

City of Desert Hot Springs

Desert Hot Springs, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2016



City of Desert Hot Springs
Basic Financial Statements
For the Year Ended June 30, 2016

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Basic Financial Statements
For the Year Ended June 30, 2016**

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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, 2016, 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, 2016, 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 15 to the basic financial statements, the City continues to expect uncertainties regarding future operations. As of June 30, 2016, the City's governmental activities had an unrestricted net position deficit of \$13,751,977. 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.

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 16 and pages 101 through 106 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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.

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 Budgetary Comparison Schedules-Nonmajor Governmental Funds 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 Budgetary Comparison Schedules-Nonmajor Governmental Funds 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 Budgetary Comparison Schedules-Nonmajor Governmental Funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 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 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.

The PwC Group, LLP

Palm Desert, California
December 22, 2016

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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, 2016, 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 December 22, 2016.

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 entity'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 2016-001.

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*.

City’s Responses 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 response was not subjected to the auditing 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 PwC Group, LLP". The signature is written in a cursive, flowing style.

Palm Desert, California
December 22, 2016

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, 2016.

Financial Highlights

- The City had positive cash flow with revenues exceeding expenditures;
- Development activity within the City has increased;
- City employees were given a 4% increase in salary in FY 2016-17;
- The City implemented a priority based budgeting system;
- The City approved a biennial budget with a surplus for both years.
- A rolling three year cash-flow model was updated and presented to the City Council;
- Current staffing levels are below minimum standards thus the City is service insolvent;
- Property value in the City's industrial area has rapidly increased due to demand generated from cultivators of Marijuana;
- City Council established a Revenue Committee to review two large tax measures that are expiring in 2020. If not renewed or replaced the City will lose \$5.0 million to the General Fund and Debt Service Fund.
- Large expenditure increases are expected from County services, CALPERS and insurance in the coming years.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City of Desert Hot Springs' basic financial statements. This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two statements that present different views of the City.

1. The government-wide financial statements provide long-term information about the City's overall financial status.
2. Fund financial statements focus on individual parts of the city government reporting the city's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of a private-sector business. There are two government-wide financial statements: the Statement of Net Position and the Statement of Activities. They present information for the government as a whole and present a longer term view of the City's finances.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The differences are reported as *net position*. In time, increases or decreases in net position may serve as a useful indicator of whether the financial standing of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the City's net position changed during the fiscal 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 the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused employee leave).

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 on pages 20-23 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 (3) major individual governmental funds (General Fund which is consolidated with the Health and Wellness Facility, Public Safety Fund, and Housing Authority). 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 (63) 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 (18), County Service Area 152 (CSA-152) Fund, Parks and Recreation Grant, Cabot's Museum Fund, Supplement Law Enforcement Service Fund (SLESF), and Abandoned Vehicle Abatement Fund.

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.

Debt Service Fund: City Debt Service Fund.

Proprietary Funds

Proprietary funds can be broken down into two different types of proprietary funds. *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 basic proprietary fund financial statements can be found on pages 36-39 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 basic fiduciary fund financial statements can be found on pages 43-44 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 on page 49-99 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 on pages 103-108 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 113-150 of this report.

Government-wide Financial Analysis

Although the economy and City finances have improved there remains a number of unfunded needs for the community and organization. Equipment replacement, service levels and large capital projects have been reduced over the years due to the financial instability of the City. We will continue to move forward addressing these issues.

The City continues to anticipate that there will be additional revenue streams for the marijuana dispensaries and cultivation facilities which will be collected and reflected in the General Fund in the next two budget cycles. Staffing will continue to be monitored and increased over time to meet the direct impact on the City resources from the dispensaries and cultivations facilities.

Staff is working with outside sources on grant opportunities for equipment, capital projects with emphasis on public safety and the Health and Wellness Center.

Financial Report and Recovery Action Plan

As a part of the City's recovery plan the City worked with Urban Futures Incorporated who are the City's financial advisors to prepare a financial report which contained two primary parts: 1) an estimated month-by-month cash-flow analysis for the remainder of Fiscal Year (FY) 2014-2015, projected cash flows for FYs 2015-2016 and 2016-2017 and annual cash flows for FY 2017-2018 and FY 2018-2019 (the Financial Report); and analysis and recommendations in association with a recovery action plan (DHSRAP). Staff has continued to update the cash-flow analysis on a rolling three year model which is presented to the City Council a minimum of three times per year.

