

# **City of Desert Hot Springs**

Desert Hot Springs, California

## **Independent Auditors' Reports and Basic Financial Statements**

*For the Year Ended June 30, 2017*





**City of Desert Hot Springs**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Desert Hot Springs  
Desert Hot Springs, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Desert Hot Springs, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

*Financial Condition*

As discussed in Note 14 to the basic financial statements, the City continues to expect uncertainties regarding future operations. As of June 30, 2017, the City's governmental activities had an unrestricted net position deficit of \$14,400,611. Management's plans regarding those matters are also described in the Management's Discussion and Analysis. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

*Prior Period Adjustments*

As discussed in Note 15 to the basic financial statements, the City reported prior period adjustment in the amount of \$3,722,868 in the Governmental Funds to reclassify deferred inflows of resources in unavailable revenues to restricted fund balance. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of the City's Proportionate Share of the Net Pension Liabilities and Related Ratios, and Schedule of the City's Contributions on pages 7 through 14 and pages 97 through 102 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government 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.

To the Honorable Mayor and Members of the City Council  
of the City of Desert Hot Springs  
Desert Hot Springs, California  
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*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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Palm Desert, California  
January 2, 2018

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

***Independent Auditors' Report***

To the Honorable Mayor and Members of the City Council  
of the City of Desert Hot Springs  
Desert Hot Springs, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Desert Hot Springs, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 2, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the separately issued AU-C Section 265 – *Communicating Internal Control Related Matters Identified in an Audit* letter that we consider to be significant deficiencies as finding 2017-001.

To the Honorable Mayor and Members of the City Council  
of the City of Desert Hot Springs  
Desert Hot Springs, California  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City's Response to Finding**

The City's response to the finding identified in our audit is described in the separately issued AU-C Section 265 – *Communicating Internal Control Related Matters Identified in an Audit* letter. The City's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The Pen Group, LLP". The signature is written in a cursive, flowing style.

Palm Desert, California  
January 2, 2018

## Management's Discussion and Analysis

The City of Desert Hot Springs is offering a narrative, overview and analysis of the financial activities for the fiscal year end June 30, 2017.

### Overview of the Financial Statements

The management staff of the City of Desert Hot Springs (City) offers readers of the City's financial statements this narrative overview and analysis of City financial activities for the fiscal year ended June 30, 2017. It has been designed in accordance with standards established by the Governmental Accounting Standards Board. Please read this overview in conjunction with the accompanying financial statements.

1. The Government-wide Financial Statements provide information about the overall financial condition of the City. The *Statement of Net Position* and the *Statement of Activities and Changes in Net Position* statements include *all* assets, deferred outflow and liabilities, deferred inflows of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies.
2. The Fund Financial Statements provide additional information about the City's major funds, how services were financed in the short term and fund balances available for financing future projects.
3. The Notes to the Financial Statements provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information, including budgetary comparison information on the City's General fund, which is intended to furnish additional detail to support the basic financial statements themselves.

### Financial Highlights

- The City's total net position was \$44,069,281 as of June 30, 2017;
- Consolidated Revenues totaled \$22,274,521 in the Statement of Activities;
- Consolidated Expenses totaled \$20,266,294 in the Statement of Activities;
- Change in net position in the Statement of Activities increased by \$2,008,227;
- Revenues for Permits and Fees in the Statement of Governmental Funds increased from \$1,737,979 to \$3,279,268;
- The City's Assessed Value increased by \$127.6 million dollars;
- The marijuana cultivation business is surging in the industrial zone of the City;
- The City restructured existing debt for the General Fund and the Successor Agency;
- A New City Hall was funded and approved by the City Council.

### Government-wide Financial Statements and Financial Analysis

The Government-wide Financial Statements provide a broad overview of the City's activities as a whole and are comprised of the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* presents information about the financial position of the City on the accrual basis, similar to that used in the private sector. It shows the City's assets, deferred outflow of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in the City's net position are among indicators used to assess whether the financial condition of the City is improving or deteriorating. It is also important to consider other non-financial factors, such as changes in the City's property tax values and sales tax outlets and the condition of the City's infrastructure (i.e. parks and streets) to accurately assess the overall health of the City.

The *Statement of Activities* presents information about the City's revenues and all its expenses, also on the accrual basis, and explains in detail the change in net position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, economic development and culture and leisure.

The government-wide financial statements can be found starting on page 17 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains (4) major individual governmental funds (General Fund which is consolidated with the Health and Wellness Facility, Public Safety Fund, Housing Authority, and Debt Service Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other (61) non-major governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The following funds are included to make up the non-major governmental funds:

**Special Revenue Funds:** Special Gas Tax Fund, Capital Improvement Deposit Funds (9), Municipal Lighting and Landscaping Assessment Districts Funds (19), Measure A Fund, SCAQMD Grant Fund, Air Quality Control Fund, Art in Public Places Fund, Quimby Act Fund, Drainage Assessment Districts Funds (17), County Service Area 152 (CSA-152) Fund, Cabot's Museum Fund, Supplement Law Enforcement Services Account Fund (SLESA), Abandoned Vehicle Abatement Fund, and Community Development Block Grant Fund (CDBG).

**Capital Projects Funds:** 2012 Street Bond Fund, Capital Improvement Fund, Assessment District 91-1 Fund, Assessment District 92-1 Fund and Assessment District 93-2 Fund.

## **Proprietary Funds**

Proprietary funds can be broken down into two different types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the Health & Wellness Center Foundation acquisition of real property and completion of the buildings and improvements at the Health and Wellness facility center. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the City's risk management and equipment replacement activities associated with City vehicles. Because these vehicle services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found starting on page 33 of this report.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Currently the City has two separate Fiduciary Funds reporting financial inflows and outflows for the Successor Agency, which is a private purpose trust fund, and one Agency Fund. The Agency Fund includes various funding (Community Services Agency Funds and the Community Facilities District Skyborne Agency Funds) which is controlled primarily through legal agreements and applicable State and Federal laws.

The fiduciary fund financial statements can be found starting on page 37 of this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 41 of this report.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons for the general fund. Required Supplementary Information can be found starting on page 95 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Supplementary Information, which includes combining and individual fund statements and schedules, can be found starting on page 103 of this report.

## **Government-wide Financial Analysis**

The City's financial position and outlook has improved considerably since 2014. A combination of a reduction in structural expenses and an improvement in economic development activity has increased reserves and stabilized the City's cash position. The City ended the Fiscal Year 2016-17 with a positive cash flow and necessary working capital needed to sustain the City. For the third year in a row, the City has benefited from a surplus of two million dollars. While the short-term prognosis is very positive, long-term financial challenges loom. Moving forward, increases to CalPERS, insurance rates and county services could have very negative impacts moving the City forward and could hinder the City from providing essential city services. The City does continue to have some turnover in staff due to non-competitive salaries being offered but as the City is able to increase salaries across the board in the next five years that will lessen over time. As of June 30, 2017, the City's General Fund had a gain of \$2.3 million and an ending fund balance of \$8.5 million.

In Fiscal Year 2016-17, the City received marijuana taxes totaling \$696,224. Cultivation generated \$172,020 and dispensaries generated \$524,204, which is a tax increase of 361% from the prior year. Within upcoming fiscal years, staff expects such receipts to increase, respectively. As of June 30, 2017, there were a total of eight dispensaries and four cultivations open.

Over 75 marijuana cultivation warehouses have been approved by the City Council. Projects range in size from 5,000 square feet to over one million square feet. Moving forward, the City will benefit from marijuana projects with permits and fees, increased employment and cultivation taxes. Many of the approved projects have limited or no utilities and or public improvements so it may take some time before these properties are developed. It is likely that only a handful of the approved projects will move forward with building permits within the next year. The City must exercise extreme caution when projecting development and tax revenues that are generated from this business industry.

In 2004, the City emerged from its Chapter 9 bankruptcy, which was filed in December 2001 in the amount of \$8.85 million. The City issued the Prior Obligations to pay all claims and provide interim cash flow financing to the City. The City restructured this existing debt and financed a portion of a New City Hall. The new issue of debt lowered the interest rate and pulled \$3,000,000 for an important capital project. Before approval and Phase 1 of the project, non-safety employees were operating in a ten-year-old module building. The project consists of two phases; 1) remodel an existing structure and 2) build a 14,000-square foot office building. During the new issue of debt, the City received an “A” rating from Standards and Poor’s. Their rating was based on strong management, budget performance, flexibility, liquidity and weak debt and contingent liability.

### **Expiring Tax Measures**

The City had two revenue ballot measures expiring on June 30, 2020. The Utility User Tax and the Parcel Tax generate approximately \$5.0 million in revenue per year. If these tax measures were not addressed before they expired, the City would have been at risk of becoming financially insolvent in a relatively short amount of time. Although the measures were not on the ballot in FY 2016-2017, they will not be an issue moving forward as both tax measures passed in November 2017.

### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44,069,281 as of June 30, 2017 in the Governmental activities and Business-type activities.

The largest portion of the City's net position, \$30.5 million (69.2%), are reflected in its net investment in capital assets (e.g., land, street infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining (30.8%) of the City’s net position, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**  
**City of Desert Hot Springs**  
**Net Position**  
**June 30, 2017 and 2016**

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 28,390,339	\$ 22,360,471	\$ 15,643,024	\$ 15,785,417	\$ 44,033,363	\$ 38,145,888
Capital assets	42,594,966	41,919,163	13,947,980	14,537,904	56,542,946	56,457,067
<b>Total assets</b>	<b>70,985,305</b>	<b>64,279,634</b>	<b>29,591,004</b>	<b>30,323,321</b>	<b>100,576,309</b>	<b>94,602,955</b>
Deferred outflow of resources	2,933,834	974,555	-	-	2,933,834	974,555
<b>Total deferred outflow of resources</b>	<b>2,933,834</b>	<b>974,555</b>	<b>-</b>	<b>-</b>	<b>2,933,834</b>	<b>974,555</b>
Current liabilities	5,101,519	4,606,752	89,775	70,930	5,191,294	4,677,682
Long-term liabilities	33,035,998	27,357,167	20,697,000	20,697,000	53,732,998	48,054,167
<b>Total liabilities</b>	<b>38,137,517</b>	<b>31,963,919</b>	<b>20,786,775</b>	<b>20,767,930</b>	<b>58,924,292</b>	<b>52,731,849</b>
Deferred inflow of resources	516,570	784,607	-	-	516,570	784,607
<b>Total deferred inflow of resources</b>	<b>516,570</b>	<b>784,607</b>	<b>-</b>	<b>-</b>	<b>516,570</b>	<b>784,607</b>
Net position						
Invested in capital assets	37,242,301	36,135,385	(6,749,020)	(6,159,096)	30,493,281	29,976,289
Restricted	12,342,563	10,122,255	-	639,085	12,342,563	10,761,340
Unrestricted	(14,319,812)	(13,751,977)	15,553,249	15,075,402	1,233,437	1,323,425
<b>Total net position</b>	<b>\$ 35,265,052</b>	<b>\$ 32,505,663</b>	<b>\$ 8,804,229</b>	<b>\$ 9,555,391</b>	<b>\$ 44,069,281</b>	<b>\$ 42,061,054</b>

An additional portion of the City's net position, \$12.3 million (28.0%), represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of the net position is \$1,233,437.

**TABLE 2**  
**City of Desert Hot Springs**  
**Changes in Net Position**  
**For the years ended June 30, 2017 and 2016**

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 3,538,601	\$ 1,982,301	\$ 104,000	\$ 104,000	\$ 3,642,601	\$ 2,086,301
Operating grants and contributions	3,607,194	2,921,094	-	-	3,607,194	2,921,094
Capital grants and contributions	6,097,322	6,789,342	-	-	6,097,322	6,789,342
General revenues						
Property taxes	1,161,775	2,451,012	-	-	1,161,775	2,451,012
Sales taxes	3,270,340	3,206,495	-	-	3,270,340	3,206,495
Transient occupancy taxes	1,768,552	1,504,813	-	-	1,768,552	1,504,813
Other taxes	1,443,828	1,340,274	-	-	1,443,828	1,340,274
Gains on investments	95,935	11,130	75,633	75,628	171,568	86,758
Miscellaneous	1,111,341	651,372	-	-	1,111,341	651,372
<b>Total revenues</b>	<b>22,094,888</b>	<b>20,857,833</b>	<b>179,633</b>	<b>179,628</b>	<b>22,274,521</b>	<b>21,037,461</b>
<b>Program expenses</b>						
General government	4,896,860	4,040,041	-	-	4,896,860	4,040,041
Public safety	8,022,985	7,884,162	-	-	8,022,985	7,884,162
Public works	2,165,174	2,267,153	-	-	2,165,174	2,267,153
Economic development	1,492,956	1,460,708	-	-	1,492,956	1,460,708
Culture and leisure	1,478,245	631,731	-	-	1,478,245	631,731
Interest and fiscal charges	1,354,754	855,380	-	-	1,354,754	855,380
Health and wellness foundation	-	-	855,320	855,224	855,320	855,224
<b>Total expenses</b>	<b>19,410,974</b>	<b>17,139,175</b>	<b>855,320</b>	<b>855,224</b>	<b>20,266,294</b>	<b>17,994,399</b>
Change in net position before transfers	2,683,914	3,718,658	(675,687)	(675,596)	2,008,227	3,043,062
Transfers	75,475	80,349	(75,475)	(80,349)	-	-
Change in net position after transfers	2,759,389	3,799,007	(751,162)	(755,945)	2,008,227	3,043,062
Net position – beginning of year	32,505,663	28,706,656	9,555,391	10,311,336	42,061,054	39,017,992
<b>Net position – end of year</b>	<b>\$ 35,265,052</b>	<b>\$ 32,505,663</b>	<b>\$ 8,804,229</b>	<b>\$ 9,555,391</b>	<b>\$ 44,069,281</b>	<b>\$ 42,061,054</b>

The City's governmental activities total revenues were \$22.1 million, while the total cost of all programs and services were approximately \$19.4 million. Capital grants and contributions were the City's largest resource at \$6.1 million (27.6% of the total revenue of the governmental activities). Operating grants and contributions were the second largest revenue source at \$3.6 million (16.3% of the total revenue of the governmental activities). Charges for services were the third largest resource at \$3.5 million (16.0% of the total revenue of the governmental activities). Sales taxes were the fourth largest revenue source at \$3.3 million (14.8% of the total revenue of the governmental activities).

### Governmental activities

Public Safety expenses of \$8.0 million comprise the largest component of government activities (41.3% of the total cost of governmental activities).

General Government expenses of \$4.9 million (includes City Council, City Manager, City Attorney, City Clerk, Finance, Information Systems and Non-Departmental) were the second largest governmental activities (25.2% of the total cost of governmental activities).

Public Works expenses of \$2.2 million were the third largest governmental activities (11.2% of the total cost of governmental activities).

Economic Development charges expense of \$1.5 million was the fourth largest governmental activities (7.7% of the total cost of governmental activities).



## Business-type activities

Net position for Business-type activities of the City decreased by \$751,162 for the current year. The Business-type activities were all grouped with the Governmental activities in the fiscal year ending June 30, 2017. The combined costs of the City’s business-type activities for the Health and Wellness Foundation were primarily financed through reimbursement of interest income and support from General Governmental activities.

## Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## Capital Improvement Project Fund

This fund is primarily used to record the expenditures of funds for capital projects. This fund had a total of four Capital Improvement Projects budgeted during FY 2016-2017. The four key and essential projects during the year were completion of Palm Drive Street Project (from Cahuilla to Hacienda) totaling (\$655,282), partial construction and tenant improvements for the new City Hall Site Phase 1 (Visitor Center) totaling (\$346,867) with the balance of the construction to be completed in FY 2017-2018, Cabot’s Sidewalk construction totaling (\$290,376) and the Building Solar Array Project totaling (\$759,030). There were also park upgrades and equipment purchases for all parks totaling (\$137,790) and there was one vehicle purchased totaling (\$29,955).

It is anticipated that in FY 2017-2018 and FY 2018-2019 that the new City Hall Site Phase 2, which is the construction of a 14,000-square foot building and infrastructure, will be completed.

In FY 2016-2017 over \$5.0 million was budgeted and approved in the Desert Hot Springs Capital Improvement Plan with various funding sources both reoccurring and one-time.

## Capital Assets

At the end of FY 2016-2017, the City had invested \$56.5 million in a broad range of capital assets, net of depreciation. The investment in capital assets includes land, right of way, buildings and improvements, machinery and equipment, streets and bridges and construction in progress.

**Table 3**  
**City of Desert Hot Springs**  
**Capital Assets**  
**As of June 30, 2017 and 2016**

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,319,028	\$ 1,464,942	\$ 370,415	\$ 370,415	\$ 2,689,443	\$ 1,835,357
Construction in progress	2,164,189	827,579	-	-	2,164,189	827,579
Building and improvements, net of depreciation	11,225,508	11,481,511	13,445,112	13,985,153	24,670,620	25,466,664
Machinery and equipment, net of depreciation	1,348,391	1,898,122	132,453	182,336	1,480,844	2,080,458
Vehicles, net of depreciation	706,772	779,342	-	-	706,772	779,342
Infrastructure, net of depreciation	24,831,078	25,467,667	-	-	24,831,078	25,467,667
<b>Total</b>	<b>\$ 42,594,966</b>	<b>\$ 41,919,163</b>	<b>\$ 13,947,980</b>	<b>\$ 14,537,904</b>	<b>\$ 56,542,946</b>	<b>\$ 56,457,067</b>

More information on Capital Asset (Note 5) can be found starting on page 62 of this report.

## Long-term Debt

As of June 30, 2017, the City had total long-term liabilities outstanding of \$44.6 million in certificates of participation, lease revenue bonds, claims and judgments payable, compensated absences, and pension-related debt. More detailed information on each long-term debt liability (Note 6) can be found starting on page 64 of this report. In comparison to last year the unfunded pension related debt has increased by \$51,248.

**Table 4**  
**City of Desert Hot Springs**  
**Long-Term Liabilities**  
**As of June 30, 2017 and 2016**

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Judgment obligation bonds	\$ -	\$ 9,725,000	-	\$ -	\$ -	\$ 9,725,000
Certificate of participation	-	1,395,000	-	-	-	1,395,000
2012A certificates of participation	5,345,000	5,465,000	-	-	5,345,000	5,465,000
Lease revenue bonds series 2017A	13,895,000	-	-	-	13,895,000	-
Taxable lease revenue bonds series 2017A-T	1,105,000	-	-	-	1,105,000	-
Bond discount - judgment bonds	-	(153,763)	-	-	-	(153,763)
Bond discount - COP	-	(17,993)	-	-	-	(17,993)
Bond discount - 2017A-T	(1,745)	-	-	-	(1,745)	-
Bond premium - 2012A COP	192,975	200,640	-	-	192,975	200,640
Bond premium - 2017A	179,947	-	-	-	179,947	-
Capital lease payment	-	118,138	-	-	-	118,138
Claims and judgments payable	418,181	715,762	-	-	418,181	715,762
Compensated absences	485,313	350,535	-	-	485,313	350,535
Pension-related debt	2,250,064	2,198,816	-	-	2,250,064	2,198,816
Promissory notes	-	-	20,697,000	20,697,000	20,697,000	20,697,000
<b>Total</b>	<b>\$ 23,869,735</b>	<b>\$ 19,997,135</b>	<b>\$ 20,697,000</b>	<b>\$ 20,697,000</b>	<b>\$ 44,566,735</b>	<b>\$ 40,694,135</b>

## Economic Factors

- Development activity is increasing mostly due to marijuana cultivation projects;
- Assessed property values increased by 8.5% this year;
- Transit Occupancy Tax increased by 17.5% this year;
- The combined CalPERS, insurance and County costs increased over 20% this year.

## Request for Information

This financial report is designed to provide a general overview of the City of Desert Hot Springs finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Desert Hot Springs, Joe Tanner, Administrative Services Director, 65950 Pierson Blvd, Desert Hot Springs, CA 92240 or by telephone at 760-329-6411 Ext 234.

