

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 885-8170
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: MARCH 9, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7 – Continuation of Status Report on Rim of the World
Recreation and Park District

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the Status Report and file; and,
2. Set another status report for presentation at the August 2016 hearing.

BACKGROUND:

Item 11 on the February 17 hearing was the Status Report for Rim of the World Recreation and Park District. Due to time constraints, the item was continued to the March 16, 2016 hearing. The contents of the report and its attachments are included below as originally provided for the February hearing as no new information was received in the interim.

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 # 7 – Status Report for
Rim of the World Recreation and Park District
March 9, 2016

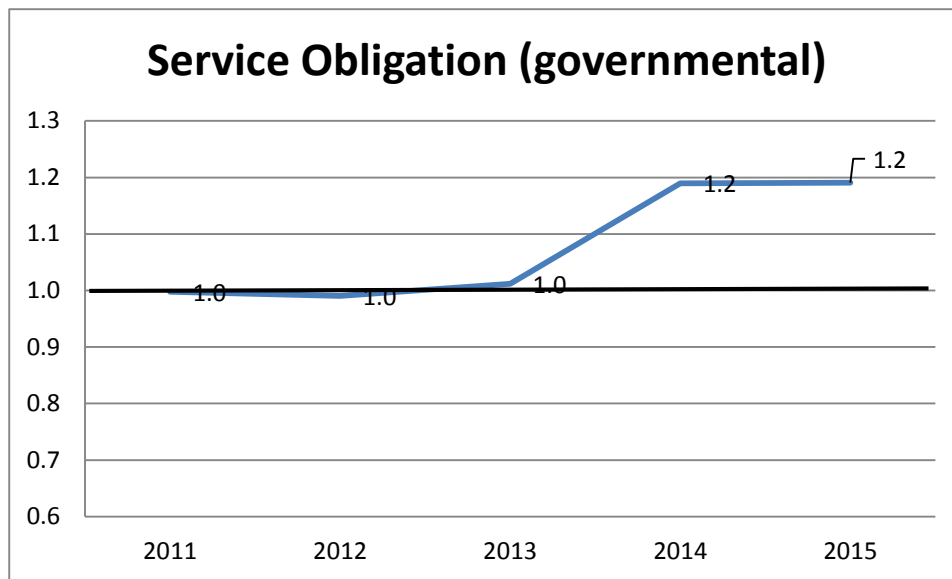
| | AUDITS | | | |
|--------------------------------|----------------------------|--------------------|--------------------|--------------------|
| | For the Year Ended June 30 | | | |
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| | Restated | Restated | | |
| REVENUE | | | | |
| Special Tax Proceeds | \$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 |
| TOTAL REVENUES | \$1,193,411 | \$1,151,018 | \$1,138,471 | \$1,124,831 |
| EXPENDITURES | | | | |
| 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 |
| TOTAL EXPENDITURES | \$1,189,085 | \$1,137,522 | \$956,983 | \$944,548 |
| OTHER FINANCING | | | | |
| Insurance Recovery | | 89,066 | | |
| Issuance of debt | | | | 500,000 |
| Refunding of debt | | | | (491,311) |
| GAIN (LOSS) | 4,326 | 13,496 | 181,488 | 188,972 |
| Beginning Fund Balance | 175,000 | 179,326 | 219,339 | 400,827 |
| Ending Fund Balance | \$179,326 * | \$219,339 * | \$ 400,827 | \$ 589,799 |
| * Ending Fund Balance restated | | | | |
| RESERVES | | | | |
| Non Spendable | | | | |
| Prepaid Expenses | | | | 2,562 |
| Assigned | | | | |
| 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 |
| Total Fund Balance | \$179,326 * | \$219,339 * | \$ 400,827 | \$ 589,799 |

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.