The purpose of the cash-flow analysis is to identify and project the City's cash position in the current fiscal year and two years after. The Plan presents recommendations based on our analysis of the organization in an effort to reduce costs, increase revenues, revise current budget processes and provide an action plan for staff and the City Council to improve fiscal and operational performance.

City staff will continue to work with the Renaissance Group on several other grant possibilities for future street projects, Health and Well Foundation equipment and operational costs (which reduces the burden on the General Fund), police equipment and equipment replacement for Public Works.

There are other key provisions of the report that include;

Project	Status
Implement a prioritized budget process	Continued in budget process for FY 2016-17 – 2017-18
Biennial Budget Model	Staff prepared for FY 2016-17 and 2017-18
Continue Reviewing Revenue Increase Opportunities	Management to give the City Council quarterly reports (ongoing).
Pursue new revenue sources i.e. tax measures	City Council appointed a Review Advisory Committee which now meets monthly to bring forward new tax measure data and analysis
Restore employee salaries and make unfunded CALPERS Liability payments annually.	City Council approved 4% increase to all employees effective July 1, 2016 and the CALPERS unfunded liability payment will be paid in one lump sum
Address service delivery model changes	Ongoing
Review & amending of leases & debt obligations	Ongoing
Update Development Impact Fee Study	Development Impact Fee Study will be done in FY 2016-17

Desert Hot Springs continues to be affected by the on-going economic recession, and while staff and the City Council have continued to take positive steps to produce a balanced budget, the work must continue. Expenses continue to rise while revenues increases remain minimal or relatively flat.

Expiring Tax Measures

The City has 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 the tax measures are not addressed before they expire the City is at risk of becoming financial insolvent in a relatively short amount of time.

Below are staff estimates on revenue for the next four years for the Parcel Tax and Utility User Tax.

	Parcel Tax	UUT	TOTAL
FY 2016-17	\$2,002,390	\$2,970,255	\$4,97,645
FY 2017-18	2,027,420	3,007,384	5,034,804
FY 2018-19	2,052,763	3,044,976	5,097,739
FY 2019-20	2,078,422	3,083,038	5,161,460
FY 2020-21	-	-	-

The City continues to see improvement with the City’s finances. In FY 2016-2017 the City did not set aside a ten percent budget contingency due to a large surplus from the last two years. 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, 2016, the City’s General Fund has a new gain of \$2.3 million for an ending fund balance of \$6.2 million.

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 exceed liabilities and deferred inflows of resources by approximately \$42.1 million as of June 30, 2016 in the Government activities and Business Type Activities.

The largest portion of the City's net position, \$30.0 million (71.3%), are reflected in its 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 (28.7%) 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, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 22,360,471	\$ 17,549,545	\$ 15,785,417	\$ 15,932,508	\$ 38,145,888	\$ 33,482,053
Capital assets	41,919,163	43,068,293	14,537,904	15,127,828	56,457,067	58,196,121
Total assets	\$ 64,279,634	\$ 60,617,838	\$ 30,323,321	\$ 31,060,336	\$ 94,602,955	\$ 91,678,174
Deferred outflow of resources	\$ 974,555	\$ 917,508	\$ -	\$ -	\$ 974,555	\$ 917,508
Total deferred outflow of resources	\$ 974,555	\$ 917,508	\$ -	\$ -	\$ 974,555	\$ 917,508
Current liabilities	\$ 4,606,752	\$ 3,318,739	\$ 70,930	\$ 52,000	\$ 4,677,682	\$ 3,370,739
Long-term liabilities	27,357,167	27,489,172	20,697,000	20,697,000	48,054,167	48,186,172
Total liabilities	\$ 31,963,919	\$ 30,807,911	\$ 20,767,930	\$ 20,749,000	\$ 52,731,849	\$ 51,556,911
Deferred inflow of resources	\$ 784,607	\$ 2,020,779	\$ -	\$ -	\$ 784,607	\$ 2,020,779
Total deferred inflow of resources	\$ 784,607	\$ 2,020,779	\$ -	\$ -	\$ 784,607	\$ 2,020,779
Net position						
Invested in capital assets	\$ 36,135,385	\$ 37,044,552	\$ (6,159,096)	\$ (4,787,519)	\$ 29,976,289	\$ 32,257,033
Restricted	10,122,255	8,474,479	639,085	781,653	10,761,340	9,256,132
Unrestricted	(13,751,977)	(16,812,375)	15,075,402	14,317,202	1,323,425	(2,495,173)
Total net position	\$ 32,505,663	\$ 28,706,656	\$ 9,555,391	\$ 10,311,336	\$ 42,061,054	\$ 39,017,992

An additional portion of the City's net position, \$10.7 million (25.6%), represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of the net position is \$1.3 million.