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# **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**City of Desert Hot Springs**  
**Statement of Net Position**  
**June 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 16,716,952	\$ 497,522	\$ 17,214,474
Receivables, net	6,637,045	15,145,502	21,782,547
Prepaid items	56,021	-	56,021
Property held for resale	207,454	-	207,454
Total current assets	<u>23,617,472</u>	<u>15,643,024</u>	<u>39,260,496</u>
Noncurrent assets:			
Cash and investments with fiscal agents	4,772,867	-	4,772,867
Capital assets:			
Not being depreciated	4,483,217	370,415	4,853,632
Being depreciated, net	<u>38,111,749</u>	<u>13,577,565</u>	<u>51,689,314</u>
Total noncurrent assets	<u>47,367,833</u>	<u>13,947,980</u>	<u>61,315,813</u>
<b>Total assets</b>	<u>70,985,305</u>	<u>29,591,004</u>	<u>100,576,309</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on refunding	165,622	-	165,622
Deferred outflows of resources related to pension	<u>2,768,212</u>	<u>-</u>	<u>2,768,212</u>
<b>Total deferred outflows of resources</b>	<u>2,933,834</u>	<u>-</u>	<u>2,933,834</u>

**City of Desert Hot Springs**  
**Statement of Net Position (Continued)**  
**June 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 2,485,138	\$ 37,775	\$ 2,522,913
Accrued liabilities	517	-	517
Deposits	923,639	-	923,639
Interest payable	166,857	-	166,857
Unearned revenues	320,000	52,000	372,000
Long-term debt - due within one year	1,205,368	-	1,205,368
<b>Total current liabilities</b>	<b>5,101,519</b>	<b>89,775</b>	<b>5,191,294</b>
Noncurrent liabilities:			
Long-term debt - due in more than one year	22,664,367	20,697,000	43,361,367
Aggregate net pension liabilities	10,371,631	-	10,371,631
<b>Total noncurrent liabilities</b>	<b>33,035,998</b>	<b>20,697,000</b>	<b>53,732,998</b>
<b>Total liabilities</b>	<b>38,137,517</b>	<b>20,786,775</b>	<b>58,924,292</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pension	516,570	-	516,570
<b>Total deferred inflows of resources</b>	<b>516,570</b>	<b>-</b>	<b>516,570</b>
<b>NET POSITION</b>			
Net investment in capital assets	37,242,301	(6,749,020)	30,493,281
Restricted for:			
Public safety	161,933	-	161,933
Street maintenance and capital improvement	1,407,323	-	1,407,323
Housing authority	3,660,137	-	3,660,137
Debt service	5,373,928	-	5,373,928
Lighting/Landscaping/Drainage	1,545,222	-	1,545,222
Assessment District 91-1	115,933	-	115,933
Assessment District 92-1	38,499	-	38,499
Assessment District 93-2	29,083	-	29,083
Other	10,505	-	10,505
<b>Total restricted</b>	<b>12,342,563</b>	<b>-</b>	<b>12,342,563</b>
Unrestricted (deficit)	(14,319,812)	15,553,249	1,233,437
<b>Total net position</b>	<b>\$ 35,265,052</b>	<b>\$ 8,804,229</b>	<b>\$ 44,069,281</b>

**City of Desert Hot Springs**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

<b>Functions/Programs</b>	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
General government	\$ 4,896,860	232,272	\$ 696,224	\$ -	\$ 928,496
Public safety	8,022,985	707,430	2,317,234	2,332,736	5,357,400
Public works	2,165,174	445,821	547,684	3,700,087	4,693,592
Economic development	1,492,956	1,880,922	46,052	64,499	1,991,473
Culture and leisure	1,478,245	272,156	-	-	272,156
Interest and fiscal charges	1,354,754	-	-	-	-
Total governmental activities	19,410,974	3,538,601	3,607,194	6,097,322	13,243,117
<b>Business-type activities:</b>					
Health and Wellness Foundation	855,320	104,000	-	-	104,000
Total business-type activities	855,320	104,000	-	-	104,000
<b>Total primary government</b>	<b>\$ 20,266,294</b>	<b>\$ 3,642,601</b>	<b>\$ 3,607,194</b>	<b>\$ 6,097,322</b>	<b>\$ 13,347,117</b>



**City of Desert Hot Springs**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2017**

<b>Functions/Programs</b>	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>			
<b>Governmental activities:</b>			
General government	\$ (3,968,364)	\$ -	\$ (3,968,364)
Public safety	(2,665,585)	-	(2,665,585)
Public works	2,528,418	-	2,528,418
Economic development	498,517	-	498,517
Culture and leisure	(1,206,089)	-	(1,206,089)
Interest and fiscal charges	(1,354,754)	-	(1,354,754)
Total governmental activities	(6,167,857)	-	(6,167,857)
<b>Business-type activities:</b>			
Health and Wellness Foundation	-	(751,320)	(751,320)
Total business-type activities	-	(751,320)	(751,320)
<b>Total primary government</b>	(6,167,857)	(751,320)	(6,919,177)
<b>General revenues:</b>			
Taxes:			
Property taxes	1,161,775	-	1,161,775
Sales taxes	3,270,340	-	3,270,340
Vehicle in-lieu taxes	13,013	-	13,013
Utility users taxes	37,355	-	37,355
Franchise taxes	1,393,460	-	1,393,460
Transient occupancy taxes	1,768,552	-	1,768,552
Total taxes	7,644,495	-	7,644,495
Investment income	95,935	75,633	171,568
Miscellaneous	1,111,341	-	1,111,341
<b>Transfers</b>	75,475	(75,475)	-
<b>Total general revenues and transfers</b>	8,927,246	158	8,927,404
<b>Change in net position</b>	2,759,389	(751,162)	2,008,227
<b>Net position - beginning of year</b>	32,505,663	9,555,391	42,061,054
<b>Net position - end of year</b>	\$ 35,265,052	\$ 8,804,229	\$ 44,069,281

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# FUND FINANCIAL STATEMENTS

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*Governmental Fund Financial Statements*  
*Proprietary Fund Financial Statements*  
*Fiduciary Fund Financial Statements*

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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**General Fund** - As the City's primary operating fund, it accounts for and reports all financial resources of the City, except those required to be accounted for and reported in another fund.

**Public Safety Special Revenue Fund** - To account for and report special taxes and grants for community safety expenditures including Police, Fire and Animal Control.

**Housing Authority Special Revenue Fund** - To account for and report funds set aside for development and improvements of the City's housing activity and operations.

**Debt Service Fund** - To account for the debt service payments on the City's Lease Revenue Bonds and Certificate of Participation twice annually.

**Nonmajor Governmental Funds** - To account for the aggregate of all the nonmajor governmental funds.

**City of Desert Hot Springs**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	General	Public Safety	Housing Authority	Debt Service
<b>ASSETS</b>				
Cash and investments	\$ 8,470,830	\$ 470,744	\$ 7,059	\$ 1,263,757
Cash and investments with fiscal agents	-	-	-	3,970,836
Receivables:				
Accounts	1,348,279	508,072	-	139,767
Interest	3,806	-	2	290
Notes	-	-	3,445,622	-
Abatements	420,672	-	-	-
Prepaid items	55,262	759	-	-
Due from other governments	737	-	-	-
Due from other funds	510,009	-	-	-
Property held for resale	-	-	207,454	-
<b>Total assets</b>	<b>\$ 10,809,595</b>	<b>\$ 979,575</b>	<b>\$ 3,660,137</b>	<b>\$ 5,374,650</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 970,534	\$ 856,303	\$ -	\$ 722
Accrued liabilities	517	-	-	-
Due to other funds	-	-	-	-
Deposits	688,401	17,250	-	-
Unearned revenue	120,000	-	-	-
<b>Total liabilities</b>	<b>1,779,452</b>	<b>873,553</b>	<b>-</b>	<b>722</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenues	519,449	107,737	-	-
<b>Fund Balances:</b>				
Nonspendable	55,262	-	-	-
Restricted	-	-	3,660,137	5,373,928
Committed	-	-	-	-
Assigned	8,455,432	-	-	-
Unassigned (deficit)	-	(1,715)	-	-
<b>Total fund balances</b>	<b>8,510,694</b>	<b>(1,715)</b>	<b>3,660,137</b>	<b>5,373,928</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 10,809,595</b>	<b>\$ 979,575</b>	<b>\$ 3,660,137</b>	<b>\$ 5,374,650</b>

**City of Desert Hot Springs**  
**Balance Sheet (Continued)**  
**Governmental Funds**  
**June 30, 2017**

	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>		
Cash and investments	\$ 5,598,237	\$ 15,810,627
Cash and investments with fiscal agents	802,031	4,772,867
Receivables:		
Accounts	510,665	2,506,783
Interest	1,338	5,436
Notes	-	3,445,622
Abatements	-	420,672
Prepaid items	-	56,021
Due from other governments	217,268	218,005
Due from other funds	417,264	927,273
Property held for resale	-	207,454
<b>Total assets</b>	<b>\$ 7,546,803</b>	<b>\$ 28,370,760</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 657,579	\$ 2,485,138
Accrued liabilities	-	517
Due to other funds	927,273	927,273
Deposits	217,988	923,639
Unearned revenue	200,000	320,000
<b>Total liabilities</b>	<b>2,002,840</b>	<b>4,656,567</b>
<b>Deferred Inflows of Resources:</b>		
Unavailable revenues	489,573	1,116,759
<b>Fund Balances:</b>		
Nonspendable	-	55,262
Restricted	2,972,033	12,006,098
Committed	2,422,313	2,422,313
Assigned	-	8,455,432
Unassigned (deficit)	(339,956)	(341,671)
<b>Total fund balances</b>	<b>5,054,390</b>	<b>22,597,434</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 7,546,803</b>	<b>\$ 28,370,760</b>

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**City of Desert Hot Springs**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2017**

<b>Total Fund Balances - Total Governmental Funds</b>		\$ 22,597,434
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, excluding the \$271,279 from the Internal Service Funds, used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets, not being depreciated	4,483,217	
Capital assets, being depreciated	<u>37,840,470</u>	42,323,687
Revenue reported as unavailable revenue in the governmental funds when it is not received soon enough after year-end to be considered available. The availability criteria does not apply to the Government-Wide Financial Statements and, therefore, the revenue is recognized when eligibility requirements are met and earned.		
		1,116,759
Interest expenses are recognized when due, and therefore, interest payable is not recorded in the governmental funds.		
		(166,857)
Long-term liabilities, net of \$418,181 reported in Internal Service funds were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds' Balance Sheet.		
Deferred loss on refunding	165,622	
Long-term liabilities	<u>(23,451,554)</u>	(23,285,932)
Deferred outflows of resources and deferred inflows of resources related to pension are not reported in the governmental funds:		
Deferred outflows of resources	2,768,212	
Deferred inflows of resources	<u>(516,570)</u>	2,251,642
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.		
		(10,371,631)
Internal service funds are used by management to charge the costs of general liability, workers' compensation and equipment replacement to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Government-Wide Statement of Net Position.		
		<u>799,950</u>
Net Position of Governmental Activities		<u><u>\$ 35,265,052</u></u>

**City of Desert Hot Springs**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	General	Public Safety	Housing Authority	Debt Service
<b>REVENUES:</b>				
Taxes	\$ 8,236,031	\$ 4,095,270	\$ -	\$ 1,061,733
Permits and fees	2,305,834	87,571	-	-
Intergovernmental	10,000	93,063	-	-
Licenses	204,362	-	-	-
Interest	71,881	-	5	13,680
Miscellaneous	1,025,619	442,583	3,750	-
<b>Total revenues</b>	<b>11,853,727</b>	<b>4,718,487</b>	<b>3,755</b>	<b>1,075,413</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,108,417	-	-	-
Public safety	13,170	7,966,022	-	-
Public works	796,331	-	-	-
Economic development	1,201,617	-	277,824	-
Culture and leisure	663,305	-	-	-
Capital outlay	579,221	175,885	-	-
Debt service:				
Principal retirement	-	-	-	11,120,000
Interest and fiscal charges	-	-	-	1,113,821
<b>Total expenditures</b>	<b>6,362,061</b>	<b>8,141,907</b>	<b>277,824</b>	<b>12,233,821</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>5,491,666</b>	<b>(3,423,420)</b>	<b>(274,069)</b>	<b>(11,158,408)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds	-	-	-	15,000,000
Issuance premium	-	-	-	181,211
Issuance discount	-	-	-	(1,809)
Transfers in	364,630	3,612,666	-	-
Transfers out	(3,582,477)	(144,282)	-	-
<b>Total other financing sources (uses)</b>	<b>(3,217,847)</b>	<b>3,468,384</b>	<b>-</b>	<b>15,179,402</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>2,273,819</b>	<b>44,964</b>	<b>(274,069)</b>	<b>4,020,994</b>
<b>FUND BALANCES:</b>				
Beginning of year, as Restated (Note 15)	6,236,875	(46,679)	3,934,206	1,352,934
End of year	<u>\$ 8,510,694</u>	<u>\$ (1,715)</u>	<u>\$ 3,660,137</u>	<u>\$ 5,373,928</u>

**City of Desert Hot Springs**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>		
Taxes	\$ 1,014,977	\$ 14,408,011
Permits and fees	885,863	3,279,268
Intergovernmental	2,349,189	2,452,252
Licenses	-	204,362
Interest	10,370	95,936
Miscellaneous	148,712	1,620,664
<b>Total revenues</b>	<b>4,409,111</b>	<b>22,060,493</b>
<b>EXPENDITURES:</b>		
Current:		
General government	264,623	3,373,040
Public safety	-	7,979,192
Public works	287,999	1,084,330
Economic development	-	1,479,441
Culture and leisure	174,405	837,710
Capital outlay	3,899,693	4,654,799
Debt service:		
Principal retirement	120,000	11,240,000
Interest and fiscal charges	280,387	1,394,208
<b>Total expenditures</b>	<b>5,027,107</b>	<b>32,042,720</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(617,996)</b>	<b>(9,982,227)</b>
<b>OTHER FINANCING SOURCES (USES):</b>		
Proceeds from refunding bonds	-	15,000,000
Issuance premium	-	181,211
Issuance discount	-	(1,809)
Transfers in	587,064	4,564,360
Transfers out	(712,463)	(4,439,222)
<b>Total other financing sources (uses)</b>	<b>(125,399)</b>	<b>15,304,540</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(743,395)</b>	<b>5,322,313</b>
<b>FUND BALANCES:</b>		
Beginning of year, as Restated (Note 15)	5,797,785	17,275,121
End of year	<u>\$ 5,054,390</u>	<u>\$ 22,597,434</u>

**City of Desert Hot Springs**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position**  
**For the Year Ended June 30, 2017**

**Net Change in Fund Balances - Total Governmental Funds** \$ 5,322,313

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

Acquisition of capital assets was reported as expenditures in the governmental funds. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over the estimated useful lives as depreciation expense. The following was the amount of capital assets recorded in the current period:

Capital outlay, net of \$904,202 repair and maintenance reported as program expenses. 3,750,597

Depreciation expense on capital assets, net of internal service fund depreciation expense of \$203,959, was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in the governmental funds. (2,870,835)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 34,395

The fund financial statements record interest expenditures on the current financial resources measurement focus whereas the Government-Wide financial statements recognize interest expense on the accrual basis. The reconciling amount was the change in accrued interest from the prior year. 42,868

Long-term compensated absences expense was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, the decrease in long-term compensated absences was not reported as an expenditure in the governmental funds. (134,778)

Proceeds from long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.

Proceeds from refunding bonds	(15,000,000)	
Issuance of premium	(181,211)	
Issuance of discount	1,809	
Principal repayments of long-term debt	11,240,000	
Changes in pension-related debt	<u>(51,248)</u>	(3,990,650)

Amortization expense was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, amortization expense was not reported as an expenditure in the governmental funds.

Amortization of premium/discount	4,470	
Amortization of deferred charges on refunding	<u>(1,739)</u>	2,731

Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, net of \$1,044,139 pension contribution made after measurement date. 488,010

Internal service funds were used by management to charge the costs of certain activities, such as insurance to individual funds. The net loss of the internal service funds was reported with governmental activities. 114,738

**Change in Net Position of Governmental Activities** \$ 2,759,389

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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Enterprise Funds are used to account and report activities for which fees are charges to external users for goods and/or services.

**Enterprise Fund includes:**

***Health & Wellness Foundation Fund*** - To account for the acquisition of real property and completion of buildings and improvements to be operated as a health and wellness center to promote the physical and psychological health and well-being of residents of the City and surrounding area.

Internal Service Funds account for the City's risk management and equipment replacement activities, which are goods and services provided to other Funds of the City.

**City of Desert Hot Springs**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

	Business-Type Activities <u>Health &amp; Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 497,522	\$ 906,325
Accounts receivable	-	40,527
Interest receivable	18,908	-
Total current assets	<u>516,430</u>	<u>946,852</u>
Noncurrent assets:		
Notes receivable	15,126,594	-
Capital assets, not being depreciated	370,415	-
Capital assets, being depreciated, net	13,577,565	271,279
Total capital assets, net	<u>13,947,980</u>	<u>271,279</u>
Total noncurrent assets	<u>29,074,574</u>	<u>271,279</u>
<b>Total assets</b>	<u>29,591,004</u>	<u>1,218,131</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	37,775	-
Unearned revenue	52,000	-
Claims payable - due in one year	-	418,181
Total current liabilities	<u>89,775</u>	<u>418,181</u>
Noncurrent liabilities:		
Notes payable - due in more than one year	<u>20,697,000</u>	-
Total noncurrent liabilities	<u>20,697,000</u>	-
<b>Total liabilities</b>	<u>20,786,775</u>	<u>418,181</u>
<b>NET POSITION</b>		
Net investment in capital assets	(6,749,020)	271,279
Restricted	-	-
Unrestricted	15,553,249	528,671
<b>Total net position</b>	<u>\$ 8,804,229</u>	<u>\$ 799,950</u>

**City of Desert Hot Springs**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	Business-Type Activities <u>Health &amp; Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 104,000	\$ -
Insurance recovery	-	455,508
<b>Total operating revenues</b>	<u>104,000</u>	<u>455,508</u>
<b>OPERATING EXPENSES:</b>		
Insurance claims	-	81,003
General and administrative	161,911	-
Depreciation	589,924	203,959
<b>Total operating expenses</b>	<u>751,835</u>	<u>284,962</u>
<b>OPERATING (LOSS)</b>	<u>(647,835)</u>	<u>170,546</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	75,633	-
Interest expense	(103,485)	(6,145)
<b>Total nonoperating revenues (expenses)</b>	<u>(27,852)</u>	<u>(6,145)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(675,687)</u>	<u>164,401</u>
<b>TRANSFERS:</b>		
Transfers in	-	144,282
Transfers out	(75,475)	(193,945)
<b>Total transfers</b>	<u>(75,475)</u>	<u>(49,663)</u>
<b>Changes in net position</b>	(751,162)	114,738
<b>NET POSITION:</b>		
Beginning of year	9,555,391	685,212
End of year	<u>\$ 8,804,229</u>	<u>\$ 799,950</u>

**City of Desert Hot Springs**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	Business-Type Activities <u>Health &amp; Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers and users	\$ 104,000	\$ -
Receipts from claims and recoveries	-	117,400
Payments to suppliers for goods and services	(143,066)	-
Payments for insurance claims	-	(85,152)
<b>Net cash provided by (used in) operating activities</b>	<u>(39,066)</u>	<u>32,248</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers in from other funds	-	144,282
Transfers out to other funds	(75,475)	(193,945)
<b>Net cash (used in) noncapital financing activities</b>	<u>(75,475)</u>	<u>(49,663)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on capital lease	-	(118,138)
Interest paid	(103,485)	(6,145)
<b>Net cash (used in) capital and related financing activities</b>	<u>(103,485)</u>	<u>(124,283)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	75,633	-
<b>Net cash provided by investing activities</b>	<u>75,633</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(142,393)	(141,698)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	639,915	1,048,023
End of year	<u>\$ 497,522</u>	<u>\$ 906,325</u>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Operating (loss)	\$ (647,835)	\$ 170,546
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation expense	589,924	203,959
(Increase) decrease in:		
Accounts receivable	-	(40,527)
Increase (decrease) in:		
Accounts payable and accrued expenses	18,845	(4,149)
Claims payable	-	(297,581)
Total adjustments	<u>608,769</u>	<u>(138,298)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ (39,066)</u>	<u>\$ 32,248</u>



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# FIDUCIARY FUND FINANCIAL STATEMENTS

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**Successor Agency Private-Purpose Trust Fund** - To account for the balances and transactions of the Successor Agency to the former Redevelopment Agency of the City of Desert Hot Springs.

**Agency Funds** - To account for assets held by the City in the capacity of agent for individuals. Agency Fund spending is controlled primarily through legal agreements and applicable State and Federal laws.