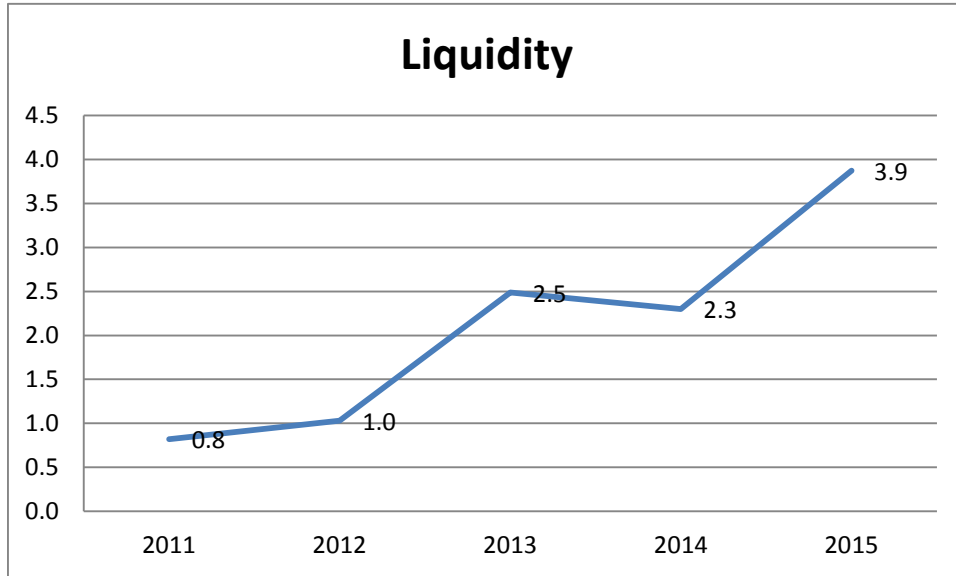
Service Obligation

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.



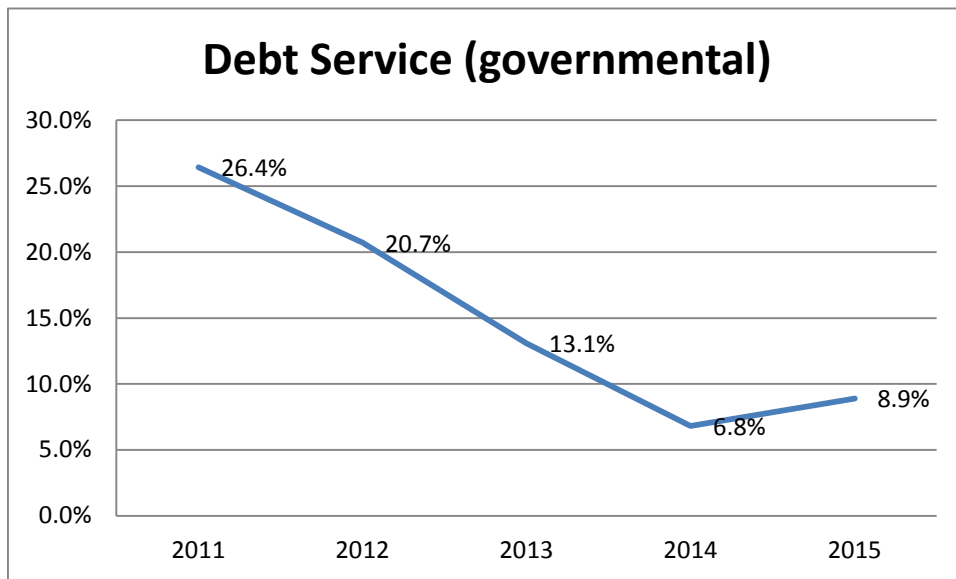
Liquidity

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 |
| Revenues | | | |
| 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% |
| Total Income | 616,125 | 630,074 | 102% |
| Expenses | | | |
| 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) | |
| Total Expense | 599,796 | 597,678 | 100% |
| Net Over (Under) | \$ 16,329 | \$ 32,396 | |

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](#)