TABLE 2
City of Desert Hot Springs
Changes in Net Position
June 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 1,982,301	\$ 1,892,007	\$ 104,000	\$ 104,000	\$ 2,086,301	\$ 1,996,007
Operating grants and contributions	2,800,934	896,288	-	-	2,800,934	896,288
Capital grants and contributions	3,049,472	2,130,915	-	-	3,049,472	2,130,915
General revenues					-	-
Property taxes	3,385,512	3,211,768	-	-	3,385,512	3,211,768
Sales taxes	3,326,655	3,154,925	-	-	3,326,655	3,154,925
Transient occupancy taxes	1,504,813	1,351,756	-	-	1,504,813	1,351,756
Other taxes	4,149,755	5,070,619	-	-	4,149,755	5,070,619
Gains on investments	11,130	9,792	75,628	75,642	86,758	85,434
Miscellaneous	647,261	819,083	-	-	647,261	819,083
Transfers	80,349	148,551	(80,349)	(148,551)	-	-
Total revenues	20,938,182	18,685,704	99,279	31,091	21,037,461	18,716,795
Program expenses						
General government	4,040,041	5,121,894	-	-	-	5,121,894
Public safety	7,884,162	8,302,614	-	-	-	8,302,614
Public works	2,267,153	1,524,307	-	-	-	1,524,307
Economic development	1,460,708	1,606,877	-	-	-	1,606,877
Culture and leisure	631,731	537,030	-	-	-	537,030
Interest and fiscal charges	855,380	872,203	-	-	-	872,203
Health and wellness foundation			855,224	860,605	855,224	860,605
Total expenses	17,139,175	17,964,925	855,224	860,605	17,994,399	18,825,530
Change in net position	3,799,007	720,779	(755,945)	(829,514)	3,043,062	(108,735)
Net position – beginning of year	28,706,656	27,985,877	10,311,336	11,140,850	39,017,992	39,126,727
Net position – end of year	\$ 32,505,663	\$ 28,706,656	\$ 9,555,391	\$ 10,311,336	\$ 42,061,054	\$ 39,017,992

The City's governmental activities total revenues were \$21.0 million, while the total cost of all programs and services were approximately \$17.1 million. Other tax revenues were the City's largest resource at \$4.1 million (19.8% of total revenue of the governmental activities). Property tax was the second largest revenue source at \$3.4 million (16.2% of total revenue of the governmental activities). Sales Tax was the third largest revenue source at \$3.3 million (15.9 % of total revenue of the governmental activities). Capital Grants and Contribution revenue was the fourth largest at \$3.0 million (14.5% of total revenue of the governmental activities).

Governmental activities

Public safety expenses of \$7.9 million comprise the largest component of government activities in terms of cost (46.0% of the total cost of governmental activities this past year). This component was down from the prior year by \$0.4 million primarily due to salaries and benefits that were not expended as the Police Department was not fully staffed.

General government expenses of \$4.0 million (includes City Council, City Manager, City Attorney, City Clerk, Finance, Information Systems and Non-Departmental) were the second largest governmental activities (23.6% of the total cost of governmental activities). In comparison to last year there was a decrease of \$1.1 million due to various cuts in contract services and due to the cut in salaries in the prior year it continues to make it difficult to recruit.

Public Works expenses of \$2.3 million were the third largest governmental activities (13.2 % of the total cost of governmental activities). In comparison to last year there was an increase of \$0.7 million due to increase in positions and an increase in contact services.

Economic Development expenses of \$1.5 million were the fourth largest governmental activities (8.5% of the total cost of governmental activities). In comparison to last year there was a decrease of \$146,169 due to loss of staffing and salary and benefit cuts.

Culture and leisure expenses of \$631,731 were the fifth largest governmental activities (3.7% of the total cost of governmental activities) mainly due to the continued operational costs for the H & W Facility and additional repairs and maintenance and costs associated with two swimming programs.