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**City of Desert Hot Springs**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

	Successor Agency Private - Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 2,918,616	\$ 965,564
Accounts receivable	1,506,633	11,236
Interest receivable	-	156
Total current assets	4,425,249	976,956
Noncurrent assets:		
Investments with fiscal agents	2,712,007	181,248
Notes receivable	16,294	-
Property held for resale	3,557,994	-
Total noncurrent assets	6,286,295	181,248
<b>Total assets</b>	10,711,544	\$ 1,158,204
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refundings	1,488,831	
<b>Total deferred outflows of resources</b>	1,488,831	
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	52,171	\$ 218,207
Deposits payable	3,900	33,926
Interest payable	389,481	-
Bonds payable - due within one year	1,306,235	-
Due to bondholders	-	906,071
Total current liabilities	1,751,787	1,158,204
Noncurrent liabilities:		
Bonds payable - due in more than one year	32,300,764	-
Total noncurrent liabilities	32,300,764	-
<b>Total liabilities</b>	34,052,551	\$ 1,158,204
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on refundings	4,380	
<b>Total deferred outflows of resources</b>	4,380	
<b>NET POSITION (DEFICIT)</b>		
Held in trust	(21,856,556)	
<b>Total net position (deficit)</b>	\$ (21,856,556)	

**City of Desert Hot Springs**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2017**

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	Successor Agency Private - Purpose Trust Fund
<b>ADDITIONS:</b>	
Redevelopment Property Tax Trust Fund	\$ 5,183,373
Use of money and property	258,489
Other revenue	142
<b>Total additions</b>	<b>5,442,004</b>
<b>DEDUCTIONS:</b>	
Interest expenses	3,290,120
Administration	677,427
Loss on sale of land held for resale	2,237,365
<b>Total deductions</b>	<b>6,204,912</b>
<b>Change in net position</b>	<b>(762,908)</b>
<b>NET POSITION:</b>	
Beginning of year	(21,093,648)
End of year	<b>\$ (21,856,556)</b>

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

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**City of Desert Hot Springs**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**City of Desert Hot Springs**  
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**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

The basic financial statements of the City of Desert Hot Springs, California (the “City”) have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies:

**A. Financial Reporting Entity**

The City was incorporated on September 17, 1963 as a charter city under the laws of the State of California and enjoys all the rights and privileges allowed by its charter. The City is governed by an elected five-member council.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship, if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Blended Component Units:

Management determined that the following entities should be reported as blended component units based on the criteria above. Although the following is legally separate from the City, it has been “blended” as though it is part of the City because the component unit’s governing body is substantially the same as the City’s and there is a financial benefit or burden relationship between the City and the component unit; management of the City has operational responsibilities for the component unit; and/or the component unit provides services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

City of Desert Hot Springs Financing Corporation (the “Corporation”) – The Corporation is a nonprofit public benefit corporation formed for the purpose of providing public facility financing to the City. The Corporation’s Board of Directors is composed of the five elected City Council members. The Corporation may acquire, construct, rehabilitate, remodel, improve, install and finance or lease various facilities, land and equipment for the benefit of the City. The Corporation holds title to various parcels of land as security for the Certificates of Participation issued in its name. The City makes lease payments to the Corporation in an amount equal to the periodic principal and interest payments due on the Certificates. The Corporation does not issue separate financial statements.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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

**A. Financial Reporting Entity (Continued)**

Blended Component Units (Continued):

Desert Hot Springs Public Financing Authority (the “Authority”) – the Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement, dated May 1, 1993, between the City and the Redevelopment Agency of the City which has been succeeded by the Successor Agency of the City. The Authority is governed by the Board of Directors. The Chairperson, Vice-Chairperson, Executive Director, and Secretary of the Authority consist of the Mayor, Mayor Pro Tem, City Manager, and City Clerk of the City, respectively. The Authority does not issue separate financial statements.

Desert Hot Springs Housing Authority (the “Housing Authority”) – The Housing Authority was formed on January 18, 2011 and operates as a public authority whose primary goal is to provide decent, safe and sanitary housing in a suitable living environment for families that cannot afford private housing that comply with housing quality standards. The Housing Authority does not issue separate financial statements.

Desert Hot Springs Health & Wellness Foundation (the “Foundation”) – The Foundation is a California nonprofit public benefit corporation which was incorporated on December 1, 2011 as a result of the joint effort of the City of Desert Hot Springs (the “City”) and the Desert Healthcare District (the “District”). Funding of the Foundation came from the New Market Tax Credit which closed on July 13, 2012. The purpose of the Foundation was to embark upon a project consisting of the acquisition of real property and completion of buildings and improvements to be operated as a health and wellness center in conjunction with other public agencies and nonprofit organizations to promote the physical and psychological health and well-being of residents of the City and surrounding area. The Foundation is governed by a Board of Directors of five members. Three of the board members were appointed by the City Council of Desert Hot Springs, one of the board members was appointed by the District, and one board member by the PSUSD. Separate financial statements can be obtained from the City Hall.

These component units are included in the primary government because of the significance of their financial and operational relationship and due to the governing bodies being appointed by the City Council or the same as City Council.

The City has no discretely presented component units.

**B. Basis of Accounting and Measurement Focus**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City 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.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Accounting and Measurement Focus (Continued)**

Government-Wide Financial Statements

The Government-Wide Financial Statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. Fiduciary activities of the City are not included in these statements.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated, except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The following interfund activities have been eliminated:

- Due from/to other funds
- Advances to/from other funds
- Transfers in/out

Governmental Fund Financial Statements

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, current liabilities, and deferred inflows of resources, are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the government-wide financial statements.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Accounting and Measurement Focus (Continued)**

Governmental Fund Financial Statements(Continued)

Revenues are recognized as soon as they are both “*measurable*” and “*available*”. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, citations, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The City reports the following major governmental funds:

- **General Fund** – This fund is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.
- **Public Safety Special Revenue Fund** – This fund was established to account for special taxes and grants for public safety expenditures.
- **Housing Authority Special Revenue Fund** – This fund was established to account for funds set aside for development and improvements of the City’s housing activity and operations.
- **Debt Service Fund** – This fund was established to account for the debt service payments of the City.

Proprietary Fund Financial Statements

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements. The City’s internal service funds include two individual funds which provide services directly to other City funds, which include risk management (combining general liability and workers’ compensation activities) and equipment replacement.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Accounting and Measurement Focus (Continued)**

Proprietary Fund Financial Statements (Continued)

The City reports the following major proprietary fund:

- **Health & Wellness Foundation Enterprise Fund** – This fund was established to account for 1) the acquisition of real property and completion of buildings and improvements to be operated as a health and wellness center to promote the physical and psychological health and well-being of residents of the City and surrounding area and 2) various funding received for the completion of the health and wellness center as a result of the New Market Tax Credit.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in Fiduciary Net Position. The City's fiduciary funds represent agency funds and a private-purpose trust fund. Both the agency funds and the private-purpose trust fund are accounted for on the full accrual basis of accounting.

Fiduciary fund types are accounted for according to the nature of the fund. The City's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. These funds are used to account for money and property held by the City as trustee or custodian. They are also used to account for various assessment districts for which the City acts as an agent for debt service activities. The City's private purpose trust fund is a fiduciary fund type used by the City to report assets, liabilities and activities of the Successor Agency to the former Redevelopment Agency of the City of Desert Hot Springs. Its results of operations are presented in the Statement of Changes of Fiduciary Net Position.

**C. Cash, Cash Equivalents and Investments**

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified, including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***D. Cash and Investments with Fiscal Agents***

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

***E. Fair Value Measurement***

Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

The three levels of the fair value measurement hierarchy are described below:

- Level 1 - Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets and liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets and liabilities at the measurement date.

***F. Prepaid Items***

Certain payments to vendors applicable to future accounting periods are recorded as prepaid items. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is nonspendable.

***G. Interfund Transactions***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “interfund balances”.

***H. Property Held for Resale***

Property held for resale is carried at the lower of cost or net realized value, but not greater than the estimated net realizable value.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***I. Capital Assets***

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their acquisition value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 (including infrastructure assets). Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Vehicles, machinery and equipment	3-10 years
Infrastructure	20 years

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the streets, parks and recreation, lands and improvement system, storm water conveyance system, and buildings combined with the site amenities, such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land.

These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

***J. Interest Payable***

In the government-wide financial statements, interest payable on long-term debt is recognized, as the liability is incurred, for governmental activities and business-type activities. In the fund financial statements, only proprietary fund and private-purpose trust fund types recognize the interest payable when the liability is incurred.

***K. Unearned Revenue***

Unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues are prepaid charges for services.

***L. Compensated Absences***

Permanent City employees earn vacation and sick leave hours per pay period with rates depending on their length of employment. Upon separation from employment, the employees are paid for any unused vacation leave accrual balance. The City allows employees to accrue up to a maximum of 300 hours of vacation leave. There is no maximum on the number of sick leave hours that can be accrued. The amount of compensated absences at June 30 is accrued when incurred in the government-wide financial statements. Compensated absences are primarily liquidated by the General Fund.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**M. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

**N. Deferred Outflows/Inflows of Resources**

The Statement of Net Position and Balance Sheet report separate sections for deferred outflows of resources, and deferred inflows of resources, when applicable.

**Deferred Outflows of Resources** represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

**Deferred Inflows of Resources** represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

**O. Long-Term Debt**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, with the exception of advances from other funds, the governmental fund financial statements do not present long-term liabilities. Consequently, long term debt is shown as a reconciling item in the reconciliation of the governmental funds balance sheet to the government-wide statement of net position.



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***P. Claims and Judgments***

When it is probable that a claim or judgment liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage. The City is self-insured and has insurance coverage in excess of the self-insured amounts as a member of the Public Entity Risk Management Authority (“PERMA”).

***Q. Property Taxes***

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of Riverside, California (“County”) bills and collects property taxes and remits them to the City according to a payment schedule established by the County.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 90 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected. No allowance for doubtful accounts was considered necessary.

***R. Net Position***

In the government-wide financial statements and proprietary fund financial statements, net position is classified as follows:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets, net of unspent debt proceeds.

*Restricted* – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets.

*Unrestricted* – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

***S. Fund Balance***

In the governmental fund financial statements, fund balances are classified as follows:

*Nonspendable* – Nonspendable fund balances are items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, or items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

*Restricted* – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**S. Fund Balances (Continued)**

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City. Adoption of a resolution by the City Council is required to commit resources or to rescind the commitment.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the City Manager or designee for that purpose.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

**T. Spending Policy**

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order, except for instances wherein an ordinance specifies the fund balance:

- Committed
- Assigned
- Unassigned

**U. Use of Estimates**

The preparation of the basic financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**V. Accounting Changes**

GASB has issued Statement No. 77, *Tax Abatement Disclosure*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. 2) The gross dollar amount of taxes abated during the period 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 82, *Pension Issues*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments**

The following is a summary of pooled cash and investments, including cash and investments with fiscal agents at June 30, 2017:

	Government-Wide Statement of Net Position			Fiduciary Fund Statement of Net Position	
	Governmental Activities	Business-Type Activities	Total	Net Position	Total
Cash and investments	\$ 16,716,952	\$ 497,522	\$ 17,214,474	\$ 3,884,180	\$ 21,098,654
Cash and investments with fiscal agents	4,772,868	-	4,772,868	2,893,255	7,666,123
<b>Total cash and investments</b>	<b>\$ 21,489,820</b>	<b>\$ 497,522</b>	<b>\$ 21,987,342</b>	<b>\$ 6,777,435</b>	<b>\$ 28,764,777</b>

Cash and investments consisted of the following at June 30, 2017:

Cash:	
Petty cash	\$ 2,000
Demand deposits	16,565,942
Cash with fiscal agent:	
Demand deposits	1,325,954
Total cash and cash equivalents	17,893,896
Investments:	
Local Agency Investment Fund	2,986,988
Certificate of deposits	1,047,032
Investments with fiscal agents:	
U.S. government sponsored enterprise securities	175,366
Corporate bonds	319,246
Foreign government bonds	319,721
Commerical paper	2,523,803
Money market mutual funds	3,498,725
Total investments	10,870,881
Total cash and investments	\$ 28,764,777

**A. Demand Deposits**

The carrying amounts of the City's demand deposits were \$17,891,896 at June 30, 2017. Bank balances at that date were \$18,467,661, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the carrying amount and bank balances represents outstanding checks, deposits in transit, and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments (Continued)**

**A. Demand Deposits (Continued)**

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC").

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**B. Investments**

Investments Authorized by the City's Investment Policy

The City annually adopts an investment policy to provide guidelines for the deposit and investment of public monies. The investment policy adopted on July 5, 2016 was consistent with the terms and provisions of California Government Code Section 53600 et seq.

Investments Authorized by Debt Agreement

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. Authorized investments held by bond trustee are the same as those authorized by the City's investment policy identified above.

**C. Fair Value Measurement**

At June 30, 2017, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within the fair value hierarchy in which the fair value measurements fall at June 30, 2017:

Investment Type	Value	Fair Value Measurement			Uncategorized
		Level 1 Input	Level 2 Input	Level 3 Input	
Local Agency Investment Fund (LAIF)	\$ 2,986,988	\$ -	\$ -	\$ -	\$ 2,986,988
Certificate of deposits	1,047,032	-	1,047,032	-	-
Investments held with fiscal agents:					
U.S. Government Sponsored Enterprise Securities	175,366	-	175,366	-	-
Corporate bonds	319,246	-	319,246	-	-
Foreign government bonds	319,721	-	319,721	-	-
Commercial paper	2,523,803	-	2,523,803	-	-
Money market mutual funds	3,498,725	-	-	-	3,498,725
<b>Total</b>	<b>\$10,870,881</b>	<b>\$ -</b>	<b>\$ 4,385,168</b>	<b>\$ -</b>	<b>\$ 6,485,713</b>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments (Continued)**

**D. Risk Disclosures**

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2017, the City's investments had the following maturities:

Investment Type	Amount	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund (LAIF)	\$ 2,986,988	\$ 2,986,988	\$ -	\$ -	\$ -	\$ -
Certificate of deposits	1,047,032	99,749	198,677	397,930	350,684	-
Investments held with fiscal agents:						
U.S. government sponsored enterprise securities	175,366	-	-	95,516	-	79,850
Corporate bonds	319,246	-	-	319,246	-	-
Foreign government bonds	319,721	-	-	-	-	319,721
Commerical paper	2,523,803	2,198,245	325,558	-	-	-
Money market mutual funds	3,498,725	3,498,725	-	-	-	-
<b>Total</b>	<b>\$ 10,870,881</b>	<b>\$ 8,783,707</b>	<b>\$ 524,235</b>	<b>\$ 812,692</b>	<b>\$ 350,684</b>	<b>\$ 399,571</b>

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. To be eligible to receive City money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low-and moderate income neighborhoods. The City's investments are rated by the nationally recognized statistical rating organizations as follows:

Credit Quality Distribution for Securities  
with Credit Exposure as a Percentage of Total Investments

Investment Type	Fair Value	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	\$ 2,986,988	Not Rated	Not Rated	74.04%
Certificate of deposits	1,047,032	Not Rated	Not Rated	25.96%
Investments held with fiscal agents:				
U.S. government sponsored enterprise securities				
Federal Home Loan Bank	95,516	Not Rated	Not Rated	
Federal Farm Credit Bank	79,850	Not Rated	Not Rated	
Corporate bonds	319,246	Not Rated	Not Rated	
Foreign government bonds	319,721	Not Rated	Not Rated	
Commerical paper	2,523,803	Not Rated	Not Rated	
Money market mutual funds	3,498,725	Not Rated	Not Rated	
<b>Total</b>	<b>\$ 10,870,881</b>			<b>100.00%</b>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 2 – Cash and Investments (Continued)**

**D. Risk Disclosures (Continued)**

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investments in securities through these of mutual funds or government investment pools (such as LAIF).

**E. Investments in Local Agency Investment Fund**

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2017, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: Generally, mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2017, the City had \$2,986,988 invested in LAIF, which had invested 2.89% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2017, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants’ total aggregate amortized cost by total aggregate fair value. The credit quality rating of LAIF is unrated as of June 30, 2017.

**Note 3 – Notes Receivable**

**A. Governmental Fund Financial Statements**

Notes receivable, which amounted to \$3,445,622, are reported in the Housing Authority Special Revenue Fund as follows:

Housing Rehabilitation Loan Program	\$ 3,445,622
Owner Participation and Loan Agreement:	
Low and Moderate Income Housing Units	750,000
Multifamily Residential Housing	1,700,000
Subtotal	5,895,622
Less: Allowance for doubtful accounts	(2,450,000)
<b>Total</b>	<b>\$ 3,445,622</b>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 3 – Notes Receivable (Continued)**

**A. Governmental Fund Financial Statements (Continued)**

The former Redevelopment Agency of the City of Desert Hot Springs (“Redevelopment Agency”) operated a housing rehabilitation loan program, which provides loans to borrowers who meet certain qualifications for the purpose of rehabilitating their homes. The loans are secured by a deed of trust and are normally repaid when the home changes ownership.

On October 6, 2009, the former Redevelopment Agency entered into an Owner Participation and Loan Agreement for \$750,000 with a developer to provide sixty low to moderate income housing units. The term of the loan is 55 years and is offset by an allowance for doubtful accounts in both the fund financial statements and in the government-wide financial statements.

The former Redevelopment Agency entered into a \$1,700,000 Owner Participation and Grant Agreement with the Coachella Valley Housing Coalition on March 16, 2010 to provide 62-unit multifamily residential housing. The term of the grant agreement is 55 years and is offset by an allowance for doubtful accounts in both the fund financial statements and in the government-wide financial statements.

**B. Proprietary Fund Financial Statements**

On July 13, 2012, the City entered into a Fund Loan Agreement with Desert Hot Springs Investment Fund, LLC, a Missouri limited liability company (the “Investment Fund”) and provided \$15,126,594 to the Investment Fund. The proceeds were used to fund the Investment Fund’s equity investments in New Market Community Capital X, LLC, a Delaware limited liability company (“NMCC”), and LCD New Market Fund XII, LLC, a Delaware limited liability company (“LCD”) in the amount of \$8,300,000 and \$13,000,000, respectively. The note bears an interest rate of 0.5% with maturity date of July 1, 2048. Interest is payable quarterly commencing on October 1, 2012 while principal is not due until January 1, 2020. As of June 30, 2017, the outstanding balance for the note receivable was in the amount of \$15,126,594.

**Note 4 – Interfund Transactions**

**A. Due From/To Other Funds**

At June 30, 2017, the City had the following short-term interfund receivable/payable:

Due to Other Funds	Due from Other Funds		Total
	General Fund	Nonmajor Governmental Funds	
Nonmajor Governmental Funds	\$ 510,009	\$ 417,264	\$ 927,273
Total	\$ 510,009	\$ 417,264	\$ 927,273

The above interfund balances resulted from temporary reclassifications made at June 30, 2017 to cover cash shortfalls.



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 4 – Interfund Transactions (Continued)**

**B. Transfers In/Out**

For the year ended June 30, 2017, the City had the following transfers in/out which arise in the normal course of operations:

	<b>Transfers In</b>					Total
	General Fund	Public Safety Special Revenue Fund	Nonmajor Governmental Funds	Internal Service Funds		
<b>Transfers Out</b>						
General Fund	\$ -	\$ 3,500,000	\$ 82,477	\$ -		\$ 3,582,477
Public Safety Special Revenue Fund	-	-	-	144,282		144,282
Nonmajor Governmental Funds	95,210	112,666	504,587	-		712,463
Health & Wellness						
Foundation Enterprise Fund	75,475	-	-	-		75,475
Internal Service Fund	193,945	-	-	-		193,945
<b>Total</b>	<b>\$ 364,630</b>	<b>\$ 3,612,666</b>	<b>\$ 587,064</b>	<b>144,282</b>		<b>\$ 4,708,642</b>

The transfer of \$3,500,000 from General Fund to the Public Safety Special Revenue Fund was to fund public safety expenditures during the year in which there were insufficient revenues to cover.

The transfers of \$82,477 from General Fund to the Nonmajor Governmental Funds were budgeted transfers to provide funding for the expenditures of Cabot’s Museum.

The transfer of \$144,282 from the Public Safety Special Revenue Fund to the Internal Service funds relates to the annual lease payment for Police Department vehicles.

The transfers of \$95,210 from the Nonmajor Governmental Funds to the General Fund relates to provide funding for expenditures originally paid for by General Fund.

The transfers of \$112,666 from the Nonmajor Governmental Funds to the Public Safety Special Revenue Fund relates to assistance in funding public safety expenditures.

