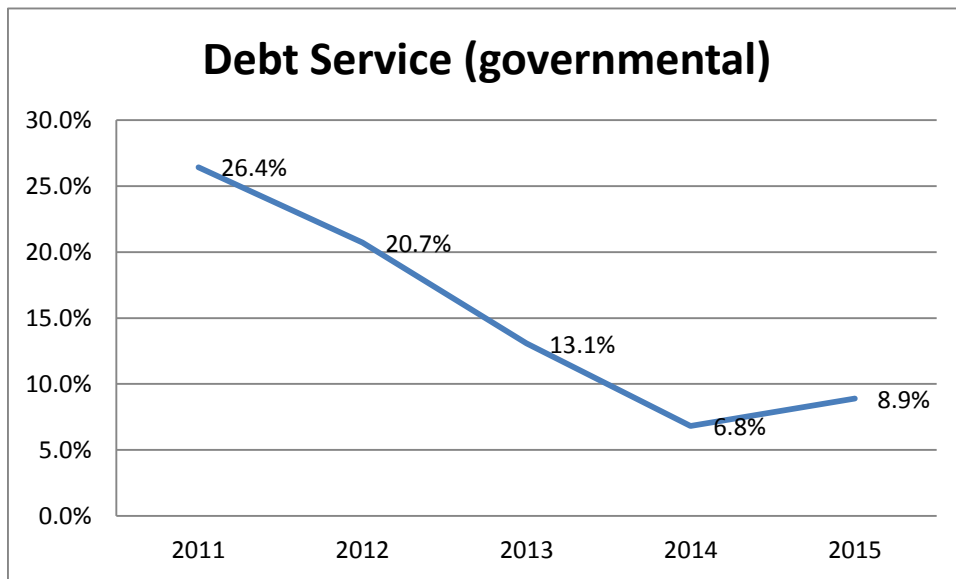
### *Liquidity*

Liquidity measures a government's ability to meet its short-term obligations. In other words, if a short-term obligation became due would the agency be able to satisfy that obligation with cash. It is calculated by dividing current liabilities by cash and investments. The higher the ratio suggests a government is better able to meet its short-term obligations. For agencies not meeting its service obligations (see previous indicator), the literature suggests a ratio of ten or above. As shown, the District's ability to meet its obligations is improving.



### *Debt Service*

Debt Service looks at service flexibility by determining the amount of total expenditures committed to annual debt service. It is calculated by dividing operating expenses by debt service. Service flexibility decreases as more resources are committed to annual debt service. As shown, the amount of resources that the District commits to debt service is decreasing. As a result, this is a factor in the increase in fund balance.



The reason for the decrease in this indicator is twofold: (1) slight overall increase in operating expenses, denominator, and (2) retirement of debt – loan payable to the County which expired in FY 2012-13, numerator.

In July 2014, the District refinanced its \$606,000 note payable (used to finance the purchase of the District office). The new note requires monthly payments roughly

\$1,000 less than the previous note. However, at the end of the tenth year, a balloon payment of roughly \$378,000 is due and payable. It is anticipated that this remaining amount would either be paid or refinanced.

### **FY 2015-16 Mid-Year**

As indicated, the District's financial position is improving and the FY 2015-16 mid-year shows the same. The following is a bullet summary of its mid-year report followed by a chart showing activity by line item as recreated by LAFCO staff for formatting purposes (staff has also highlighted line items of interest).