Interest and fiscal charges, at \$855,380, were comprised of less than 5.0% of the total cost of governmental activities.

Business-type activities

Net position for Business-type activities of the City decreased by \$755,945 for the current year. The Business-type activities were all grouped with the Governmental activities in the fiscal year ending June 30, 2016. The combined costs of the City's business-type activities for the Health and Wellness Foundation were primarily financed through reimbursement of interest income, one time grant income and support from General Governmental activities. The Developer fee revenue was exhausted in prior fiscal years.

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 expenditure of funds for capital projects. The fund had a total of six Capital Improvement Projects budgeted during FY 2015-16. The six key and essential projects during the year were partial completion of the Palm Drive Street project (from Cahuilla to Hacienda) totaling (\$206,235), completion of the Bicycle Pedestrian Beltway Mater Plan totaling (\$86,079), Cabot's parking lot paving project totaling (\$502,546), City park updates and equipment purchases totaling (\$73,624), purchase of (9) 2015 Ford F-150 Trucks and (1) 2016 Stake Bed Ford F-450 totaling (474,737) and the City did complete a portion of the Building Solar Array project totaling (\$220,755) for a grand total of \$1,563,976. It is anticipated that the Palm Drive Street Project from Cahuilla to Hacienda will be completed in 2017 as well as the Building Solar Array project.

In fiscal years 2016-17 and 2017-18 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 and Debt Administration

At the end of FY 2015-2016, the City had invested \$83.2 million in a broad range of capital assets before depreciation (see table below). The investment in capital assets includes land, right of way, buildings and improvements, machinery and equipment, streets and bridges, and construction in progress. The investment in capital assets has decreased minimally over the prior fiscal year with increases in Construction in Progress and in vehicle purchases and decreases in machinery and equipment.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Land	\$ 1,464,942	\$ 1,455,359	\$ 370,415	\$ 370,415	\$ 1,835,357	\$ 1,825,774
Construction in progress	827,579	420,855	-	-	827,579	420,855
Building and improvements, net of depreciation	11,481,511	11,385,437	13,985,153	14,525,194	25,466,664	25,910,631
Machinery and equipment, net of depreciation	1,898,122	2,579,134	182,336	232,219	2,080,458	2,811,353
Vehicles, net of depreciation	779,342	489,617	-	-	779,342	489,617
Infrastructure, net of depreciation	25,467,667	26,737,891	-	-	25,467,667	26,737,891
Total	41,919,163	\$ 43,068,293	14,537,904	\$ 15,127,828	56,457,067	\$ 58,196,121

For more information on Capital Asset Activity, please see Capital Assets page 66 and page 67.

Long Term Debt

As of June 30, 2016 the City had total long-term liabilities outstanding of \$41.0 million in bonded debt, Certificates of Participation debt, capital lease payment debt, claims and judgments payable debt, compensated absences and pension-related debt. For more detailed information on each long-term debt liability, please see Note (6) on pages 68 through 81. The Capital Lease Program (for the purchase of several Police Department vehicles) has one more year and the principal balance will be paid in full. The unfunded pension related debt has decreased by \$283,325 in FY 2015-16 over the prior FY 2014-15.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Judgment obligation bonds	\$ 9,725,000	\$ 9,725,000	\$ -	\$ -	\$ 9,725,000	\$ 9,725,000
Certificate of participation	1,395,000	1,575,000	-	-	1,395,000	1,575,000
2012A certificates of participation	5,465,000	5,585,000	-	-	5,465,000	5,585,000
Capital lease payment	118,137	230,436	-	-	118,137	230,436
Claims and judgments payable	715,762	702,990	-	-	715,762	702,990
Compensated absences	350,535	310,646	-	-	350,535	310,646
Pension related debt	2,198,816	2,482,141	-	-	2,198,816	2,482,141
Promissory notes	-	-	20,697,000	20,697,000	20,697,000	20,697,000
Total	\$19,968,250	\$ 20,611,213	\$ 20,697,000	\$20,697,000	\$ 40,665,250	\$ 41,308,213

Economic Factors and Next Year's Budgets and Rates

There were several factors considered in preparing the City of Desert Hot Springs budget for the FY 2016-17.