The transfers of \$504,587 within the Nonmajor Governmental Funds were to cover the debt service payments for the Certificates of Participation Series 2012A, reimbursement for capital project expenditures paid by other funds, and development fees disbursements for cash-flow reimbursement relating to the completion of the Health and Wellness Facility.

The transfers of \$193,945 from the Internal Service Fund to the General Fund relates to provide funding for expenditures originally paid for by General Fund for workers’ compensation liability.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 5 – Capital Assets**

**A. Governmental Activities**

A summary of changes in the capital assets for the governmental activities for the year ended June 30, 2017 is as follows:

	Governmental Activities				Balance June 30, 2017
	Balance July 1, 2016	Additions	Deletions	Transfers	
<b>Nondepreciable assets:</b>					
Land	\$ 1,464,942	\$ 854,086	\$ -	\$ -	\$ 2,319,028
Construction in progress	827,579	1,588,046	-	(251,436)	2,164,189
Total nondepreciable assets	<u>2,292,521</u>	<u>2,442,132</u>	<u>-</u>	<u>(251,436)</u>	<u>4,483,217</u>
<b>Depreciable assets:</b>					
Building and improvements	17,174,118	243,472	-	-	17,417,590
Machinery and equipment	8,089,862	59,390	-	-	8,149,252
Vehicles	1,898,672	29,556	-	-	1,928,228
Infrastructure	37,281,452	976,047	-	251,436	38,508,935
Total capital assets, being depreciated	<u>64,444,104</u>	<u>1,308,465</u>	<u>-</u>	<u>251,436</u>	<u>66,004,005</u>
<b>Less accumulated depreciation:</b>					
Building and improvements	(5,692,607)	(499,475)	-	-	(6,192,082)
Machinery and equipment	(6,191,740)	(609,121)	-	-	(6,800,861)
Vehicles	(1,119,330)	(102,126)	-	-	(1,221,456)
Infrastructure	(11,813,785)	(1,864,072)	-	-	(13,677,857)
Total accumulated depreciation	<u>(24,817,462)</u>	<u>(3,074,794)</u>	<u>-</u>	<u>-</u>	<u>(27,892,256)</u>
Total depreciable assets, net	<u>39,626,642</u>	<u>(1,766,329)</u>	<u>-</u>	<u>251,436</u>	<u>38,111,749</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 41,919,163</u>	<u>\$ 675,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,594,966</u>

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2017 as follows:

General government	\$ 2,005,339
Public safety	245,436
Public works	191,137
Culture and leisure	632,882
<b>Total depreciation expense</b>	<u>\$ 3,074,794</u>

During the year ended June 30, 2017, the Successor Agency transferred the title of several parcels of land to the City for government use in accordance with the Department of Finance approved Long Range Property Management Plan. The costs of land transferred to the City were in the amount of \$854,086.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 5 – Capital Assets (Continued)**

**B. Business-Type Activities**

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2017 is as follows:

	Business-Type Activities			
	July 1, 2016	Additions	Deletions	June 30, 2017
<b>Nondepreciable assets:</b>				
Land	\$ 370,415	\$ -	\$ -	\$ 370,415
Total nondepreciable assets	370,415	-	-	370,415
<b>Depreciable assets:</b>				
Building and improvements	15,781,082	-	-	15,781,082
Furniture and fixtures	349,172	-	-	349,172
Total depreciable assets	16,130,254	-	-	16,130,254
<b>Less accumulated depreciation:</b>				
Building and improvements	(1,795,929)	(540,041)	-	(2,335,970)
Furniture and fixtures	(166,836)	(49,883)	-	(216,719)
Total accumulated depreciation	(1,962,765)	(589,924)	-	(2,552,689)
Total depreciable assets, net	14,167,489	(589,924)	-	13,577,565
<b>Business-type activities capital assets, net</b>	<b>\$ 14,537,904</b>	<b>\$ (589,924)</b>	<b>\$ -</b>	<b>\$ 13,947,980</b>

Depreciation expense was charged to functions/programs of business-type activities for the fiscal year ended June 30, 2017 as follows:

Heath and Wellness Foundation	<u>\$ 589,924</u>
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**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities**

**A. Governmental Activities**

A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due within One Year	Due in more than One Year
Judgment Obligation Bonds	\$ 9,725,000	\$ -	\$ (9,725,000)	\$ -	\$ -	\$ -
Certificates of Participation	1,395,000	-	(1,395,000)	-	-	-
2012A Certificates of Participation	5,465,000	-	(120,000)	5,345,000	125,000	5,220,000
Lease Revenue Bonds Series 2017A	-	13,895,000	-	13,895,000	90,000	13,805,000
Taxable Lease Revenue Bonds Series 2017A-T	-	1,105,000	-	1,105,000	210,000	895,000
Subtotal	16,585,000	15,000,000	(11,240,000)	20,345,000	425,000	19,920,000
Add/(less) deferred amounts:						
Bond discount - Judgment Bonds	(153,763)	-	153,763	-	-	-
Bond discount - COP	(17,993)	-	17,993	-	-	-
Bond premium - 2012A COP	200,640	-	(7,665)	192,975	7,665	185,310
Bond discount - 2017A-T	-	(1,809)	64	(1,745)	(362)	(1,383)
Bond premium - 2017A	-	181,211	(1,264)	179,947	9,061	170,886
Total bonds payable	16,613,884	15,179,402	(11,077,109)	20,716,177	441,364	20,274,813
Capital lease payable	118,138	-	(118,138)	-	-	-
Claims and judgments payable	715,762	73,555	(371,136)	418,181	418,181	-
Compensated absences	350,535	506,614	(371,836)	485,313	145,594	339,719
Pension-related debt	2,198,816	343,073	(291,825)	2,250,064	200,229	2,049,835
<b>Total</b>	\$ 19,997,135	\$ 16,102,644	\$ (12,230,044)	\$ 23,869,735	\$ 1,205,368	\$ 22,664,367

**Judgment Obligation Bonds – Original Issue \$9,725,000**

In October 2004, the City issued the Judgment Obligation Bonds (the “Bonds”) in the amount of \$9,725,000. The purpose of the bonds was to: 1) provide money for the payment of the City’s obligations evidenced by the Silver Sage Judgment and Settlement Agreement, as approved in the Confirmation Order, and 2) pay the costs incurred in connection with the authorization and issuance of the Bonds. The Bonds are payable from all legally available money of the City (not limited to any special source of funds).

Because the City could not previously satisfy its obligations to the Judgment Obligees, and certain other creditors, in December 2001, the City initiated a case under Chapter 9 of the United States Bankruptcy Code (the “Chapter 9 Case”) by filing a voluntary petition (the “Chapter 9 Petition”) with the United States Bankruptcy Court for the Central District of California, Riverside Division. The Bonds were issued in connection with and in satisfaction of the City’s Third Amended Plan for the Adjustment of Debts (the “Plan”), dated and filed in the Chapter 9 Case on or about April 28, 2004. In accordance with the Plan, the City was required to consummate a bond or private financing transaction that produced a minimum of \$8.5 million in unrestricted net proceeds available to City for use in the payment of claims through the Plan and in the satisfaction of ongoing City obligations (the “Exit Financing”). The Bonds and certain payments by the City to creditors in the Chapter 9 Case constituted the City’s Exit Financing and the finalization of the pending Chapter 9 Case. The net proceeds of the Bonds were applied to payment of the Judgment Obligees in payment of claims aggregating approximately \$8.85 million due under the Silver Sage Judgment and Settlement 2 Agreement. Total claims satisfied under the City’s Plan in the Chapter 9 Case were approximately \$11.5 million. Remaining claims were paid under the Plan from earmarked available funds of the City and proceeds of the Certificates of Participation delivered concurrently with the Bonds.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**A. Governmental Activities (Continued)**

*Judgment Obligation Bonds – Original Issue \$9,725,000 (Continued)*

The Bonds accrue interest at rates between 4.75% and 5.00%, payable semiannually on March 1 and September 1, and mature through March 1, 2044. The Bonds maturing on or before March 1, 2014 are not subject to redemption prior to their stated maturity date. The Bonds maturing on and after March 1, 2015 shall be subject to optional redemption, in whole or in part, on any interest payment date on or after March 1, 2014, from any source of available funds, at the principal amount plus accrued interest, without premium. The Bonds maturing March 1, 2029, March 1, 2034 and March 1, 2044 are subject to mandatory sinking fund redemption in part, on March 1 in each year at a redemption price equal to the principal amount of the bonds redeemed, without premium, plus accrued interest thereon to the date of redemption.

In March 2017, the Judgment Obligation Bonds were defeased by the Lease Revenue Bonds, Series 2017A.

*Certificates of Participation (Interim Cash Flow Financing) – Original Issue \$3,060,000*

In October 2004, the City issued the Certificates of Participation (Interim Cash Flow Financing) (the “Certificates”) in the amount of \$3,060,000. The purpose of the Certificates was to: 1) finance certain claims and/or a cash flow deficit attributable in part to certain claims pending before the Bankruptcy Court, as part of Chapter 9 proceedings, for the benefit of the City, 2) fund a reserve fund for the Certificates, and 3) pay the costs incurred in connection with the execution and delivery of the Certificates. The Certificates are payable from lease payments made by the City to the City of Desert Hot Springs Financing Corporation, whereby the City pays lease payments equal to the amount of principal and interest due.

The Certificates accrue interest at rates between 3.00% and 5.50%, payable semiannually on March 1 and September 1, and mature through March 1, 2023. The Certificates maturing on or before March 1, 2014 are not subject to optional prepayment prior to their stated principal payment dates. The Certificates maturing on and after March 1, 2015, in whole or in part, from and to the extent of prepaid base rental payments paid pursuant to the lease agreement from any source of available funds, at the principal amount plus accrued interest, without premium. The Certificates with stated principal payment dates of March 1, 2014, March 1, 2017, March 1, 2020 and March 1, 2023 are subject to mandatory sinking account prepayment prior to their stated principal payment dates on March 1 of the years and in the aggregate principal amounts, any such mandatory sinking account prepayment to be at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

In March 2017, the Certificates were defeased by the Taxable Lease Revenue Bonds, Series 2017A-T.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**A. Governmental Activities (Continued)**

California Communities Transportation Revenue (Installment Sale) Certificates of Participation, Series 2012A (T.R.I.P. – Total Road Improvement Program) – Original Issue \$5,925,000

In February 2012, the City entered into a trust agreement with the California Statewide Communities Development Authority (the “Authority”), and issued the Certificates of Participation, Series 12A (the “2012A Certificates”) in the amount of \$5,925,000. The purpose of the Certificates was to: 1) finance the design, acquisition, and construction of certain local roadway improvements and street resurfacing projects (the “Project”) within the City, 2) fund a reserve subaccount within the reserve fund for the Certificates, and 3) pay the costs incurred in connection with the execution, sale, and delivery of the Certificates. The Project was to be sold by the Authority to the City pursuant to a 2012 Installment Sale Agreement dated February 1, 2012. The City is required to make installment sale payments to the Authority, which are payable from Gas Tax revenues and Measure A receipts.

The 2012A Certificates accrue interest at rates between 2.00% and 6.00%, payable semiannually on June 1 and December 1, and mature through June 1, 2042.

At June 30, 2017, the outstanding balance of the Certificates was \$5,345,000. The annual debt service requirements on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 125,000	\$ 274,194	\$ 399,194
2019	130,000	270,444	400,444
2020	135,000	266,544	401,544
2021	135,000	262,494	397,494
2022	140,000	258,275	398,275
2023-2027	785,000	1,209,575	1,994,575
2028-2032	960,000	1,036,100	1,996,100
2033-2037	1,255,000	738,300	1,993,300
2038-2042	1,680,000	313,800	1,993,800
TOTAL	\$ 5,345,000	\$ 4,629,726	\$ 9,974,726

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities (Continued)**

**A. Governmental Activities (Continued)**

Lease Revenue Bonds, Series 2017A and the Taxable Lease Revenue Bonds, Series 2017A-T

In March 2017, the Desert Hot Springs Public Financing Authority (the “Authority”) issued the Lease Revenue Bonds, Series 2017A (the “Tax-Exempt Bonds”) and the Taxable Lease Revenue Bonds, Series 2017A-T (the “Taxable Bonds” in amount of \$13,895,000 and \$1,105,000, respectively. The purpose of the bonds is to (i) current refund the Certificates of Participation (Interim Cash Flow Financing) and Judgment Obligation Bonds, (ii) finance a new City Hall, (iii) make a deposit into a debt service reserve fund and (iv) pay the costs of issuing the Bonds. The aggregate difference in debt service as result of refinancing were \$477,856 for the Tax Exemption Bonds and \$222,211 for the Taxable Bonds, and economic gain on the refinancing were \$963,667 and \$43,838, respectively.

The Bonds accrue interest at rates between 2.000% and 3.750%, payable semiannually on March 1 and September 1, commencing September 1, 2017 and the principals are due annually on March 1. The Reserve Requirement is \$977,525.

The Tax-Exempt Bonds maturing on or before March 1, 2027 are not subject to optional redemption prior to their stated maturity. The Tax-Exempt Bonds maturing on or after March 1, 2028 are subject to redemption, as a whole or in part at a redemption price equal to 100% of the principal amount of Tax-Exempt Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. The Taxable Bonds are not subject to optional redemption prior to their stated maturity.

At June 30, 2017, the outstanding balance of the Tax Exempt Bonds and the Taxable Bonds were \$13,895,000 and 1,105,000, respectively. The annual debt service requirements on the Bonds are as follows:

Year Ending June 30,	Tax Exempt Bonds		Taxable Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 90,000	\$ 485,945	\$ 210,000	\$ 24,626	\$ 300,000	\$ 510,571
2019	80,000	558,906	200,000	24,530	280,000	583,436
2020	80,000	556,506	205,000	20,530	285,000	577,036
2021	80,000	552,906	215,000	15,098	295,000	568,004
2022	90,000	549,306	215,000	8,755	305,000	558,061
2023-2027	1,665,000	2,588,581	60,000	1,875	1,725,000	2,590,456
2028-2032	2,175,000	2,146,100	-	-	2,175,000	2,146,100
2033-2037	2,625,000	1,702,944	-	-	2,625,000	1,702,944
2038-2042	3,165,000	1,158,600	-	-	3,165,000	1,158,600
2043-2047	3,845,000	473,600	-	-	3,845,000	473,600
<b>TOTAL</b>	<b>\$ 13,895,000</b>	<b>\$ 10,773,396</b>	<b>\$ 1,105,000</b>	<b>\$ 95,414</b>	<b>\$ 15,000,000</b>	<b>\$ 10,868,810</b>

Capital Lease Payable

The City entered into a capital lease agreement during the year ended June 30, 2014 for the acquisition of 13 police vehicles in the amount of \$461,466. The accumulated depreciation at June 30, 2017 was \$323,026. The total principal balance of the leases outstanding was paid off during the year ended June 30, 2017.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities (Continued)**

**A. Governmental Activities (Continued)**

Claims and Judgments Payable

The amount of claims and judgments payable at June 30, 2017 was \$418,181. The Risk Management Internal Service Fund has been used to liquidate the liability for claims and judgments payable. See Note 7 for details.

Compensated Absences

The City’s liability for vested and unpaid compensated absences (accrued vacation and sick pay) in the governmental activities has been accrued and amounted to \$485,313. The General Fund has been used to liquidate the majority of the liability for compensated absences.

Pension-Related Debt

As of June 30, 2003, the California Public Employees’ Retirement System (“CalPERS”) implemented a risk pool for the City’s multiple-employer public employee defined benefit pension plan. The City’s Miscellaneous and Safety Plans converted from agent multiple-employer plans to cost-sharing multiple employer plans. In addition to the annual required contributions (see Note 8), the City is also required to make annual payments on a Side Fund, which was created when the City entered the risk pool to account for the difference between the funded status of the pool and the funded status of the City’s plans. The responsibility for funding the Side Fund is specific to the City and is not shared by all employers in the risk pool. The annual payments on the Side Fund represent principal and interest payments on the pension-related debt, which are included in the retirement expenditures in the City’s various functions.

The amount of pension-related debt outstanding at June 30, 2017 totaled \$2,250,064, including \$529,716 for the Miscellaneous Plan and \$1,720,348 for the Safety Plan.

**B. Business-Type Activities**

A summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due within One Year	Due in more than One Year
LCD - Promissory Note A-1	\$ 9,207,621	\$ -	\$ -	\$ 9,207,621	\$ -	\$ 9,207,621
NMCC - Promissory Note A-2	3,960,000	-	-	3,960,000	-	3,960,000
LCD - Promissory Note B-1	3,272,379	-	-	3,272,379	-	3,272,379
NMCC - Promissory Note B-2	1,958,973	-	-	1,958,973	-	1,958,973
NMCC - Promissory Note C-2	2,298,027	-	-	2,298,027	-	2,298,027
<b>Total long-term debt</b>	<b>\$ 20,697,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,697,000</b>	<b>\$ -</b>	<b>\$ 20,697,000</b>

In order to finance 1) the required lump sum payment for the ground lease in the amount of \$1,108,168 upon execution of the ground lease agreement, 2) the purchase of 26,000 square foot health and wellness facility upon execution of the Agreement of Purchase and Sale, and 3) the construction of the health and wellness facility, the Foundation entered into loan agreements with NMCC and LCD on July 13, 2012 and executed five promissory notes with NMCC and LCD. The loans constitute “qualified low-income community investment” within the of §45D(d) of the Internal Revenue Code (the “Code”). As a result of such loans, the Investment Fund is expected to generate “new markets tax credits” pursuant to §45D of the Code due to its investments in NMCC and LCD as 99.99% equity owner.