- The District's primary source of income (special tax) is significantly surpassing budget projections. Expenses are on track through the mid-year. As a result, funds have increased by roughly \$32,000.
- Expenses that did not occur or were under budget include:
  - Costs to hold a special election to fill a vacant seat (shown as Miscellaneous Expense). The District did not receive potential candidates, so the County appointed a director (\$50,000).
  - Under budget: landscaping and other projects not needed as well as repairs that were not needed. (\$14,000). However, LAFCO staff would caution the District not to forgo maintenance for the sake of increasing fund balance.
- A significant cost to note is \$74,000 for repaving the Running Springs Senior Hootman Center parking lot and an unbudgeted cost for a deposit for outdoor park workout equipment for \$16,000.
- Due to its strengthening position, the District is considering two projects (Crestline and Green Valley Lake), according to District staff:
  - The District is collaborating with the Green Valley Mutual Water Company to install a playground on the water district's property, likely this spring. This park will be open to the public and maintained by the District. A specified reserve of \$45,000 has already been established for this project, and it is not anticipated that costs will vary greatly from the informal estimate. LAFCO staff would caution the District to review ongoing maintenance and operation costs for this project.
  - The District is currently searching for a 3 to 6-acre parcel in the Crestline area to install a neighborhood park, as that major mountain community is not as greatly represented by District presence. In addition, the District is working with the local school district to acquire space at the now vacant Lake Gregory Educational Center in Crestline to open up the gymnasium to the public, along with classrooms for sports, programs, and other activities. Although the District has no specified reserve for this purpose, funds could be allocated from a general capital acquisition reserve that currently has a balance of \$200,000, if needed.

	FY 2015-16		
	Budget	Actuals	Percent
	Thru Mid-Year	Thru Mid-Year	Thru Mid-Year
<b>Revenues</b>			
Special Parcel Tax	453,400	423,436	93%
Childcare Income	44,000	60,947	139%
Interest	120	113	94%
Rental Income	46,875	62,613	134%
Recreation Programs Income	69,800	72,962	105%
Other Income	180	2,170	1206%
Convenience/Other Fee Income	-	13	
Grant Income	-	6,770	
Donations	1,750	1,050	60%
<b>Total Income</b>	<b>616,125</b>	<b>630,074</b>	<b>102%</b>
<b>Expenses</b>			
Compensation & Benefits	283,112	275,558	97%
Advertising	8,496	6,557	77%
Bank Charges	2,225	2,035	91%
Board Member Expense	150	-	0%
Communications	5,010	5,999	120%
Equipment and Supplies	8,448	3,830	45%
Auto Expense	5,900	3,212	54%
Professional Services	30,890	23,693	77%
Program Instructors	27,714	24,576	89%
Special Programs	3,180	4,658	146%
Special Event Programs	19,750	18,685	95%
License Fees	-	242	
Insurance	28,075	30,393	108%
Childcare Expense	4,495	4,833	108%
Building Loan Pymt - DO	24,360	24,347	100%
SB CERA Retirement Association	16,740	16,730	100%
Meals & Entertainment	300	546	182%
Memberships	5,060	5,147	102%
Mileage	750	1,260	168%
Miscellaneous Expense	50,000	-	0%
Rent/Lease of Equipment	4,250	2,710	64%
Postage	510	239	47%
Facilities Rental Charge	4,200	4,200	100%
Facility Repairs & Maintenance	22,046	102,829	466%
Training and Travel	2,980	1,930	65%
Utilities	32,545	26,579	82%
Trash - SB County Waste Mgmt	4,680	3,132	67%
Equipment Repairs & Maintenance	3,930	3,763	96%
Petty Cash - Over (Short)	-	(5)	
<b>Total Expense</b>	<b>599,796</b>	<b>597,678</b>	<b>100%</b>
<b>Net Over (Under)</b>	<b>\$ 16,329</b>	<b>\$ 32,396</b>	

The District is also currently working with the Lake Arrowhead Dam Commission (County Service Area 70 Zone D-1) to take over, at no cost, the McKay Park by July 1 of this year. Only small additional expenses can be expected in ongoing regular maintenance of this already existing park. According to the District, it would be responsible for insurance costs, but since it is under a state-wide umbrella plan, adding a small property should not make any difference in its premium. Cost for repairs and maintenance would not be expected to appear for some time as the equipment is fairly new. LAFCO staff notes there is the possibility of the transfer of a small share of the CSA 70 D-1 ad valorem revenues to provide for future needs.

**CONCLUSION:**

The FY 2014-15 audit shows an improving financial position of the District, and the FY 2015-16 mid-year report does not reveal any areas of concern. The District has one more status report scheduled: August 2016 (2015-16 year-end and 2016-17 budget). This last update will include LAFCO staff's update to its five-year financial projections based upon the District's unaudited year-end figures.

KRM/MT

Attachments:

1. [FY 2014-15 Audit](#)
2. [FY 2015-16 Mid-Year Report with Spreadsheet](#)