- Development activity is increasing.
- Assessed property values are rising by 3% per year.
- Sales tax remains relatively flat.
- Transit Occupancy Tax is going up 5% per year
- CalPERS, insurance and County costs are increasing 5-10% per year
- There was a 4% COLA increase in salaries and benefits for all employees budgeted in FY 2016-17.
- Reduced staffing levels remain a concern.
- City is actively seeking grant revenue opportunities. The City has been approved for Community Development Block Grant Funding for FY 2016-17 and FY 2017-18.

Request for Information

This financial report is designed to provide a general overview of the City of Desert Hot Springs finances for all 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Desert Hot Springs
Statement of Net Position
June 30, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 14,368,992	\$ 830	\$ 14,369,822
Receivables, net	6,066,547	15,145,502	21,212,049
Prepaid items	61,277	-	61,277
Property held for resale	207,454	-	207,454
Total current assets	<u>20,704,270</u>	<u>15,146,332</u>	<u>35,850,602</u>
Noncurrent assets:			
Cash and investments with fiscal agents	1,656,201	639,085	2,295,286
Capital assets:			
Not being depreciated	2,292,521	370,415	2,662,936
Being depreciated, net	<u>39,626,642</u>	<u>14,167,489</u>	<u>53,794,131</u>
Total noncurrent assets	<u>43,575,364</u>	<u>15,176,989</u>	<u>58,752,353</u>
Total assets	<u>64,279,634</u>	<u>30,323,321</u>	<u>94,602,955</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	<u>974,555</u>	<u>-</u>	<u>974,555</u>
Total deferred outflows of resources	<u>974,555</u>	<u>-</u>	<u>974,555</u>

City of Desert Hot Springs
Statement of Net Position (Continued)
June 30, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 2,111,264	\$ 18,930	\$ 2,130,194
Accrued liabilities	10	-	10
Deposits	644,088	-	644,088
Interest payable	209,725	-	209,725
Unearned revenues	200,000	52,000	252,000
Due to fiduciary fund	3,750	-	3,750
Long-term debt - due within one year	1,437,915	-	1,437,915
Total current liabilities	4,606,752	70,930	4,677,682
Noncurrent liabilities:			
Long-term debt - due in more than one year	18,559,220	20,697,000	39,256,220
Aggregate net pension liabilities	8,797,947	-	8,797,947
Total noncurrent liabilities	27,357,167	20,697,000	48,054,167
Total liabilities	31,963,919	20,767,930	52,731,849
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	784,607	-	784,607
Total deferred inflows of resources	784,607	-	784,607
NET POSITION			
Net investment in capital assets	36,135,385	(6,159,096)	29,976,289
Restricted for:			
Street maintenance and capital improvement	2,583,101	-	2,583,101
Housing authority	3,934,206	-	3,934,206
Health and wellness center	-	639,085	639,085
Debt service	1,352,934	-	1,352,934
Lighting/Landscaping/Drainage	2,037,602	-	2,037,602
Assessment District 91-1	115,868	-	115,868
Assessment District 92-1	38,378	-	38,378
Assessment District 93-2	28,729	-	28,729
Other	31,437	-	31,437
Total restricted	10,122,255	639,085	10,761,340
Unrestricted (deficit)	(13,751,977)	15,075,402	1,323,425
Total net position	\$ 32,505,663	\$ 9,555,391	\$ 42,061,054

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 4,040,041	207,217	\$ 150,874	\$ -	\$ 358,091
Public safety	7,884,162	535,183	2,063,691	120,816	2,719,690
Public works	2,267,153	120,410	586,369	2,832,747	3,539,526
Economic development	1,460,708	951,930	-	95,909	1,047,839
Culture and leisure	631,731	167,561	-	-	167,561
Interest and fiscal charges	855,380	-	-	-	-
Total governmental activities	17,139,175	1,982,301	2,800,934	3,049,472	7,832,707
Business-type activities:					
Health and Wellness Foundation	855,224	104,000	-	-	104,000
Total business-type activities	855,224	104,000	-	-	104,000
Total primary government	\$ 17,994,399	\$ 2,086,301	\$ 2,800,934	\$ 3,049,472	\$ 7,936,707