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**B. Business-Type Activities (Continued)**

LCD – Promissory Note A-1

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. A one-time principal payment of \$411,163 is due on January 1, 2020, and thereafter, principal payments are payable quarterly with the interest payments. At June 30, 2017, the outstanding balance of the LCD – Promissory Note A-1 was \$9,207,621.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 46,040	\$ 46,040
2019	-	46,040	46,040
2020	487,888	45,132	533,020
2021	146,676	43,324	190,000
2022	147,412	42,588	190,000
2023-2027	856,313	201,187	1,057,500
2028-2032	1,095,548	176,952	1,272,500
2033-2037	1,340,835	146,665	1,487,500
2038-2042	1,592,329	110,171	1,702,500
2043-2047	1,850,189	67,311	1,917,500
2048-2052	1,690,431	18,649	1,709,080
TOTAL	<u>\$ 9,207,621</u>	<u>\$ 944,059</u>	<u>\$ 10,151,680</u>

NMCC – Promissory Note A-2

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. One time principal payment of \$271,350 is due on January 1, 2020. Thereafter, principal payments are payable quarterly with the interest payments. At June 30, 2017, the outstanding balance of the NMCC – Promissory Note A-2 was \$3,960,000.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities (Continued)**

**B. Business-Type Activities (Continued)**

NMCC – Promissory Note A-2 (Continued)

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 19,800	\$ 19,800
2019	-	19,800	19,800
2020	299,684	19,216	318,900
2021	53,799	18,201	72,000
2022	54,070	17,930	72,000
2023-2027	327,229	85,271	412,500
2028-2032	441,766	75,734	517,500
2033-2037	559,196	63,304	622,500
2038-2042	679,602	47,898	727,500
2043-2047	803,049	29,451	832,500
2048-2052	741,605	8,198	749,803
TOTAL	<u>\$ 3,960,000</u>	<u>\$ 404,803</u>	<u>\$ 4,364,803</u>

LCD – Promissory Note B-1

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2017, the outstanding balance of the LCD – Promissory Note B-1 was \$3,272,379.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 16,360	\$ 16,360
2019	-	16,360	16,360
2020	24,335	16,345	40,680
2021	48,852	16,149	65,001
2022	49,096	15,904	65,000
2023-2027	294,449	75,551	370,000
2028-2032	392,974	67,026	460,000
2033-2037	493,991	56,009	550,000
2038-2042	597,566	42,434	640,000
2043-2047	703,762	26,238	730,000
2048-2052	667,354	7,543	674,897
TOTAL	<u>\$ 3,272,379</u>	<u>\$ 355,919</u>	<u>\$ 3,628,298</u>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities (Continued)**

**B. Business-Type Activities (Continued)**

NMCC – Promissory Note B-2

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2017, the outstanding balance of the NMCC – Promissory Note B-2 was \$1,958,973.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 9,796	\$ 9,796
2019	-	9,796	9,796
2020	10,609	9,789	20,398
2021	21,298	9,702	31,000
2022	21,405	9,595	31,000
2023-2027	143,841	46,159	190,000
2028-2032	218,318	41,682	260,000
2033-2037	294,679	35,321	330,000
2038-2042	372,974	27,026	400,000
2043-2047	453,246	16,754	470,000
2048-2052	422,603	4,654	427,257
TOTAL	<u>\$ 1,958,973</u>	<u>\$ 220,274</u>	<u>\$ 2,179,247</u>

NMCC – Promissory Note C-2

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2017, the outstanding balance of the NMCC – Promissory Note C-2 was \$2,298,027.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 11,492	\$ 11,492
2019	-	11,492	11,492
2020	12,762	11,484	24,246
2021	25,620	11,380	37,000
2022	25,750	11,250	37,000
2023-2027	170,924	54,076	225,000
2028-2032	256,204	48,796	305,000
2033-2037	343,643	41,357	385,000
2038-2042	433,295	31,705	465,000
2043-2047	525,217	19,783	545,000
2048-2052	504,612	5,697	510,309
TOTAL	<u>\$ 2,298,027</u>	<u>\$ 258,512</u>	<u>\$ 2,556,539</u>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Long-Term Liabilities (Continued)**

**C. Fiduciary Activities**

A summary of changes in long-term liabilities for the fiduciary fund for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due within One Year	Due in more than One Year
2006 Tax Allocation						
Refunding Bonds	\$ 2,625,000	\$ -	\$ (2,625,000)	\$ -	\$ -	\$ -
2008 Tax Allocation Bonds A-1	13,090,000	-	(1,275,000)	11,815,000	1,365,000	10,450,000
2008 Tax Allocation Bonds A-2	15,870,000	-	(15,870,000)	-	-	-
2009 Tax Allocation Bonds	5,065,000	-	(5,065,000)	-	-	-
2017 Tax Allocation Refunding Bonds	-	20,020,000	-	20,020,000	-	20,020,000
Subtotal	<u>36,650,000</u>	<u>20,020,000</u>	<u>(24,835,000)</u>	<u>31,835,000</u>	<u>1,365,000</u>	<u>30,470,000</u>
Add/(less) deferred amounts:						
Bond premium - 2006 Tax						
Allocation Refunding Bonds	9,168	-	(9,168)	-	-	-
Bond premium - 2009 TAB	54,242	-	(54,242)	-	-	-
Bond discount - 2008 TAB A-1	(422,518)	-	58,765	(363,753)	(58,765)	(304,988)
Bond discount - 2008 TAB A-2	(155,889)	-	155,889	-	-	-
Bond premium - 2017 Tax						
Allocation Refunding Bonds	-	2,144,577	(8,825)	2,135,752	-	2,135,752
<b>Total bonds payable</b>	<u>\$ 36,135,003</u>	<u>\$ 22,164,577</u>	<u>\$ (24,692,581)</u>	<u>\$ 33,606,999</u>	<u>\$ 1,306,235</u>	<u>\$ 32,300,764</u>

*Tax Allocation Refunding Bonds, Series 2006 – Original Issue \$7,025,000*

In August 2006, the former Redevelopment Agency issued the Merged Redevelopment Project Tax Allocation Refunding Bonds, Series 2006 (the “Refunding Bonds”) in the amount of \$7,025,000. The purpose of the Refunding Bonds was to: 1) pay the costs of issuing the Refunding Bonds, 2) to fund a reserve account for the Refunding Bonds, and 3) to refund the former Redevelopment Agency’s Redevelopment Project No. 1, 1993 Tax Allocation Parity Bonds, Series A and Redevelopment Project No. 2, 1993 Tax Allocation Bonds, Series A. As a result, the 1993 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City’s books.

The Refunding Bonds due on or before September 1, 2016 are not subject to redemption prior to their respective stated maturities. Bonds maturing on or after September 1, 2017 are subject to redemption, as a whole or in part, within any one maturity if less than all of the Refunding Bonds of such maturity are to be redeemed, prior to their respective maturity dates, at the option of the former Redevelopment Agency, on any date on or after September 1, 2016, from funds derived by the former Redevelopment Agency from any source, at the redemption prices of the principal amount of the Refunding Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium. The Refunding Bonds accrue interest at rates between 3.50% and 4.25%, payable semiannually on September 1 and March 1 of each year.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**C. Fiduciary Fund (Continued)**

*Tax Allocation Refunding Bonds, Series 2006 – Original Issue \$7,025,000 (Continued)*

The Refunding Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 125% of the annual debt service requirement each fiscal year, through final maturity of the Refunding Bonds on September 1, 2021 or early retirement of the Bonds, whichever occurs first. Revenues received by the Successor Agency from the Redevelopment Property Tax Trust Fund (“RPTTF”) have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$694,057 and total net revenue reported by the Successor Agency was \$5,183,373. The ratio of net revenues to the debt service payments due during the year ended June 30, 2017 was 7.47 (747%).

The Refunding Bonds were defeased by 2017 Tax Allocation Refunding Bonds during the year ended June 30, 2017.

*Tax Allocation Bonds Series 2008A-1 (Taxable) – Original Issue \$19,965,000*

In April 2008, the former Redevelopment Agency issued Tax Allocation Bonds, Series 2008A-1 (Taxable) (the “Series 2008A-1 Bonds”) in the amount of \$19,965,000. The purpose of the Series 2008A-1 Bonds was to: 1) provide funds to finance redevelopment activities including, without limitation, the acquisition of property for the benefit of the Merged Project Area, 2) to fund the reserve account, and 3) to pay certain costs of issuance of the Series 2008A-1 Bonds.

The Series 2008A-1 Bonds are 7% term bonds due September 1, 2023, with interest payable semiannually on September 1 and March 1 of each year. The 2008A-1 Bonds are subject to optional redemption, on any date prior to their maturity, in whole or in part, with maturities to be designated by the Successor Agency, at a redemption price equal to 100 percent of the principal amount of such 2008A-1 Bonds plus the Make-Whole Premium, if any, plus the accrued interest, if any, thereon to the redemption date. The Series 2008A-1 Bonds maturing on September 1, 2023 are also subject to redemption prior to their stated maturity, in part, pro rata, from sinking account installments deposited in the sinking account on September 1 of each year commencing September 1, 2009, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

The Series 2008A-1 Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 135% of the annual debt service requirement each fiscal year, through final maturity of the Series 2008A-1 Bonds on September 1, 2023 or early retirement of the Series 2008A-1 Bonds, whichever occurs first. Revenues received by the Successor Agency from the RPTTF have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$2,146,675 and total net revenue reported by the Successor Agency was \$5,183,373. The ratio of net revenues to the debt service payments due during the year ended June 30, 2017 was 2.41 (241%).

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**C. Fiduciary Fund (Continued)**

*Tax Allocation Bonds Series 2008A-1 (Taxable) – Original Issue \$19,965,000 (Continued)*

The amount of Series 2008A-1 Bonds outstanding at June 30, 2017 totaled \$11,815,000 in the Successor Agency Private-Purpose Trust Fund.

The annual debt service requirements on the Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 1,365,000	\$ 779,275	\$ 2,144,275
2019	1,460,000	680,400	2,140,400
2020	1,565,000	574,525	2,139,525
2021	1,670,000	461,300	2,131,300
2022	1,790,000	340,200	2,130,200
2023-2024	3,965,000	282,275	4,247,275
TOTAL	<u>\$ 11,815,000</u>	<u>\$ 3,117,975</u>	<u>\$ 14,932,975</u>

*Tax Allocation Bonds Series 2008A-2 – Original Issue \$15,870,000*

In April 2008, the former Redevelopment Agency issued Tax Allocation Bonds, Series 2008A-2 (the “Series 2008A-2 Bonds”) in the amount of \$15,870,000. The purpose of the Series 2008A-2 Bonds was to: 1) provide funds to finance redevelopment activities within or for the benefit of the Merged Project Area, 2) to fund the reserve account, and 3) to pay certain costs of issuance of the Series 2008A-2 Bonds.

The bonds consisted of all term bonds with maturity between September 1, 2023 to September 1, 2038 at interest rates between 5.00% and 5.75%, with interest payable semiannually on September 1 and March 1 of each year. The Series 2008A-2 Bonds maturing on or before September 1, 2018 shall not be subject to optional redemption prior to their respective stated maturities. The Series 2008A-2 Bonds maturing on or after September 1, 2019 shall be subject to redemption as a whole or in part from such maturities as the Successor Agency shall designate, or absent such designation, pro rata among maturities, and by lot within any one maturity if less than all of the Series 2008A-2 Bonds of such maturity are to be redeemed, prior to their respective maturity dates, at the option of the Successor Agency, on any date on or after September 1, 2018, from funds derived by the Successor Agency from any source, at a redemption price equal to the principal amount of Series 2008A-2 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium. The Series 2008A-2 Bonds maturing on September 1, 2023, September 1, 2028 and September 1, 2038 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account installments deposited in the sinking account on September 1 of each year commencing September 1, 2020, September 1, 2024, and September 1, 2029, respectively, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**C. Fiduciary Fund (Continued)**

*Tax Allocation Bonds Series 2008A-2 – Original Issue \$15,870,000 (Continued)*

The Series 2008A-2 Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 135% of the annual debt service requirement each fiscal year, through final maturity of the Series 2008A-2 Bonds on September 1, 2038 or early retirement of the Series 2008A-2 Bonds, whichever occurs first. Revenues received by the Successor Agency from the RPTTF have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$865,773 and a total net revenue reported by the Successor Agency was \$5,183,373. The ratio of net revenues to the debt service payments due during the year ended June 30, 2017 was 5.99 (599%).

The Series 2008A-2 Bonds were defeased by 2017 Tax Allocation Refunding Bonds during the year ended June 30, 2017.

*Tax Allocation Bonds Issue of 2009 – Original Issue \$5,635,000*

In July 2009, the former Redevelopment Agency issued Tax Allocation Bonds Issue of 2009 (the “2009 Bonds”) in the amount of \$5,635,000. The purpose of the bonds was to finance the redevelopment activities for the project area.

The 2009 Bonds consisted of all term bonds with maturity between September 1, 2019 to September 1, 2039 at accrued interest rates between 3.000% and 7.375%, payable on March 1 and September 1 of each year. The 2009 Bonds maturing on or before September 1, 2019 are not subject to call or redemption prior to maturity. The 2009 Bonds maturing on or after September 1, 2020 may be called before maturity and redeemed at the option of the Successor Agency, in whole or in part from proceeds of refunding bonds or other available funds, on September 1, 2019 or on any date thereafter, prior to maturity, by such maturities as will be determined by the Successor Agency and by lot within a maturity, at a redemption price equal to the principal amount of the 2009 Bonds to be redeemed together with accrued interest thereon, if any, to the date fixed for redemption, without premium. The 2009 Bonds maturing on September 1, 2023 and September 1, 2039 are subject to mandatory redemption on each September 1, commencing on September 1, 2020 and September 1, 2024, respectively, at a redemption price equal to the principal amount thereof together with accrued interest thereon, if any, to the date fixed for redemption, without premium.

The bond agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 125% of the annual debt service requirement each fiscal year, through final maturity of the bonds or early retirement of the bonds, whichever occurs first. RPTTF revenues received by the Successor Agency have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$471,419 and total net revenues reported by the Successor Agency were \$5,183,373. The ratio of net revenues to the debt service payments due during the year ended June 30, 2017 was 11.00 (1100%).

The 2009 Bonds were defeased by 2017 Tax Allocation Refunding Bonds during the year ended June 30, 2017.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Long-Term Liabilities (Continued)**

**C. Fiduciary Fund (Continued)**

*Tax Allocation Refunding Bonds, Series 2017 – Original Issue \$20,020,000*

In May 2017, the former Redevelopment Agency issued Tax Allocation Bonds Issue of 2009 (the “2009 Bonds”) in the amount of \$20,020,000. The purpose of the bonds was to current refund 2006 Tax Allocation Refunding Bonds, 2008 Tax Allocation Bonds A-2, and 2009 Tax Allocation Bonds, and to fund the reserve account by purchasing the reserve policy and to pay the costs of issuing the 2017 Bonds. The aggregate difference in debt service as result of the refinancing were \$7,728,181 and economic gain on the refinancing were \$3,736,520. The 2017 Bonds are secured by a pledge of, security interest in and lien on all of the Tax, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund.

The Bonds accrue interest at rates between 2.000% and 5.000%, payable semiannually on March 1 and September 1, commencing September 1, 2017 and the principals are due annually on September 1. The 2017 Bonds are subject to optional redemption and mandatory sinking account redemption prior to maturity.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ -	\$ 588,203	\$ 588,203
2019	575,000	841,263	1,416,263
2020	590,000	829,613	1,419,613
2021	740,000	808,913	1,548,913
2022	800,000	774,113	1,574,113
2023-2027	4,615,000	3,243,288	7,858,288
2028-2032	5,815,000	2,015,438	7,830,438
2033-2037	4,945,000	718,269	5,663,269
2038-2040	1,940,000	77,688	2,017,688
TOTAL	<u>\$ 20,020,000</u>	<u>\$ 9,896,784</u>	<u>\$ 29,916,784</u>



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 7 – Non-City Obligation Debt**

The City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) issued Improvement Area 1 Special Tax Bonds, Series 2008A on October 16, 2008 in the amount of \$2,600,000. The bond proceeds, in conjunction with special tax collections, will be used to finance certain public facilities and fees within the City necessary for the development of property within Improvement Area 1 of the District. The bonds do not constitute a debt or liability of the City. During fiscal year 2010-11, the District issued Special Tax Refunding Bonds, Series 2010 for the principal amount of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Bonds. The outstanding balance at June 30, 2017 was \$2,055,000.

**Note 8 – Risk Management**

**A. Coverage**

The City retains a level of risk for both general liability and workers’ compensation. The insurance coverage in excess of the self-insured amount is provided by the Public Entity Risk Management Authority (“PERMA”), a public entity risk pool consisting of cities and other public agencies in Southern California established under the provisions of California Government Code Section 65000 et seq. Costs are shared amongst the members based upon deposit premium contributions. PERMA publishes its own annual financial reports, which can be obtained from PERMA at 36-951 Cook Street, Suite 101, Palm Desert, CA 92211.

General Liability

The City is self-insured for the first \$10,000 on each general liability claim against the City. The City pays an annual premium to PERMA for its excess general liability insurance coverage of \$50,000,000, including errors and omissions and auto liability.

Workers’ Compensation and Employers’ Liability

The City is self-insured for the first \$50,000 of each occurrence. The insurance coverage in excess of the self-insured amount is provided by PERMA. As a member of PERMA, all participating members share any losses in excess of the City’s self-insured amount up to statutory limits for workers’ compensation and \$5,000,000 per accident for employers’ liability.

Other Coverage

The City also has coverage for other risks of loss, including property insurance, auto physical damage insurance, crime coverage and employment practices liability. The City’s property insurance has a \$100,000,000 limit of coverage, including \$2,500,000 for flood, with a \$5,000 deductible per occurrence, except for \$100,000 for flood. The City’s auto physical damage insurance has a \$100,000,000 limit of coverage, with a \$2,500 deductible for all vehicles, except for \$10,000 for fire trucks valued over \$200,000. The City’s crime coverage has limits of coverage of \$5,000,000 with a \$2,500 deductible. The City’s cyber liability has a \$2,000,000 limit of coverage, including \$250,000 for privacy notification costs, with a \$50,000 deductible per claim. The City is self-insured for the first \$25,000 of each occurrence for employment practices liability, with excess insurance coverage up to a \$1,000,000 limit.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 8 – Risk Management (Continued)**

**B. Claims Activity**

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2017, the amount of these liabilities was \$418,181 and was the City's best estimate based on available information.

A summary of the changes in claims liabilities for the past three fiscal years is as follows:

Year Ending June 30,	Claims Payable July 1	Claims Incurred during the Fiscal Year	Claims Payments	Year Ended June 30
2015	\$ 498,458	\$ 608,214	\$ (403,682)	\$ 702,990
2016	702,990	355,300	(342,528)	715,762
2017	715,762	73,555	(371,136)	418,181

**C. Adequacy of Protection**

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan**

The following is a summary of net pension liabilities and related deferred outflows and inflows of resources as of June 30, 2017 and pension expenses for the year then ended June 30, 2017:

	<b>Governmental Activities</b>
<b>Deferred outflows of resources:</b>	
Pension contribution made after measurement date:	
Miscellaneous	\$ 355,494
Safety	688,645
Difference between Expected and Actual Experience:	
Miscellaneous	8,639
Difference in projected and actual earnings on pension investments:	
Miscellaneous	551,785
Safety	1,079,045
Adjustment due to differences in proportions:	
Miscellaneous	34,373
Employer contributions in excess of proportionated share of contributions:	
Miscellaneous	41,647
Safety	8,584
<b>Total deferred outflows of resources</b>	<b>\$ 2,768,212</b>
<b>Aggregate net pension liabilities:</b>	
Aggregate net pension liabilities:	
Miscellaneous	\$ 3,025,986
Safety	7,345,645
<b>Total net pension liabilities</b>	<b>\$ 10,371,631</b>
<b>Deferred inflows of Resources:</b>	
Difference between Expected and Actual Experience:	
Safety	\$ 50,374
Changes of assumptions:	
Miscellaneous	106,018
Safety	219,633
Adjustment due to differences in proportions:	
Safety	140,545
<b>Total deferred inflows of Resources</b>	<b>\$ 516,570</b>
<b>Pension expenses:</b>	
Miscellaneous	\$ 139,058
Safety	417,071
<b>Total pension expenses</b>	<b>\$ 556,129</b>

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

**A. General Information about the Pension Plan**

Plan Description

The City contributes to CalPERS, a cost-sharing multiple-employer defined benefit pension plan, for its miscellaneous and safety employees. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Employees Covered by Benefit Terms

At valuation date of June 30, 2015, the following employees were covered by the benefit terms:

	Plans					
	Miscellaneous	Miscellaneous	Miscellaneous	Safety	Safety	Safety
	1st Tier	2nd Tier	PEPRA	Police	Police	Police
	1st Tier	2nd Tier	PEPRA	1st Tier	2nd Tier	PEPRA
Active employees	18	-	8	7	6	9
Transferred and terminated employees	35	2	-	30	1	2
Separated	39	1	2	10	-	1
Retired Employees and Beneficiaries	43	-	-	54	-	-
Total	135	3	10	101	7	12

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 55 with at least 5 years of credited service. Public Employee Pension Reform Act (PEPRA) miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation.

Following are the benefit provisions for each plan:

- Miscellaneous First Tier: 2.0% or 2.7% (at age 55) of the highest paid consecutive 12 months' compensation
- Miscellaneous Second Tier: 2.0% (at age 60) of the highest paid consecutive 12 months' compensation
- Miscellaneous PEPRA: 2.0% (at age 62) of the highest paid consecutive 36 months' compensation
- Safety Police First Tier: 3.0% (at age 50) of the highest paid consecutive 12 months' compensation
- Safety Police Second Tier: 3.0% (at age 55) of the highest paid consecutive 12 months' compensation
- Safety PEPRA: 2.7% (at age 57) of the highest paid consecutive 36 months' compensation

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan (Continued)**

**A. General Information about the Pension Plan (Continued)**

Benefit Provided (Continued)

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5% per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016, the contribution rates were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Miscellaneous First Tier	8.000%	10.958%
Miscellaneous Second Tier	7.000%	6.709%
Miscellaneous PEPR	6.250%	6.237%
Safety Police First Tier	9.000%	22.175%
Safety Police Second Tier	9.000%	19.406%
Safety Police PEPR	13.500%	13.268%

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan (Continued)**

***B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 and the June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</sup>The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

*Change of Assumption*

There were no changes of assumptions for the June 30, 2016 measurement date.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan (Continued)**

***B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)***

*Discount Rate (Continued)*

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected PERF pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major *asset class*.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1-10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	99.00%	2.43%
Inflation Sensitive	6.00%	45.00%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

***B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)***

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	<b>Plan's Net Pension Liability/(Asset)</b>		
	<b>Discount Rate - 1%</b>	<b>Current Discount</b>	<b>Discount Rate + 1%</b>
	<b>(6.65%)</b>	<b>Rate (7.65%)</b>	<b>(8.65%)</b>
Miscellaneous Plan	\$ 4,714,407	\$ 3,025,986	\$ 1,630,590
Safety Plan	\$ 10,996,148	\$ 7,345,645	\$ 4,348,956

*Pension Plan Fiduciary Net Position*

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

*Proportionate Share of Net Pension Liability and Pension Expense*

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	<b>Increase (Decrease)</b>		
	<b>Plan Total Pension</b>	<b>Plan Fiduciary Net</b>	<b>Net Pension</b>
	<b>Liability</b>	<b>Position</b>	<b>Liability/(Asset)</b>
<b>Miscellaneous Plan</b>			
Balance at: 6/30/15 (Valuation date)	\$ 9,897,505	\$ 7,301,870	\$ 2,595,635
Balance at: 6/30/16 (Measurement date)	10,200,525	7,174,539	3,025,986
Net Changes during 2015-2016	303,020	(127,331)	430,351
<b>Safety Plan</b>			
Balance at: 6/30/15 (Valuation date)	\$ 23,663,156	\$ 17,460,844	\$ 6,202,312
Balance at: 6/30/16 (Measurement date)	24,137,702	16,792,057	7,345,645
Net Changes during 2015-2016	474,546	(668,787)	1,143,333



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan (Continued)**

***B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)***

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-2016).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of the market value assets.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the City's share of contributions during measurement period.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)**

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The City's proportionate share of the net pension liability was as follows:

	Plans	
	Miscellaneous	Safety
June 30, 2015	0.037816%	0.090361%
June 30, 2016	0.034970%	0.084890%
Change - Increase (Decrease)	-0.002846%	-0.005471%

For the year ended June 30, 2017, the City recognized pension expense in the amounts of \$139,058 and \$417,071 for the miscellaneous and safety plans, respectively.

