

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #12 – Status Report on Rim of the World Recreation and Park District Compliance with LAFCO Conditions from its Sphere of Influence Update (LAFCO 3149)

RECOMMENDATION:

Staff recommends that the Commission:

1. Direct staff to continue to monitor the District's compliance with the conditions outlined in Resolution No. 3095 related to the completion of Audits as outlined in the report;
2. Set another status report for presentation at the July 2013 hearing or upon completion of the outstanding audits, whichever occurs first; and,
3. Note receipt of the Status Report and file.

BACKGROUND:

At the July 21, 2010 hearing the Commission completed its service review for the Rim of the World Recreation and Park District (hereafter ROWRPD or District) outlining its concerns related to the operations of the District. Included within LAFCO Resolution No. 3095, a copy included as Attachment #1, were four conditions, outlined as follows:

1. 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;

2. The District is required to provide the Commission with an outline for completion of its outstanding audits within the next two years (June 2012);
3. The District is required to provide the County Auditor with copies of all audits and current budgets and the State Controller with copies of all audits as required by law; and,
4. The District is to provide an outline of how it anticipates providing for management of the District according to the requirements of State and Park and Recreation District law.

At the January 2012 hearing, the staff reviewed with the Commission the progress of the District in meeting the conditions outlined the previous year and the Commission established a further update requirement for a status report for July 2012. The District had met all the conditions except those dealing with its outstanding audits. Over the past six months, LAFCO staff has been in contact with the administrative staff of the District regarding the conditions imposed and the questions raised at the July hearing. At this time, LAFCO staff's update is as follows:

1. In reference to Condition No. 2, the Audits for Fiscal Years 2006-07, 2007-08, 2008-09, have been completed by June 30, 2012 (included as Attachment #2 to this report). District staff has indicated that the audit for 2009-10 will be completed and presented to the Board of Directors during the month of August, anticipated to be the August 22 Board hearing. However, the audit for 2010-11 has not been completed but the engagement of the auditor has been undertaken. So the terms of condition No. 2 have not been completed. Staff has reviewed this with District staff who has indicated it is their intention to engage the Auditor to complete both 2010-11 and 2011-12 in the upcoming fiscal year and have confirmed this through submission of the engagement letter of Rogers Anderson Malody and Scott (RAMS) to perform the audits. A copy of the engagement letters is included as Attachment #3 to this report.

Staff will continue to monitor this audit activity in the event that it does not come to fruition. In the staff view, the District's Board of Directors has adopted a budget for the upcoming fiscal year without having a full and complete understanding of the financial position of the district. This has been the case for the past six years which showed significant deficits while the budgets appeared to be balanced.

2. LAFCO staff's review of the financial documents provided has shown that the District is working toward financial solvency. This includes making the final payment to the County for the \$500,000 bridge loan to allow it to continue to operate while paying off its deficits to the County Auditor-Controller and Registrar of Voters. District staff is working toward expanding offerings to the community and completing much needed maintenance on its facilities. However, staff did note two areas in which more work would be required: (1) no management discussion and analysis is included in the Audits to provide a context for the

financial statements as generally required by accounting standards. This discussion is especially important when financial statements describe an ever increasing deficit and the end of each fiscal year with negative fund balances. And, (2) the District has ended each of the fiscal years expending more than the budgeted appropriation authorized. Both of these situations have been reviewed with District staff and corrections and new implementation standards are to be included in the upcoming audits, budgets, and financial reports for the District.

3. Staff has learned of a new issue affecting the ongoing operations of the District that relates to the lease with County Regional Parks for the use of the Crestline Ballfields located at the Lake Gregory Regional Park. Negotiations began early in 2011 related to the existing month-to-month lease for the ballfields between Regional Parks and the District. Regional Parks identified a desire to require a \$100 per month payment for use of the facilities in its effort to make the Lake Gregory Regional Park financially sustainable apart from the County General Fund. This is the direction provided by the County Executive Officer to all those non-essential county service providers that they must move in a path toward sustainability. It was identified by Regional Parks staff that the Lake Gregory Regional Park lost approximately \$700,000 in the last fiscal year.

District staff objected to this new charge, an increase of \$1,199 and negotiated the extension of the contract until December 2012. District staff has provided the Commission with the information submitted to it during the early part of June 2012 for extension of the lease of the ballfields until the December 2012 cutoff which includes a draft Board Agenda Item dated June 19, 2012 which did not identify the termination of the lease. However, the actual language of the Board Agenda Item presented to the County Board of Supervisors on June 26, 2012 identified that it was the Regional Parks' intention not to renew the lease or extend it further. In reviewing this question with Regional Park personnel, it was identified that the item was amended to clearly identify the change and to acknowledge that a Request for Proposal for operation of the park, in its entirety, would be solicited. The District stated did not receive a copy of the actual board agenda including this new information, although it was published on the County website.

This change in direction affects the District in two ways: (1) it reduces the facilities it offers in the Crest Forest community for its constituents, and (2) it will require the District to repay the State Parks Department the \$13,991 received for the Lake Gregory Park Project from 2000 State Park Bond Act proceeds. According, to the information from the State Parks Department, the facility must remain open to the public for a period of 10 years following the date of final payment, March 2007, or until March of 2017. LAFCO staff has reviewed this question with members of the Regional Parks office, who have indicated that the Request for Proposal materials circulated identify the potential for repayment of the Grant Funding as a part of the concessionaire contract if the proposed operations restrict public access to the facility.

Of note, Rim of the World Recreation and Park District is a potential operator for the entirety of the Lake Gregory Regional Park and are participating in the RFP process.

In conclusion, the District has made strides during the past year -- making its payments to the County for its bridge loan on time, anticipating the final payment on the bridge loan in 2012-13 freeing up needed funds for more activities, undertaking the much needed maintenance of its facilities it had deferred for many years, and developing the managerial framework to comply with State Law. Following the staff's presentation at the hearing, the District will provide an overview of its achievements in a PowerPoint display.

However, as has been stated on previous occasions, staff remains concerned that until the audits for the District are current the District Board and the District's constituents do not have full and complete picture of the District's operations and its financing needs in order to make informed financial decisions for the future. In addition, without the Management Discussion and Analysis within the audit there is no explanation of the issues that were present at the time of the fiscal crisis and how they have been rectified. These concerns have been conveyed and District staff has indicated that future audits and the District's financial and reporting operations during the year will take measures to address these concerns.

LAFCO staff will continue to monitor the District as outlined in the conditions and will return either at the July 2013 hearing for an update or sooner if the remaining audits are completed and submitted to staff.

KRM

Attachment:

1. [LAFCO Resolution No. 3095](#)
2. [District Audits for Fiscal Years 2007-07, 2007-08, 2008-09](#)
3. [Engagement Letters Dated July 25, 2012 with Rogers Anderson Malody and Scott for Fiscal Year 2009-10 and 2010-11 Audits](#)