City of Desert Hot Springs
Statement of Activities (Continued)
For the Year Ended June 30, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (3,681,950)	\$ -	\$ (3,681,950)
Public safety	(5,164,472)	-	(5,164,472)
Public works	1,272,373	-	1,272,373
Economic development	(412,869)	-	(412,869)
Culture and leisure	(464,170)	-	(464,170)
Interest and fiscal charges	(855,380)	-	(855,380)
Total governmental activities	(9,306,468)	-	(9,306,468)
Business-type activities:			
Health and Wellness Foundation	-	(751,224)	(751,224)
Total business-type activities	-	(751,224)	(751,224)
Total primary government	(9,306,468)	(751,224)	(10,057,692)
General revenues:			
Taxes:			
Property taxes	3,385,512	-	3,385,512
Sales taxes	3,326,655	-	3,326,655
Vehicle in-lieu taxes	11,352	-	11,352
Utility users taxes	2,831,543	-	2,831,543
Franchise taxes	1,306,860	-	1,306,860
Transient occupancy taxes	1,504,813	-	1,504,813
Total taxes	12,366,735	-	12,366,735
Investment income	11,130	75,628	86,758
Miscellaneous	647,261	-	647,261
Transfers	80,349	(80,349)	-
Total general revenues and transfers	13,105,475	(4,721)	13,100,754
Change in net position	3,799,007	(755,945)	3,043,062
Net position - beginning of year	28,706,656	10,311,336	39,017,992
Net position - end of year	\$ 32,505,663	\$ 9,555,391	\$ 42,061,054

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FUND FINANCIAL STATEMENTS

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

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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.

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, 2016

	Major Funds		
	General	Special Revenue Funds	
		Public Safety	Housing Authority
ASSETS			
Cash and investments	\$ 5,959,972	\$ 513,317	\$ 7,861
Cash and investments with fiscal agents	-	-	-
Receivables:			
Accounts	1,212,696	345,282	-
Interest	1,310	-	-
Notes	-	-	3,722,868
Abatements	309,728	-	-
Prepaid items	61,277	-	-
Due from other governments	273	888	-
Due from other funds	115,374	-	-
Property held for resale	-	-	207,454
Total assets	\$ 7,660,630	\$ 859,487	\$ 3,938,183
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 582,884	\$ 806,608	\$ 227
Accrued liabilities	10	-	-
Due to other funds	-	-	-
Due to fiduciary funds	-	-	3,750
Deposits	426,100	-	-
Unearned revenue	-	-	-
Total liabilities	1,008,994	806,608	3,977
Deferred Inflows of Resources:			
Unavailable revenue	414,761	99,558	3,722,868
Fund Balances:			
Nonspendable	61,277	-	-
Restricted	-	-	211,338
Committed	-	-	-
Assigned	6,175,598	-	-
Unassigned (deficit)	-	(46,679)	-
Total fund balances	6,236,875	(46,679)	211,338
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,660,630	\$ 859,487	\$ 3,938,183

City of Desert Hot Springs
Balance Sheet (Continued)
Governmental Funds
June 30, 2016

	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS		
Cash and investments	\$ 6,839,819	\$ 13,320,969
Cash and investments with fiscal agents	1,656,201	1,656,201
Receivables:		
Accounts	270,397	1,828,375
Interest	441	1,751
Notes	-	3,722,868
Abatements	-	309,728
Prepaid items	-	61,277
Due from other governments	202,664	203,825
Due from other funds	517,264	632,638
Property held for resale	-	207,454
Total assets	\$ 9,486,786	\$ 21,945,086
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 717,396	\$ 2,107,115
Accrued liabilities	-	10
Due to other funds	632,638	632,638
Advances to other funds	-	3,750
Deposits	217,988	644,088
Unearned revenue	200,000	200,000
Total liabilities	1,768,022	3,587,601
Deferred Inflows of Resources:		
Unavailable revenue	568,045	4,805,232
Fund Balances:		
Nonspendable	-	61,277
Restricted	5,520,447	5,731,785
Committed	1,630,272	1,630,272
Assigned	-	6,175,598
Unassigned (deficit)	-	(46,679)
Total fund balances	7,150,719	13,552,253
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,486,786	\$ 21,945,086

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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, 2016

Total Fund Balances - Total Governmental Funds \$ 13,552,253

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

Capital assets, excluding the \$475,238 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	\$ 2,292,521	
Capital assets, being depreciated	<u>39,151,404</u>	<u>41,443,925</u>

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.		4,805,232
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Interest expenses are recognized when due, and therefore, interest payable is not recorded in the governmental funds.		(209,725)
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Long-term liabilities, net of \$833,900 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.		(19,163,235)
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Deferred outflows of resources and deferred inflows of resources related to pension are not reported in the governmental funds.		
Deferred outflows of resources	974,555	
Deferred inflows of resources	<u>(784,607)</u>	<u>189,948</u>

Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.		(8,797,947)
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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>685,212</u>
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Net Position of Governmental Activities \$ 32,505,663

City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds		
	General	Special Revenue Funds	
		Public Safety	Housing Authority
REVENUES:			
Taxes	\$ 7,186,984	\$ 3,982,187	\$ -
Permits and fees	1,342,333	75,011	-
Intergovernmental	-	76,146	-
Licenses	187,082	-	-
Interest	2,662	-	-
Miscellaneous	598,260	306,197	4,111
Total revenues	9,317,321	4,439,541	4,111
EXPENDITURES:			
Current:			
General government	2,410,522	-	-
Public safety	15,377	7,476,459	-
Public works	527,829	-	-
Economic development	787,388	-	227
Culture and leisure	465,635	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	4,206,751	7,476,459	227
REVENUES OVER (UNDER) EXPENDITURES	5,110,570	(3,036,918)	3,884
OTHER FINANCING SOURCES (USES):			
Transfers in	482,543	3,114,063	-
Transfers out	(3,283,674)	(124,282)	-
Total other financing sources (uses)	(2,801,131)	2,989,781	-
NET CHANGES IN FUND BALANCES	2,309,439	(47,137)	3,884
FUND BALANCES:			
Beginning of year	3,927,436	458	207,454
End of year	<u>\$ 6,236,875</u>	<u>\$ (46,679)</u>	<u>\$ 211,338</u>

City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2016

	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:		
Taxes	\$ 1,981,153	\$ 13,150,324
Permits and fees	320,635	1,737,979
Intergovernmental	3,227,444	3,303,590
Licenses	-	187,082
Interest	8,465	11,127
Miscellaneous	86,151	994,719
Total revenues	5,623,848	19,384,821
EXPENDITURES:		
Current:		
General government	171,313	2,581,835
Public safety	-	7,491,836
Public works	1,025,709	1,553,538
Economic development	-	787,615
Culture and leisure	164,170	629,805
Capital outlay	2,651,306	2,651,306
Debt service:		
Principal retirement	300,000	300,000
Interest and fiscal charges	849,260	849,260
Total expenditures	5,161,758	16,845,195
REVENUES OVER (UNDER) EXPENDITURES	462,090	2,539,626
OTHER FINANCING SOURCES (USES):		
Transfers in	1,267,454	4,864,060
Transfers out	(1,677,697)	(5,085,653)
Total other financing sources (uses)	(410,243)	(221,593)
NET CHANGES IN FUND BALANCES	51,847	2,318,033
FUND BALANCES:		
Beginning of year	7,098,872	11,234,220
End of year	\$ 7,150,719	\$ 13,552,253

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, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 2,318,033

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 \$572,616 repair and maintenance reported as program expenses. 2,078,690

Depreciation expense on capital assets, net of internal service fund depreciation expense of \$214,340, 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. (3,013,479)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 1,432,367

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. 3,674

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. (39,889)

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.

Principal repayments of long-term debt	300,000	
Principal repayments of pension-related debt	283,325	583,325

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 2,190

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. 366,631

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. 67,465

Change in Net Position of Governmental Activities **\$ 3,799,007**

PROPRIETARY FUND FINANCIAL STATEMENTS

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, 2016

	Business-Type Activities <u>Health & Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ 830	\$ 1,048,023
Interest receivable	18,908	-
Total current assets	<u>19,738</u>	<u>1,048,023</u>
Noncurrent assets:		
Cash and investments with fiscal agent	639,085	-
Notes receivable	15,126,594	-
Capital assets, not being depreciated	370,415	-
Capital assets, being depreciated, net	14,167,489	475,238
Total capital assets, net	<u>14,537,904</u>	<u>475,238</u>
Total noncurrent assets	<u>30,303,583</u>	<u>475,238</u>
Total assets	<u>30,323,321</u>	<u>1,523,261</u>
LIABILITIES		
Current liabilities:		
Accounts payable	18,930	4,149
Unearned revenue	52,000	-
Capital lease payable - due in one year	-	118,138
Claims payable - due in one year	-	715,762
Total current liabilities	<u>70,930</u>	<u>838,049</u>
Noncurrent liabilities:		
Notes payable - due in more than one year	<u>20,697,000</u>	-
Total noncurrent liabilities	<u>20,697,000</u>	<u>(715,762)</u>
Total liabilities	<u>20,767,930</u>	<u>122,287</u>
NET POSITION		
Net investment in capital assets	(6,159,096)	357,100
Restricted	639,085	-
Unrestricted	15,075,402	328,112
Total net position	<u>\$ 9,555,391</u>	<u>\$ 685,212</u>