The amortization period differs depending on the source of the gain or loss for the miscellaneous and safety plans, respectively. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime ("EARSL") is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2015-2016 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired).

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution made after measurement date	\$ 355,494	\$ -	\$ 688,645	\$ -	\$ 1,044,139	\$ -
Difference between expected and actual experience	8,639	-	-	(50,374)	8,639	(50,374)
Changes of assumptions	-	(106,018)	-	(219,633)	-	(325,651)
Difference between projected and actual earning on pension plan investments	551,785	-	1,079,045	-	1,630,830	-
Adjustment due to differences in proportions	34,373	-	-	(140,545)	34,373	(140,545)
Difference between City contributions and proportionate share of contributions	41,647	-	8,584	-	50,231	-
Total	\$ 991,938	\$ (106,018)	\$ 1,776,274	\$ (410,552)	\$ 2,768,212	\$ (516,570)

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

***B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)***

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

Deferred outflows of resources related to pensions resulting from the City’s contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>	
	<u>Plans</u>	
	<u>Miscellaneous</u>	<u>Safety</u>
2018	\$ 65,525	\$ (90,646)
2019	73,237	(17,119)
2020	248,746	503,934
2021	142,918	280,908
2022	-	-
Thereafter	-	-
	<u>\$ 530,426</u>	<u>\$ 677,077</u>

*CalPERS Discount Rate*

On December 16, 2016, the CalPERS Board of Administration (the “Board”) approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to the rates below over the next three years. This will increase the City’s employer contribution costs beginning in fiscal year 2018-19. The phase in of the discount rate change approved by the Board for the next three fiscal years is as follows.

<u>Valuation Date</u>	<u>Required Contribution Rate</u>	<u>Discount Rate</u>
June 30, 2016	2018-19	7.38%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Lowering the discount rate means plans will see increases in both normal costs, the cost of pension benefits accruing in one year for active members, and the accrued liabilities. These increases will result in higher required employer contribution.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 10 – Jointly Governed Organization**

*Eastern Riverside County Interoperable Communications Authority*

The City is a member of the Eastern Riverside County Interoperable Communications Authority (“ERICA”), a Joint Powers Authority, created to establish and operate a consolidated communications system which provides emergency call receiving and dispatching services. Other members of ERICA include the Cities of Beaumont, Cathedral City, Indio, and Palm Springs. The members, including the City, are responsible for funding the operations of ERICA through annual assessments. The annual assessments are based on percentages calculated for each member. Audited financial statements of ERICA can be obtained at 100 Civic Center Mall, Indio, CA 92201.

On April 10, 2009, ERICA and three member agencies, including Indio, Palm Springs, and the City, entered into a reimbursement agreement relating to a municipal lease purchase agreement with Motorola, Inc., in the aggregate principal amount of \$5,557,603. The agreement obligates the three member agencies to pay 33.3% of the annual lease payments, as set forth in the municipal lease purchase agreement with Motorola, Inc. ERICA also entered into a reimbursement agreement with all member agencies, which obligates each member agency to pay 20% of the annual lease payments for a master logging recorder, in the aggregate principal amount of \$202,489.

The following represents the City’s obligation for future lease payments:

Year Ending June 30,		
2018	\$	138,393
2019		138,393
2020		138,393
2021		138,393
2022		138,393
2023-2024		276,786
	\$	968,751

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 11 – Classification of Fund Balances**

At June 30, 2017, fund balances are classified as follows:

	Major Funds			Debt Service	Nonmajor Governmental Funds	Total
	General	Public Safety	Housing Authority			
<b>Nonspendable:</b>						
Prepaid items	\$ 55,262	\$ -	\$ -	\$ -	\$ -	\$ 55,262
<b>Total nonspendable</b>	<u>55,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,262</u>
<b>Restricted:</b>						
Housing and economic development	-	-	3,660,137	-	15,372	3,675,509
Public safety	-	-	-	-	55,135	55,135
Public works	-	-	-	-	245,231	245,231
Debt service	-	-	-	5,373,928	884,558	6,258,486
Air quality	-	-	-	-	25,942	25,942
Lighting/Landscaping/Drainage	-	-	-	-	1,545,222	1,545,222
County Service Area 152	-	-	-	-	17,058	17,058
Assessment District 91-1	-	-	-	-	115,933	115,933
Assessment District 92-1	-	-	-	-	38,499	38,499
Assessment District 93-2	-	-	-	-	29,083	29,083
<b>Total restricted</b>	<u>-</u>	<u>-</u>	<u>3,660,137</u>	<u>5,373,928</u>	<u>2,972,033</u>	<u>12,006,098</u>
<b>Committed:</b>						
Art in public places	-	-	-	-	77,648	77,648
Capital projects	-	-	-	-	2,344,665	2,344,665
<b>Total assigned</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,422,313</u>	<u>2,422,313</u>
<b>Assigned:</b>						
Operations	8,455,432	-	-	-	-	8,455,432
<b>Unassigned:</b>						
	-	(1,715)	-	-	(339,956)	(341,671)
<b>Total</b>	<u>\$ 8,510,694</u>	<u>\$ (1,715)</u>	<u>\$ 3,660,137</u>	<u>\$ 5,373,928</u>	<u>\$ 5,054,390</u>	<u>\$ 22,597,434</u>

The assigned fund balance totaling \$8,455,432 is being held in the General Fund to fund the operations of the City for the fiscal year ending 2017-2018. Assigned fund balances encompass the portion of the net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for the purpose. The City Council has authorized the City Manager or designee for that purpose.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 12 – Contingencies and Commitments**

**A. *Lawsuits***

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City, except for the lawsuit described below. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize (See Note 7).

**B. *Federal and State Grant Programs***

The City participates in Federal and State grant programs. These programs were audited in accordance with the provisions of the Federal Single Audit Act of 1984, as amended in 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**C. *Dispute with State of California Regarding Use of Gas Tax Monies***

The City is involved in a dispute with the State of California regarding the State Gas Tax Compliance Audit ("audit") that was performed during the year ended June 30, 2014. The audit was conducted by the State Controller's Office for the City's Gas Tax activities for the years ended June 30, 2009 through June 30, 2013. There was an audit finding that the City used gas tax monies for an ineligible expenditure for the debt service payment of \$119,000 for the 2012A Certificates (refer to Note 6A). Per the State's draft audit report dated September 2014, the debt service payment is not an eligible use of gas tax monies under the Street and Highway Code Section 2107.4, as the bonds were not voter-approved and the term of the bond exceeds 25 years. The \$119,000 used for the debt service payment in the year ended June 30, 2013 was requested to be reimbursed to the Gas Tax Special Revenue Fund. The City disputes the finding and responded within the requested time period that the monies were properly used, as the 2012A Certificates are certificates of participation with installment payments and are not bonds. Therefore, the City determined that this debt service payment does not fall under the requirement to meet the voter-approved and 25 year term limit requirements per the State's audit report. In addition, the City responded that the time limit for the State to dispute the use of gas tax monies has passed as determined by the original judgment when the 2012A Certificates were originally approved. There has been no further progress on this dispute that the City is aware of.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 13 – Related Party Transactions**

On July 13, 2012, the Foundation entered into ground lease agreement with the City consisting of 6.631 acres of land located in the City for a period of ninety-nine years, commencing July 13, 2012 and ending July 13, 2111. The land was appraised at \$1,108,168. The lease payment in the amount of \$1,108,168 was paid in full upon the execution of the lease. The lease payment and the capitalization of land was eliminated in the accompanying financial statements.

The City entered into this lease for the purpose of providing the land for development of the health and wellness center. The City had commenced the development project prior to execution of the ground lease agreement and expended \$8,460,675 on the 26,000 square foot health and wellness facility. As part of the ground lease agreement and a separate executed Agreement of Purchase and Sale (the “facility sale agreement”) between the City and the Foundation, the City sold the 26,000 square foot health and wellness facility that was still under construction to the Foundation in the amount of \$8,460,675 on July 13, 2012.

The Desert Healthcare District (the “District”) also provided \$5,167,048 grant funding for the construction of the facility and equipment for the health and wellness center.

In addition to the ground lease agreement and facility sale agreement, the City and the Foundation entered into “Development Agreement” on July 13, 2012. The Foundation appointed the City to provide development service for the Foundation with respect to supervising, managing, and overseeing the remaining development of the health and wellness center. In anticipation of the development agreement, the City had begun providing the development service for the health and wellness center on December 1, 2011. The agreed upon development fee was in the amount of \$1,038,883. One third of the development fee in the amount of \$346,294 was paid on July 13, 2012, and the remaining two thirds was paid upon placement in service of the health and wellness center and receipt of a final and unconditional certificate of occupancy on October 9, 2013.

**Note 14 – City’s Financial Condition**

The City’s financial position and outlook has improved considerably since 2014. A combination of a reduction in structural expenses and an improvement in economic development activity has increased reserves and stabilized the City’s cash position. The City ended the Fiscal Year 2016-17 with a positive cash flow and necessary working capital needed to sustain the City. For the third year in a row, the City has benefited from a surplus of two million dollars. While the short-term prognosis is very positive, long-term financial challenges loom. Moving forward, increases to CalPERS, insurance rates and county services could have very negative impacts moving the City forward and could hinder the City from providing essential city services.

Marijuana Taxes

In Fiscal Year 2016-17, the City received marijuana taxes totaling \$696,224. Cultivation generated \$172,020 and dispensaries generated \$524,204, which is a tax increase of 361% from the prior year. Within upcoming fiscal years, staff expects such receipts to increase, respectively. As of June 30, 2017, there were a total of eight dispensaries and four cultivations open.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 14 – City’s Financial Condition (Continued)**

Marijuana Taxes (Continued)

Over 75 marijuana cultivation warehouses have been approved by the City Council. Projects range in size from 5,000 square feet to over one million square feet. Moving forward, the City will benefit from marijuana projects with permits and fees, increased employment and cultivation taxes. Many of the approved projects have limited or no utilities and/or public improvements, so it may take some time before these properties are developed. It is likely that only a handful of the approved projects will move forward with building permits within the next year. The City must exercise extreme caution when projecting development and tax revenues that are generated from this business industry.

City Hall & Debt Restructurings

In 2004, the City emerged from its Chapter 9 bankruptcy, which was filed in December 2001 in the amount of \$8.85 million. The City issued the Prior Obligations to pay all claims and provide interim cash flow financing to the City. The City restructured this existing debt and financed a portion of a New City Hall. The new issue of debt lowered the interest rate and pulled \$3,000,000 for an important capital project. Before approval and Phase 1 of the project, non-safety employees were operating in a ten-year-old module building. The project, consists of two phases; 1) remodel an existing structure and 2) build a 14,000-square foot office building. During the new issue of debt, the City received an “A” rating from Standards and Poor’s. Their rating was based on strong management, budget performance, flexibility, liquidity and weak debt and contingent liability.

Expiring Tax Measures

The City had two revenue ballot measures expiring on June 30, 2020. The Utility User Tax and the Parcel Tax generate approximately \$5.0 million in revenue per year. If these tax measures were not addressed before they expired, the City would have been at risk of becoming financially insolvent in a relatively short amount of time. Although the measures were not on the ballot in FY 2016-2017, they will not be an issue moving forward as both tax measures passed in November 2017.

One-Time Revenue

The General Fund benefited from one-time revenues of \$1,188,023. One-time revenues included a stock liquidation, grants and donations, administrative fees, Successor Agency bond refinancing administrative fees, and prior Successor Agency ROPS Administrative Fee reimbursement.

Transit Occupancy Tax

Tourism benefits from three major resort hotels. In addition to these three hotels, there are 33 smaller spa-type resorts featuring hot mineral springs, providing a total of about 1,200 visitor rooms. Tourism has increased in the City, as evident by Transient Occupancy Tax (TOT) revenues. Revenues went from \$1,504,813 to \$1,768,552 in Fiscal Year 2016-2017.



**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 14 – City’s Financial Condition (Continued)**

Sales Tax

Sales and use taxes contributed \$1,448,008 to General Fund revenues in the fiscal year ended June 30, 2017. This represents an increase of \$200,049. The retail climate in Desert Hot Springs lacks diversity and tracks very closely with the price of gas. Gas prices have remained relatively flat with County Pools doing well due to internet sales.

CalPERS

CalPERS unfunded liability payments are estimated by CalPERS for both the miscellaneous and safety plans and in Fiscal Year 2015-16, the annual unfunded liability payments totaled \$535,260.

For Fiscal Year 2016-17, the unfunded liability payment increased to \$576,608 for both miscellaneous and public safety classes. The General Fund will be covering 98% of all costs, which is approximately an 8% increase over the prior fiscal year.

Economic factors beyond the City’s control, such as economic recession and the prolonged deflation of land values have impeded the City for years. The City is still at risk for economic recession but given the national, state and local outlooks on the economy, it is unlikely to happen within the next year.

**Note 15 – Prior Period Adjustment**

Fund balance as of July 1, 2016 was restated due to the following:

	Governmental Funds
Beginning fund balance, as previously reported	\$ 13,552,253
Prior period adjustments:	
Overstatement of deferred inflows of resources - unavailable revenues	3,722,868
Beginning fund balance, as restated	\$ 17,275,121

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**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

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**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2017**

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 7,377,446	\$ 8,267,765	\$ 8,236,031	\$ (31,734)
Permits and fees	1,064,700	2,316,386	2,305,834	(10,552)
Intergovernmental	10,000	10,000	10,000	-
Licenses	195,000	204,362	204,362	-
Interest	100,110	100,147	71,881	(28,266)
Miscellaneous	1,144,005	1,620,503	1,025,619	(594,884)
<b>Total revenues</b>	<b>9,891,261</b>	<b>12,519,163</b>	<b>11,853,727</b>	<b>(665,436)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,117,769	3,132,183	3,108,417	23,766
Public safety	85,621	85,007	13,170	71,837
Public works	343,503	796,341	796,331	10
Economic development	1,230,867	1,309,051	1,201,617	107,434
Culture and leisure	567,149	694,154	663,305	30,849
Capital outlay	120,950	582,667	579,220	3,447
<b>Total expenditures</b>	<b>5,465,859</b>	<b>6,599,403</b>	<b>6,362,060</b>	<b>237,343</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>4,425,402</b>	<b>5,919,760</b>	<b>5,491,667</b>	<b>(428,093)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	534,493	850,782	850,763	(19)
Transfers out	(481,993)	(4,068,610)	(4,068,610)	-
<b>Total other financing sources (uses)</b>	<b>52,500</b>	<b>(3,217,828)</b>	<b>(3,217,847)</b>	<b>(19)</b>
<b>Net change in fund balance</b>	<b>\$ 4,477,902</b>	<b>\$ 2,701,932</b>	<b>2,273,820</b>	<b>\$ (428,112)</b>
<b>FUND BALANCE:</b>				
Beginning of year			6,236,875	
End of year			<u>\$ 8,510,695</u>	

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule (Continued)**  
**Public Safety Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 4,076,697	\$ 4,103,440	\$ 4,095,270	\$ (8,170)
Permits and fees	96,500	99,524	87,571	(11,953)
Intergovernmental	30,000	93,063	93,063	-
Miscellaneous	403,000	470,142	442,583	(27,559)
<b>Total revenues</b>	<u>4,606,197</u>	<u>4,766,169</u>	<u>4,718,487</u>	<u>(47,682)</u>
<b>EXPENDITURES:</b>				
Current:				
Public safety	8,900,202	8,631,010	7,966,022	664,988
Capital outlay	53,400	196,094	175,885	20,209
<b>Total expenditures</b>	<u>8,953,602</u>	<u>8,827,104</u>	<u>8,141,907</u>	<u>685,197</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(4,347,405)</u>	<u>(4,060,935)</u>	<u>(3,423,420)</u>	<u>637,515</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	135,000	3,647,666	3,612,666	(35,000)
Transfers out	(144,282)	(144,282)	(144,282)	-
<b>Total other financing sources (uses)</b>	<u>(9,282)</u>	<u>3,503,384</u>	<u>3,468,384</u>	<u>(35,000)</u>
<b>Net change in fund balance</b>	<u>\$ (4,356,687)</u>	<u>\$ (557,551)</u>	44,964	<u>\$ 602,515</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>(46,679)</u>	
End of year			<u>\$ (1,715)</u>	

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule (Continued)**  
**Housing Authority Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES :</b>				
Interest	\$ -	\$ 5	\$ 5	\$ -
Miscellaneous	-	-	3,750	3,750
<b>Total revenues</b>	<u>-</u>	<u>5</u>	<u>3,755</u>	<u>3,750</u>
<b>EXPENDITURES :</b>				
Current:				
Economic development	-	1,000	277,824	(276,824)
<b>Total expenditures</b>	<u>-</u>	<u>1,000</u>	<u>277,824</u>	<u>(276,824)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(995)</u>	<u>(274,069)</u>	<u>(273,074)</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ (995)</u>	<u>(274,069)</u>	<u>\$ (273,074)</u>
<b>FUND BALANCE:</b>				
Beginning of year, as Restated (Note 15)			<u>3,934,206</u>	
End of year			<u>\$ 3,660,137</u>	

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Information**  
**For the Year Ended June 30, 2017**

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**Budgetary Information**

**A. *General Budget Policies***

The City adopts an annual budget prepared on the modified accrual basis for all of its governmental funds. Budgets are developed in accordance with U.S. GAAP. The City Council approves each year's budget, submitted by the City Manager, prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the City Council. Budgeted amounts transferred between accounts are approved by the Administrative Services Director. Budgeted amounts transferred between departments are approved by the City Manager. Supplemental appropriations, where required during the period, are approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. At fiscal year-end, all unencumbered operating budget appropriations lapse, with the exception of continuing appropriations.

In July 2016, the City Council approved and adopted a two year budget for fiscal years 2016-17 and 2017-18.

**B. *Continuing Appropriations***

At fiscal year-end, all unencumbered appropriations lapse, however, certain unexpended capital funds are carried over into the next fiscal year's budget.

**C. *Encumbrances***

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, special revenue, and similar governmental funds. Encumbrances outstanding at year-end represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at year-end are completed. They do not constitute expenditures or estimated liabilities.



**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the City's Proportionate Share of the Net Pension Liabilities and Related Ratios**  
**For the Year Ended June 30, 2017**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan**

	June 30, 2016 <sup>1</sup>	June 30, 2015 <sup>1</sup>	June 30, 2014 <sup>1</sup>
City's Proportion of the Net Pension Liability/(Asset)	0.034970%	0.037816%	0.035817%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,025,986	\$ 2,595,635	\$ 2,228,699
City's Covered Payroll	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>196.59%</u>	<u>188.41%</u>	<u>137.81%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>70.33%</u>	<u>73.82%</u>	<u>76.24%</u>

**California Public Employees' Retirement System ("CalPERS") Safety Plan**

	June 30, 2016 <sup>1</sup>	June 30, 2015 <sup>1</sup>	June 30, 2014 <sup>1</sup>
City's Proportion of the Net Pension Liability/(Asset)	0.084890%	0.090361%	0.090082%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 7,345,645	\$ 6,202,312	\$ 5,642,660
City's Covered Payroll	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>419.84%</u>	<u>407.00%</u>	<u>318.29%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.57%</u>	<u>73.79%</u>	<u>73.76%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 68 is applicable. Additional years of information will be presented as it becomes available.

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the City's Contributions**  
**For the Year Ended June 30, 2017**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan**

	2016-17	2015-16	2014-15	2013-14 <sup>1</sup>
Actuarially Determined Contribution	\$ 164,278	\$ 132,233	\$ 217,165	\$ 310,127
Contribution in Relation to the Actuarially Determined Contribution	(355,494)	(313,565)	(217,165)	(310,127)
Contribution Deficiency (Excess)	\$ (191,216)	\$ (181,332)	\$ -	\$ -
Covered Payroll	\$ 1,893,229	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
Contributions as a Percentage of Covered Payroll	8.68%	8.59%	15.76%	19.18%

**California Public Employees' Retirement System ("CalPERS") Safety Plan**

	2016-17	2015-16	2014-15	2013-14 <sup>1</sup>
Actuarially Determined Contribution	\$ 303,253	\$ 285,318	\$ 380,758	\$ 765,202
Contribution in Relation to the Actuarially Determined Contribution	(688,645)	(639,246)	(380,758)	(765,202)
Contribution Deficiency (Excess)	\$ (385,392)	\$ (353,928)	\$ -	\$ -
Covered Payroll	\$ 1,828,289	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
Contributions as a Percentage of Covered Payroll	16.59%	16.31%	24.99%	43.16%

<sup>1</sup> Historical information is required only for measurement periods for which GASB 68 is applicable. Additional years of information will be presented as it becomes available.

**Notes to Schedule**

Changes of Assumptions: Discount rate was changed from 7.50% to 7.65% for the June 30, 2015 measurement date.

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# **SUPPLEMENTARY INFORMATION**

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**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**City Debt Service Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 1,024,740	\$ 1,061,733	\$ 1,061,733	\$ -
Interest	250	4,290	13,680	9,390
<b>Total revenues</b>	<u>1,024,990</u>	<u>1,066,023</u>	<u>1,075,413</u>	<u>9,390</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	190,000	190,000	11,120,000	(10,930,000)
Interest and fiscal charges	318,175	875,458	1,113,821	(238,363)
<b>Total expenditures</b>	<u>508,175</u>	<u>1,065,458</u>	<u>12,233,821</u>	<u>(11,168,363)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>516,815</u>	<u>565</u>	<u>(11,158,408)</u>	<u>11,158,973</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds	-	15,000,000	15,000,000	-
Issuance premium	-	181,211	181,211	-
Issuance discount	-	(1,809)	(1,809)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>15,179,402</u>	<u>15,179,402</u>	<u>-</u>
<b>Net changes in fund balance</b>	<u>\$ 516,815</u>	<u>\$ 15,179,967</u>	4,020,994	<u>\$ (11,158,973)</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,352,934</u>	
End of year			<u>\$ 5,373,928</u>	

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# NONMAJOR GOVERNMENTAL FUNDS

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## SPECIAL REVENUE FUNDS:

***Special Gas Tax Special Revenue Fund*** - To account for street maintenance activity. The source of funds is the State gasoline tax and related sales tax. Expenditures are restricted to construction, improvement and maintenance of public streets.

***Capital Improvement Deposits Special Revenue Fund*** - To account for accumulated resources to be used to purchase the protection equipment and facilities, traffic signals, and parks. Financing is provided through a development fee on all new commercial and residential construction.

***Municipal Lighting / Landscaping Assessment District Special Revenue Fund*** - to account for street lighting activity and landscaping maintenance. Financing is provided by assessments against all parcels of real property within the City and landscape assessment district. Expenditures provide for street and palm tree lights citywide, maintenance of park buildings and equipment, and maintenance of all city parkland as designated.

***Measure A Special Revenue Fund*** - To account for one-half cent sales tax collected in Riverside County and distributed to local agencies. Funds are restricted and can only be used for street maintenance and the construction of new streets.

***SCAQMD Fund*** - To account for grants for building solar, CNG Fueling Station and CNG vehicles, and PM-10 Mitigation/Cabot's Parking Lot Paving.

***Air Quality Control Special Revenue Fund*** - To account for resources designated by South Coast Air Quality Management District through the collection of motor vehicle registration fees. These funds can be used for equipment, street sweeping and purchase of vehicles as related to the reduction of air pollution.

***Art in Public Places Special Revenue Fund*** - To account for development fees paid in lieu of acquisition and installation of approved artworks in a development with expenditures restricted to acquisition, installation, maintenance and repair or artworks at approved sites.

***Quimby Act Special Revenue Fund*** - To account for the accumulation of developer fees received under the provision of the Quimby Act for park development and improvements.

***Drainage Assessment District Special Revenue Fund*** - To account for taxes assessed on property owners within the drainage assessment districts for the maintenance of the drainage systems.

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# NONMAJOR

## GOVERNMENTAL FUNDS (CONTINUED)

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### SPECIAL REVENUE FUNDS (Continued):

*County Service Area 152 (CSA-152) Special Revenue Fund* - To account for funding received through the collection of property tax collected on parcels within the assessment district. Expenditures relate to the EPA requirements for storm water monitoring and the protection of the underground water for all cities in the County of Riverside.

*Cabot's Museum Special Revenue Fund* - To account for various fees and operational costs associated with a museum that was gifted to the City.

*Supplemental Law Enforcement Service (SLESF) Special Revenue Fund* - To account for funds received in connection with the Citizens Option for Public Safety Program (COPS), which supplements expenditures for "front line municipal police services".

*Abandoned Vehicle Abatement Special Revenue Fund* - To account for a portion of DMV registration fees that the City receives from the Riverside County Abandoned Vehicle Abatement Service Authority as reimbursement to the City for costs incurred for the administration, removal, and abatement of nuisance vehicles within city limits.

*Community Development Block Grant (CDBG) Special Revenue Fund* - To account for resources that are restricted for a wide variety of unique community development needs.

### CAPITAL PROJECTS FUNDS:

*2012 Street Bond Capital Projects Fund* - To account for expenditures related to the design, acquisition, and construction of specified projects within the City in accordance with the 2012 Street Bonds official statement.

*Capital Improvement Capital Projects Fund* - To account for and report expenditures related to various capital projects identified in the City's 5-Year CIP plan.

*Assessment District 91-1 Capital Projects Fund* - To account for improvements to the Assessment District 91-1, which are financed from bond proceeds. Debt service payments are paid from special assessed revenues.

*Assessment District 92-1 Capital Projects Fund* - To account for improvements to the Assessment District 92-1, which are financed from bond proceeds. Debt service payments are paid from special assessed revenues.

*Assessment District 93-2 Capital Projects Fund* - To account for improvements to the Assessment District 93-2, which are financed from bond proceeds. Debt service payments are paid from special assessed revenues.



**City of Desert Hot Springs**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue			
	Special Gas Tax	Capital Improvement Deposits	Municipal Lighting / Landscaping Assessment District	Measure A
<b>ASSETS</b>				
Cash and investments	\$ 193,230	\$ 2,645,157	\$ 940,713	\$ -
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	1,587	116,040	-	-
Interest	45	731	243	-
Due from other governments	54,215	-	53,848	90,449
Due from other funds	-	-	-	-
<b>Total assets</b>	<b>\$ 249,077</b>	<b>\$ 2,761,928</b>	<b>\$ 994,804</b>	<b>\$ 90,449</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 49,418	\$ -	\$ 154,886	\$ 44,566
Due to other funds	-	417,263	-	311
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
<b>Total liabilities</b>	<b>49,418</b>	<b>417,263</b>	<b>154,886</b>	<b>44,877</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	-	-	31,484	-
<b>Fund Balances:</b>				
Restricted	199,659	-	808,434	45,572
Committed	-	2,344,665	-	-
Unassigned (deficit)	-	-	-	-
<b>Total fund balances</b>	<b>199,659</b>	<b>2,344,665</b>	<b>808,434</b>	<b>45,572</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 249,077</b>	<b>\$ 2,761,928</b>	<b>\$ 994,804</b>	<b>\$ 90,449</b>

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue			
	SCAQMD Grant	Air Quality Control	Art in Public Places	Quimby Act
<b>ASSETS</b>				
Cash and investments	\$ 15,368	\$ 25,734	\$ 81,229	\$ 80,826
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	30	-	-	-
Interest	4	7	19	2
Due from other governments	-	9,429	-	-
Due from other funds	-	-	-	-
<b>Total assets</b>	<u>\$ 15,402</u>	<u>\$ 35,170</u>	<u>\$ 81,248</u>	<u>\$ 80,828</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 9,228	\$ 3,600	\$ 50,298
Due to other funds	-	-	-	111,356
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>9,228</u>	<u>3,600</u>	<u>161,654</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	30	-	-	-
<b>Fund Balances:</b>				
Restricted	15,372	25,942	-	-
Committed	-	-	77,648	-
Unassigned (deficit)	-	-	-	(80,826)
<b>Total fund balances</b>	<u>15,372</u>	<u>25,942</u>	<u>77,648</u>	<u>(80,826)</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 15,402</u>	<u>\$ 35,170</u>	<u>\$ 81,248</u>	<u>\$ 80,828</u>

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue			
	Drainage Assessment District	County Service Area 152	Cabot's Museum	SLESF
<b>ASSETS</b>				
Cash and investments	\$ 745,304	\$ -	\$ 2,963	\$ -
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	15,000	142,761	-	39,415
Interest	193	-	-	-
Due from other governments	9,327	-	-	-
Due from other funds	-	-	-	-
<b>Total assets</b>	<b>\$ 769,824</b>	<b>\$ 142,761</b>	<b>\$ 2,963</b>	<b>\$ 39,415</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 33,036	\$ 7,893	\$ 2,963	\$ -
Due to other funds	-	114,178	-	-
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
<b>Total liabilities</b>	<b>33,036</b>	<b>122,071</b>	<b>2,963</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	-	3,632	-	-
<b>Fund Balances:</b>				
Restricted	736,788	17,058	-	39,415
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
<b>Total fund balances</b>	<b>736,788</b>	<b>17,058</b>	<b>-</b>	<b>39,415</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 769,824</b>	<b>\$ 142,761</b>	<b>\$ 2,963</b>	<b>\$ 39,415</b>

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue		Capital Projects	
	Abandoned Vehicle Abatement	Community Development Block Grant	2012 Street Bond	Capital Improvement
<b>ASSETS</b>				
Cash and investments	\$ 13,418	\$ -	\$ 82,480	\$ 588,786
Cash and investments with fiscal agent	-	-	802,031	-
Receivables:				
Accounts	3,078	36,387	-	155,928
Interest	-	-	47	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	417,264
<b>Total assets</b>	<b>\$ 16,496</b>	<b>\$ 36,387</b>	<b>\$ 884,558</b>	<b>\$ 1,161,978</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 6,664	\$ -	\$ 295,027
Due to other funds	-	19,218	-	264,947
Deposits payable	-	-	-	217,988
Unearned revenue	-	-	-	200,000
<b>Total liabilities</b>	<b>-</b>	<b>25,882</b>	<b>-</b>	<b>977,962</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	776	36,387	-	417,264
<b>Fund Balances:</b>				
Restricted	15,720	-	884,558	-
Committed	-	-	-	-
Unassigned (deficit)	-	(25,882)	-	(233,248)
<b>Total fund balances</b>	<b>15,720</b>	<b>(25,882)</b>	<b>884,558</b>	<b>(233,248)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 16,496</b>	<b>\$ 36,387</b>	<b>\$ 884,558</b>	<b>\$ 1,161,978</b>

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Capital Projects			Total Nonmajor Governmental Funds
	Assessment District 91-1	Assessment District 92-1	Assessment District 93-2	
<b>ASSETS</b>				
Cash and investments	\$ 115,903	\$ 38,389	\$ 28,737	\$ 5,598,237
Cash and investments with fiscal agent	-	-	-	802,031
Receivables:				
Accounts	-	100	339	510,665
Interest	30	10	7	1,338
Due from other governments	-	-	-	217,268
Due from other funds	-	-	-	417,264
<b>Total assets</b>	<b>\$ 115,933</b>	<b>\$ 38,499</b>	<b>\$ 29,083</b>	<b>\$ 7,546,803</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 657,579
Due to other funds	-	-	-	927,273
Deposits payable	-	-	-	217,988
Unearned revenue	-	-	-	200,000
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,002,840</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	-	-	-	489,573
<b>Fund Balances:</b>				
Restricted	115,933	38,499	29,083	2,972,033
Committed	-	-	-	2,422,313
Unassigned (deficit)	-	-	-	(339,956)
<b>Total fund balances</b>	<b>115,933</b>	<b>38,499</b>	<b>29,083</b>	<b>5,054,390</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 115,933</b>	<b>\$ 38,499</b>	<b>\$ 29,083</b>	<b>\$ 7,546,803</b>

(Concluded)

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue			
	Special Gas Tax	Capital Improvement Deposits	Municipal Lighting / Landscaping Assessment District	Measure A
<b>REVENUES:</b>				
Taxes	\$ -	\$ 15,000	\$ 763,594	\$ -
Permits and fees	-	885,863	-	-
Intergovernmental	563,318	-	-	464,468
Interest	146	1,445	590	15
Miscellaneous	-	-	1,648	-
<b>Total revenues</b>	<u>563,464</u>	<u>902,308</u>	<u>765,832</u>	<u>464,483</u>
<b>EXPENDITURES:</b>				
Current:				
General government	224,834	-	-	-
Public works	212,145	-	(249,801)	-
Culture and leisure	-	-	-	-
Capital outlay	107,662	8,544	1,458,229	224,105
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>544,641</u>	<u>8,544</u>	<u>1,208,428</u>	<u>224,105</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>18,823</u>	<u>893,764</u>	<u>(442,596)</u>	<u>240,378</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	(197,794)	(146,793)	-	(200,000)
<b>Total other financing sources (uses)</b>	<u>(197,794)</u>	<u>(146,793)</u>	<u>-</u>	<u>(200,000)</u>
<b>NET CHANGES IN FUND BALANCES</b>	(178,971)	746,971	(442,596)	40,378
<b>FUND BALANCES:</b>				
Beginning of year	378,631	1,597,694	1,251,030	5,194
End of year	<u>\$ 199,660</u>	<u>\$ 2,344,665</u>	<u>\$ 808,434</u>	<u>\$ 45,572</u>

(Continued)

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue			
	SCAQMD Grant	Air Quality Control	Art in Public Places	Quimby Act
<b>REVENUES:</b>				
Taxes	\$ -	\$ 37,094	\$ -	\$ -
Permits and fees	-	-	-	-
Intergovernmental	747,732	-	68,103	-
Interest	13	16	36	9
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<u>747,745</u>	<u>37,110</u>	<u>68,139</u>	<u>9</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	39,789	-	-
Public works	-	-	-	-
Culture and leisure	-	-	-	98,967
Capital outlay	732,373	-	23,069	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>732,373</u>	<u>39,789</u>	<u>23,069</u>	<u>98,967</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>15,372</u>	<u>(2,679)</u>	<u>45,070</u>	<u>(98,958)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	15,372	(2,679)	45,070	(98,958)
<b>FUND BALANCES:</b>				
Beginning of year	-	28,621	32,578	18,132
End of year	<u>\$ 15,372</u>	<u>\$ 25,942</u>	<u>\$ 77,648</u>	<u>\$ (80,826)</u>

(Continued)

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue			
	Drainage Assessment District	County Service Area 152	Cabot's Museum	SLESF
<b>REVENUES:</b>				
Taxes	\$ 198,850	\$ -	\$ -	\$ -
Permits and fees	-	-	-	-
Intergovernmental	-	154,457	-	152,074
Interest	417	16	-	7
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<u>199,267</u>	<u>154,473</u>	<u>-</u>	<u>152,081</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public works	151,373	142,372	-	-
Culture and leisure	-	-	75,438	-
Capital outlay	65,857	-	7,039	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>217,230</u>	<u>142,372</u>	<u>82,477</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(17,963)</u>	<u>12,101</u>	<u>(82,477)</u>	<u>152,081</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	82,477	-
Transfers out	-	-	-	(112,666)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>82,477</u>	<u>(112,666)</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>(17,963)</u>	<u>12,101</u>	<u>-</u>	<u>39,415</u>
<b>FUND BALANCES:</b>				
Beginning of year	<u>754,750</u>	<u>4,957</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 736,787</u>	<u>\$ 17,058</u>	<u>\$ -</u>	<u>\$ 39,415</u>

(Continued)



**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue		Capital Projects	
	Abandoned Vehicle Abatement	Community Development Block Grant	2012 Street Bond	Capital Improvement
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	-	-	-
Intergovernmental	7,372	9,665	-	182,000
Interest	-	-	7,559	-
Miscellaneous	-	-	-	147,064
<b>Total revenues</b>	<u>7,372</u>	<u>9,665</u>	<u>7,559</u>	<u>329,064</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public works	-	-	31,910	-
Culture and leisure	-	-	-	-
Capital outlay	-	35,547	623,373	613,895
Debt service:				
Principal retirement	-	-	120,000	-
Interest and fiscal charges	-	-	280,387	-
<b>Total expenditures</b>	<u>-</u>	<u>35,547</u>	<u>1,055,670</u>	<u>613,895</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>7,372</u>	<u>(25,882)</u>	<u>(1,048,111)</u>	<u>(284,831)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	397,794	106,793
Transfers out	-	-	-	(55,210)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>397,794</u>	<u>51,583</u>
<b>NET CHANGES IN FUND BALANCES</b>	7,372	(25,882)	(650,317)	(233,248)
<b>FUND BALANCES:</b>				
Beginning of year	8,348	-	1,534,875	-
End of year	<u>\$ 15,720</u>	<u>\$ (25,882)</u>	<u>\$ 884,558</u>	<u>\$ (233,248)</u>

(Continued)

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Capital Projects			Total Nonmajor Governmental Funds
	Assessment District 91-1	Assessment District 92-1	Assessment District 93-2	
<b>REVENUES:</b>				
Taxes	\$ -	\$ 100	\$ 339	\$ 1,014,977
Permits and fees	-	-	-	885,863
Intergovernmental	-	-	-	2,349,189
Interest	65	21	15	10,370
Miscellaneous	-	-	-	148,712
<b>Total revenues</b>	<b>65</b>	<b>121</b>	<b>354</b>	<b>4,409,111</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	264,623
Public works	-	-	-	287,999
Culture and leisure	-	-	-	174,405
Capital outlay	-	-	-	3,899,693
Debt service:				
Principal retirement	-	-	-	120,000
Interest and fiscal charges	-	-	-	280,387
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,027,107</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>65</b>	<b>121</b>	<b>354</b>	<b>(617,996)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	587,064
Transfers out	-	-	-	(712,463)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(125,399)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>65</b>	<b>121</b>	<b>354</b>	<b>(743,395)</b>
<b>FUND BALANCES:</b>				
Beginning of year	115,868	38,378	28,729	5,797,785
End of year	<u>\$ 115,933</u>	<u>\$ 38,499</u>	<u>\$ 29,083</u>	<u>\$ 5,054,390</u>

(Concluded)

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Special Gas Tax Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 584,523	\$ 584,480	\$ 563,318	\$ (21,162)
Interest	100	151	146	(5)
<b>Total revenues</b>	<u>584,623</u>	<u>584,631</u>	<u>563,464</u>	<u>(21,167)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	187,859	230,461	224,834	5,627
Public works	197,628	231,235	212,145	19,090
Capital outlay	60,000	125,600	107,662	17,938
<b>Total expenditures</b>	<u>445,487</u>	<u>587,296</u>	<u>544,641</u>	<u>42,655</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>139,136</u>	<u>(2,665)</u>	<u>18,823</u>	<u>21,488</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(197,794)	(197,794)	(197,794)	-
<b>Total other financing sources (uses)</b>	<u>(197,794)</u>	<u>(197,794)</u>	<u>(197,794)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ (58,658)</u>	<u>\$ (200,459)</u>	<u>(178,971)</u>	<u>\$ 21,488</u>
<b>FUND BALANCE:</b>				
Beginning of year			378,631	
End of year			<u>\$ 199,660</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Improvement Deposits Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ -	\$ 15,000	\$ 15,000	\$ -
Permits and fees	1,041,890	1,139,129	885,863	(253,266)
Interest	1,175	1,641	1,445	(196)
<b>Total revenues</b>	<u>1,043,065</u>	<u>1,155,770</u>	<u>902,308</u>	<u>(253,462)</u>
<b>EXPENDITURES:</b>				
Capital Outlay	1,660,314	1,668,860	8,544	1,660,316
<b>Total expenditures</b>	<u>1,660,314</u>	<u>1,668,860</u>	<u>8,544</u>	<u>1,660,316</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(617,249)</u>	<u>(513,090)</u>	<u>893,764</u>	<u>1,406,854</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(80,000)	(146,793)	(146,793)	-
<b>Total other financing sources (uses)</b>	<u>(80,000)</u>	<u>(146,793)</u>	<u>(146,793)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCE</b>	<u>\$ (697,249)</u>	<u>\$ (659,883)</u>	<u>746,971</u>	<u>\$ 1,406,854</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,597,694</u>	
End of year			<u>\$ 2,344,665</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Municipal Lighting / Landscaping Assessment District Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 801,915	\$ 800,925	\$ 763,594	\$ (37,331)
Interest	244	679	590	(89)
Miscellaneous	250	1,648	1,648	-
<b>Total revenues</b>	<u>802,409</u>	<u>803,252</u>	<u>765,832</u>	<u>(37,420)</u>
<b>EXPENDITURES:</b>				
Current:				
Public Works	394,384	615,231	(249,801)	865,032
Capital Outlay	751,137	976,437	1,458,229	(481,792)
<b>Total expenditures</b>	<u>1,145,521</u>	<u>1,591,668</u>	<u>1,208,428</u>	<u>383,240</u>
<b>Net change in fund balance</b>	<u>\$ (343,112)</u>	<u>\$ (788,416)</u>	<u>(442,596)</u>	<u>\$ 345,820</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,251,030</u>	
End of year			<u>\$ 808,434</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Measure A Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 524,000	\$ 524,000	\$ 464,468	\$ (59,532)
Interest	50	50	15	(35)
<b>Total revenues</b>	<u>524,050</u>	<u>524,050</u>	<u>464,483</u>	<u>(59,567)</u>
<b>EXPENDITURES:</b>				
Capital outlay	355,920	355,920	224,105	131,815
<b>Total expenditures</b>	<u>355,920</u>	<u>355,920</u>	<u>224,105</u>	<u>131,815</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>168,130</u>	<u>168,130</u>	<u>240,378</u>	<u>72,248</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(200,000)	(200,000)	(200,000)	-
<b>Total other financing sources (uses)</b>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ (31,870)</u>	<u>\$ (31,870)</u>	<u>40,378</u>	<u>\$ 72,248</u>
<b>FUND BALANCE:</b>				
Beginning of year			5,194	
End of year			<u>\$ 45,572</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**SCAQMD Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 75,000	\$ 747,732	\$ 747,732	\$ -
Interest	-	40	13	(27)
<b>Total revenues</b>	<u>75,000</u>	<u>747,772</u>	<u>747,745</u>	<u>(27)</u>
<b>EXPENDITURES:</b>				
Capital outlay	75,000	807,349	732,373	74,976
<b>Total expenditures</b>	<u>75,000</u>	<u>807,349</u>	<u>732,373</u>	<u>74,976</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ (59,577)</u>	15,372	<u>\$ 74,949</u>
<b>FUND BALANCE:</b>				
Beginning of year			-	
End of year			<u>\$ 15,372</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Air Quality Control Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 35,000	\$ 37,094	\$ 37,094	\$ -
Interest	10	16	16	-
<b>Total revenues</b>	<u>35,010</u>	<u>37,110</u>	<u>37,110</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General government	35,010	39,789	39,789	-
<b>Total expenditures</b>	<u>35,010</u>	<u>39,789</u>	<u>39,789</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ (2,679)</u>	<u>(2,679)</u>	<u>\$ -</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>28,621</u>	
End of year			<u>\$ 25,942</u>	



**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Art in Public Places Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 20,000	\$ 68,903	\$ 68,103	\$ (800)
Interest	25	36	36	-
<b>Total revenues</b>	<u>20,025</u>	<u>68,939</u>	<u>68,139</u>	<u>(800)</u>
<b>EXPENDITURES:</b>				
Capital outlay	57,000	57,000	23,069	33,931
<b>Total expenditures</b>	<u>57,000</u>	<u>57,000</u>	<u>23,069</u>	<u>33,931</u>
<b>Net change in fund balance</b>	<u>\$ (36,975)</u>	<u>\$ 11,939</u>	45,070	<u>\$ (33,131)</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>32,578</u>	
End of year			<u>\$ 77,648</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Quimby Act Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Licenses	\$ 30,000	\$ 30,000	\$ -	\$ (30,000)
Interest	25	25	9	(16)
<b>Total revenues</b>	<u>30,025</u>	<u>30,025</u>	<u>9</u>	<u>(30,016)</u>
<b>EXPENDITURES:</b>				
Capital outlay	108,000	108,000	98,967	9,033
<b>Total expenditures</b>	<u>108,000</u>	<u>108,000</u>	<u>98,967</u>	<u>9,033</u>
<b>Net change in fund balance</b>	<u>\$ (77,975)</u>	<u>\$ (77,975)</u>	<u>(98,958)</u>	<u>\$ (20,983)</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>18,132</u>	
End of year			<u>\$ (80,826)</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Drainage Assessment District Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 200,571	\$ 201,722	\$ 198,850	\$ (2,872)
Interest	122	437	417	(20)
<b>Total revenues</b>	<u>200,693</u>	<u>202,159</u>	<u>199,267</u>	<u>(2,892)</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	178,983	222,419	151,373	71,046
Capital outlay	275,981	264,976	65,857	199,119
<b>Total expenditures</b>	<u>454,964</u>	<u>487,395</u>	<u>217,230</u>	<u>270,165</u>
<b>Net change in fund balance</b>	<u>\$ (254,271)</u>	<u>\$ (285,236)</u>	<u>(17,963)</u>	<u>\$ 267,273</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>754,750</u>	
End of year			<u>\$ 736,787</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**County Service Area 152 Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 131,710	\$ 154,457	\$ 154,457	\$ -
Interest	25	25	16	(9)
<b>Total revenues</b>	<u>131,735</u>	<u>154,482</u>	<u>154,473</u>	<u>(9)</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	130,573	175,324	142,372	32,952
<b>Total expenditures</b>	<u>130,573</u>	<u>175,324</u>	<u>142,372</u>	<u>32,952</u>
<b>Net change in fund balance</b>	<u>\$ 1,162</u>	<u>\$ (20,842)</u>	12,101	<u>\$ 32,943</u>
<b>FUND BALANCE:</b>				
Beginning of year			4,957	
End of year			<u>\$ 17,058</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Cabot's Museum Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES:</b>				
Current:				
Culture and leisure	\$ 63,000	\$ 76,245	\$ 75,438	\$ 807
Capital outlay	-	7,347	7,039	308
<b>Total expenditures</b>	<u>63,000</u>	<u>83,592</u>	<u>82,477</u>	<u>1,115</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	63,000	82,477	82,477	-
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ (1,115)</u>	<u>-</u>	<u>\$ 1,115</u>
<b>FUND BALANCE:</b>				
Beginning of year			-	
End of year			<u>\$ -</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**SLESF Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 100,000	\$ 152,074	\$ 152,074	\$ -
Interest	5	7	7	-
<b>Total revenues</b>	<b>100,005</b>	<b>152,081</b>	<b>152,081</b>	<b>-</b>
<b>OTHER FINANCING USES:</b>				
Transfers out	(100,000)	(112,666)	(112,666)	-
<b>Net changes in fund balance</b>	<b>\$ 5</b>	<b>\$ 39,415</b>	<b>39,415</b>	<b>\$ -</b>
<b>FUND BALANCE:</b>				
Beginning of year			-	
End of year			<u>\$ 39,415</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Abandoned Vehicle Abatement Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 35,000	\$ 35,000	\$ 7,372	\$ (27,628)
<b>Total revenues</b>	<b>35,000</b>	<b>35,000</b>	<b>7,372</b>	<b>(27,628)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(35,000)	(35,000)	-	35,000
<b>Net changes in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>7,372</b>	<b>\$ 7,372</b>
<b>FUND BALANCE:</b>				
Beginning of year			8,348	
End of year			<u>\$ 15,720</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Community Development Block Grant Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 215,000	\$ 215,000	\$ 9,665	\$ (205,335)
<b>Total revenues</b>	<u>215,000</u>	<u>215,000</u>	<u>9,665</u>	<u>(205,335)</u>
<b>EXPENDITURES:</b>				
Capital outlay	215,000	215,000	35,547	179,453
<b>Total expenditures</b>	<u>215,000</u>	<u>215,000</u>	<u>35,547</u>	<u>179,453</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(25,882)</u>	<u>\$ (25,882)</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>-</u>	
End of year			<u>\$ (25,882)</u>	



**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**2012 Street Bond Capital Projects Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 7,500	\$ 7,562	\$ 7,559	\$ (3)
<b>Total revenues</b>	<u>7,500</u>	<u>7,562</u>	<u>7,559</u>	<u>(3)</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	750	32,661	31,910	751
Capital outlay	906,124	754,213	623,373	130,840
Debt service:				
Principal retirement	120,000	120,000	120,000	-
Interest and fiscal charges	280,794	280,794	280,387	407
<b>Total expenditures</b>	<u>1,307,668</u>	<u>1,187,668</u>	<u>1,055,670</u>	<u>131,998</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,300,168)</u>	<u>(1,180,106)</u>	<u>(1,048,111)</u>	<u>131,995</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	397,794	397,794	397,794	-
<b>Total other financing sources (uses)</b>	<u>397,794</u>	<u>397,794</u>	<u>397,794</u>	<u>-</u>
<b>Net changes in fund balance</b>	<u>\$ (902,374)</u>	<u>\$ (782,312)</u>	<u>(650,317)</u>	<u>\$ 131,995</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,534,875</u>	
End of year			<u>\$ 884,558</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Improvement Capital Projects Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 1,966,480	\$ 1,919,416	\$ 182,000	\$ (1,737,416)
Miscellaneous	-	147,064	147,064	-
<b>Total revenues</b>	<b>1,966,480</b>	<b>2,066,480</b>	<b>329,064</b>	<b>(1,737,416)</b>
<b>EXPENDITURES:</b>				
Current:				
Economic development	9,920	9,920	-	9,920
Capital outlay	1,956,560	2,580,720	613,895	1,966,825
<b>Total expenditures</b>	<b>1,966,480</b>	<b>2,590,640</b>	<b>613,895</b>	<b>1,976,745</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>(524,160)</b>	<b>(284,831)</b>	<b>239,329</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	40,000	106,793	106,793	-
Transfers out	-	(55,210)	(55,210)	-
<b>Total other financing sources (uses)</b>	<b>40,000</b>	<b>51,583</b>	<b>51,583</b>	<b>-</b>
<b>Net changes in fund balance</b>	<b>\$ 40,000</b>	<b>\$ (472,577)</b>	<b>(233,248)</b>	<b>\$ 239,329</b>
<b>FUND BALANCE:</b>				
Beginning of year			-	
End of year			<b>\$ (233,248)</b>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Assessment District 91-1 Capital Projects Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 25	\$ 67	\$ 65	\$ (2)
<b>Total revenues</b>	<u>25</u>	<u>67</u>	<u>65</u>	<u>(2)</u>
<b>EXPENDITURES:</b>				
Capital outlay	55,000	55,000	-	55,000
<b>Total expenditures</b>	<u>55,000</u>	<u>55,000</u>	<u>-</u>	<u>55,000</u>
<b>Net changes in fund balance</b>	<u><u>\$ (54,975)</u></u>	<u><u>\$ (54,933)</u></u>	65	<u><u>\$ 54,998</u></u>
<b>FUND BALANCE:</b>				
Beginning of year			115,868	
End of year			<u><u>\$ 115,933</u></u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Assessment District 92-1 Capital Projects Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ -	\$ 100	\$ 100	\$ -
Interest	10	23	21	(2)
<b>Total revenues</b>	<u>10</u>	<u>123</u>	<u>121</u>	<u>(2)</u>
<b>EXPENDITURES:</b>				
Capital outlay	20,000	20,000	-	20,000
<b>Total expenditures</b>	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
<b>Net changes in fund balance</b>	<u>\$ (19,990)</u>	<u>\$ (19,877)</u>	121	<u>\$ 19,998</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>38,378</u>	
End of year			<u>\$ 38,499</u>	

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Assessment District 93-2 Capital Projects Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ -	\$ 339	\$ 339	\$ -
Interest	10	18	15	(3)
<b>Total revenues</b>	<u>10</u>	<u>357</u>	<u>354</u>	<u>(3)</u>
<b>EXPENDITURES:</b>				
Capital outlay	15,000	15,000	-	15,000
<b>Total expenditures</b>	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
<b>Net changes in fund balance</b>	<u>\$ (14,990)</u>	<u>\$ (14,643)</u>	354	<u>\$ 14,997</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>28,729</u>	
End of year			<u>\$ 29,083</u>	

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# INTERNAL SERVICE FUNDS

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The Internal Service Fund accounts for financing of goods and services provided by one department to other departments of the City on a cost-reimbursement basis.

**Internal Service Funds include:**

*Risk Management Fund* - To account for payment of the City's different types of insurance for liability, workers' compensation, property, automobile, and earthquake coverage.

*Equipment Replacement Fund* - To account for capital asset purchases.

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**City of Desert Hot Springs**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2017**

	<u>Risk Management</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 783,733	\$ 122,592	\$ 906,325
Accounts receivable	40,527	-	40,527
Total current assets	<u>824,260</u>	<u>122,592</u>	<u>946,852</u>
Capital assets:			
Depreciable, net	-	271,279	271,279
Total capital assets	<u>-</u>	<u>271,279</u>	<u>271,279</u>
<b>Total assets</b>	<u>824,260</u>	<u>393,871</u>	<u>1,218,131</u>
<b>LIABILITIES</b>			
Current liabilities:			
Claims payable - due within one year	418,181	-	418,181
Total current liabilities	<u>418,181</u>	<u>-</u>	<u>418,181</u>
<b>NET POSITION</b>			
Investment in capital assets	-	271,279	271,279
Unrestricted	406,079	122,592	528,671
<b>Total net position</b>	<u>\$ 406,079</u>	<u>\$ 393,871</u>	<u>\$ 799,950</u>

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2017**

	Risk Management	Equipment Replacement	Total
<b>OPERATING REVENUES:</b>			
Insurance recovery	\$ 455,508	\$ -	\$ 455,508
<b>Total operating revenues</b>	<u>455,508</u>	<u>-</u>	<u>455,508</u>
<b>OPERATING EXPENSES:</b>			
Insurance and claims	81,003	-	81,003
Depreciation	-	203,959	203,959
<b>Total operating expenses</b>	<u>81,003</u>	<u>203,959</u>	<u>284,962</u>
<b>OPERATING INCOME (LOSS)</b>	<u>374,505</u>	<u>(203,959)</u>	<u>170,546</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest expenses	-	(6,145)	(6,145)
<b>Total nonoperating revenues (expenses)</b>	<u>-</u>	<u>(6,145)</u>	<u>(6,145)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>374,505</u>	<u>(210,104)</u>	<u>164,401</u>
<b>TRANSFERS:</b>			
Transfers in	-	144,282	144,282
Transfers out	(193,945)	-	(193,945)
<b>Total transfers</b>	<u>(193,945)</u>	<u>144,282</u>	<u>(49,663)</u>
<b>Changes in net position</b>	<u>180,560</u>	<u>(65,822)</u>	<u>114,738</u>
<b>NET POSITION:</b>			
Beginning of year	225,519	459,693	685,212
End of year	<u>\$ 406,079</u>	<u>\$ 393,871</u>	<u>\$ 799,950</u>

**City of Desert Hot Springs**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2017**

	Risk Management	Equipment Replacement	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from claims recoveries	\$ 117,400	\$ -	\$ 117,400
Payments for insurance claims	(85,152)	-	(85,152)
<b>Net cash provided by operating activities</b>	<b>32,248</b>	<b>-</b>	<b>32,248</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in from other funds	-	144,282	144,282
Transfers out to other funds	(193,945)	-	(193,945)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(193,945)</b>	<b>144,282</b>	<b>(49,663)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal payment on capital leases	-	(118,138)	(118,138)
Interest paid on capital leases	-	(6,145)	(6,145)
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>(124,283)</b>	<b>(124,283)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(161,697)</b>	<b>19,999</b>	<b>(141,698)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	945,430	102,593	1,048,023
End of year	<u>\$ 783,733</u>	<u>\$ 122,592</u>	<u>\$ 906,325</u>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 374,505	\$ (203,959)	\$ 170,546
Depreciation	-	203,959	203,959
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in accounts receivable	(40,527)	-	(40,527)
Increase (decrease) in accounts payable	(4,149)	-	(4,149)
Increase (decrease) in claims payable	(297,581)	-	(297,581)
Total adjustments	(342,257)	-	(342,257)
<b>Net cash (used in) operating activities</b>	<b>\$ 32,248</b>	<b>\$ -</b>	<b>\$ 32,248</b>

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## AGENCY FUNDS

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*Community Services Fund* - this fund was established to account for donations received for various community programs. The monies are held in a bank account until used for the designated purpose.

*Community Facilities District Skyborne Fund* - this fund was established to account for payments of principal and interest for the Community Facilities District municipal bonds.

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**City of Desert Hot Springs**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2017**

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	Agency Funds		Totals
	Community Services Fund	Community Facilities District Skyborne Fund	
<b>ASSETS</b>			
Cash and investments	\$ 280,421	\$ 685,143	\$ 965,564
Cash with fiscal agent	-	181,248	181,248
Accounts receivable	7,565	3,671	11,236
Interest receivable	-	156	156
<b>Total assets</b>	<b>\$ 287,986</b>	<b>\$ 870,218</b>	<b>\$ 1,158,204</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 160,265	\$ 57,942	\$ 218,207
Deposits payable	28,926	5,000	33,926
Due to bondholders	98,795	807,276	906,071
<b>Total liabilities</b>	<b>\$ 287,986</b>	<b>\$ 870,218</b>	<b>\$ 1,158,204</b>

**City of Desert Hot Springs**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2017**

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<b><u>Community Services Fund</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 30,664	\$ 343,069	\$ (93,312)	\$ 280,421
Accounts receivable	-	7,565	-	7,565
<b>Total assets</b>	<b>\$ 30,664</b>	<b>\$ 350,634</b>	<b>\$ (93,312)</b>	<b>\$ 287,986</b>
<b>Liabilities:</b>				
Accounts payable	\$ 14,840	\$ 211,349	\$ (65,924)	\$ 160,265
Deposits payable	15,824	251,840	(238,738)	28,926
Due to bondholders	-	98,795	-	98,795
<b>Total liabilities</b>	<b>\$ 30,664</b>	<b>\$ 561,984</b>	<b>\$ (304,662)</b>	<b>\$ 287,986</b>
<b><u>Community Facilities District Skyborne Fund</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 586,768	\$ 331,040	\$ (232,665)	\$ 685,143
Cash with fiscal agent	179,927	179,821	(178,500)	181,248
Accounts receivable	4,025	3,672	(4,026)	3,671
Interest receivable	39	156	(39)	156
<b>Total assets</b>	<b>\$ 770,759</b>	<b>\$ 514,689</b>	<b>\$ (415,230)</b>	<b>\$ 870,218</b>
<b>Liabilities:</b>				
Accounts payable	\$ 5,768	269,387	(217,213)	\$ 57,942
Deposits payable	10,000	90,000	(95,000)	5,000
Due to bondholders	754,991	155,302	(103,017)	807,276
<b>Total liabilities</b>	<b>\$ 770,759</b>	<b>\$ 514,689</b>	<b>\$ (415,230)</b>	<b>\$ 870,218</b>
<b><u>Total All Agency Funds</u></b>				
<b>Assets:</b>				
Cash and investments	\$ 617,432	\$ 674,109	\$ (325,977)	\$ 965,564
Cash with fiscal agent	179,927	179,821	(178,500)	181,248
Accounts receivable	4,025	11,237	(4,026)	11,236
Interest receivable	39	156	(39)	156
<b>Total assets</b>	<b>\$ 801,423</b>	<b>\$ 865,323</b>	<b>\$ (508,542)</b>	<b>\$ 1,158,204</b>
<b>Liabilities:</b>				
Accounts payable	\$ 20,608	\$ 480,736	\$ (283,137)	\$ 218,207
Deposits payable	25,824	341,840	(333,738)	33,926
Due to bondholders	754,991	254,097	(103,017)	906,071
<b>Total liabilities</b>	<b>\$ 801,423</b>	<b>\$ 1,076,673</b>	<b>\$ (719,892)</b>	<b>\$ 1,158,204</b>