City of Desert Hot Springs
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities <u>Health & Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
OPERATING REVENUES:		
Charges for services	\$ 104,000	\$ -
Insurance recovery	-	89,059
Total operating revenues	<u>104,000</u>	<u>89,059</u>
OPERATING EXPENSES:		
Insurance claims	-	97,212
General and administrative	126,187	-
Depreciation	589,924	214,340
Total operating expenses	<u>716,111</u>	<u>311,552</u>
OPERATING (LOSS)	<u>(612,111)</u>	<u>(222,493)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	75,628	-
Interest expense	(139,113)	(11,984)
Total nonoperating revenues (expenses)	<u>(63,485)</u>	<u>(11,984)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(675,596)</u>	<u>(234,477)</u>
TRANSFERS:		
Transfers in	-	301,942
Transfers out	(80,349)	-
Total transfers	<u>(80,349)</u>	<u>301,942</u>
Changes in net position	(755,945)	67,465
NET POSITION:		
Beginning of year	10,311,336	617,747
End of year	<u>\$ 9,555,391</u>	<u>\$ 685,212</u>

City of Desert Hot Springs
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities <u>Health & Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 104,000	\$ -
Receipts from claims and recoveries	-	118,444
Payments to suppliers for goods and services	(107,257)	-
Payments for insurance claims	-	(80,291)
Net cash provided by (used in) operating activities	<u>(3,257)</u>	<u>38,153</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers from (to) other funds	(80,349)	301,942
Net cash provided by (used in) noncapital financing activities	<u>(80,349)</u>	<u>301,942</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on capital lease	-	(112,298)
Interest paid	(139,113)	(11,984)
Net cash (used in) capital and related financing activities	<u>(139,113)</u>	<u>(124,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	75,633	19
Net cash provided by investing activities	<u>75,633</u>	<u>19</u>
Net increase (decrease) in cash and cash equivalents	(147,086)	215,832
CASH AND CASH EQUIVALENTS:		
Beginning of year	787,001	832,191
End of year	<u>\$ 639,915</u>	<u>\$ 1,048,023</u>

City of Desert Hot Springs
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities Health & Wellness Foundation	Governmental Activities Internal Service Funds
RECONCILIATION OF OPERATING (LOSS) TO NET		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating (loss)	\$ (612,111)	\$ (222,493)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation expense	589,924	214,340
(Increase) decrease in:		
Accounts receivable	-	29,385
Increase (decrease) in:		
Accounts payable and accrued expenses	18,930	4,149
Claims payable	-	12,772
Total adjustments	608,854	260,646
Net cash provided by (used in) operating activities	\$ (3,257)	\$ 38,153

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FIDUCIARY FUND FINANCIAL STATEMENTS

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, 2016

	Successor Agency Private - Purpose Trust Fund	Agency Funds
ASSETS		
Current assets:		
Cash and investments	\$ 3,185,063	\$ 617,432
Accounts receivable	53,223	4,025
Interest receivable	-	39
Due from the City	3,750	-
Total current assets	3,242,036	621,496
Noncurrent assets:		
Investments with fiscal agents	5,115,270	179,927
Notes receivable	16,294	-
Property held for resale	7,439,359	-
Total noncurrent assets	12,570,923	179,927
Total assets	15,812,959	\$ 801,423
LIABILITIES		
Current liabilities:		
Accounts payable	12,249	\$ 20,608
Deposits payable	11,800	25,824
Interest payable	747,555	-
Bonds payable - due within one year	1,933,680	-
Due to bondholders	-	754,991
Total current liabilities	2,705,284	801,423
Noncurrent liabilities:		
Bonds payable - due in more than one year	34,201,323	-
Total noncurrent liabilities	34,201,323	-
Total liabilities	36,906,607	\$ 801,423
NET POSITION (DEFICIT)		
Held in trust	(21,093,648)	
Total net position (deficit)	\$ (21,093,648)	

City of Desert Hot Springs
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2016

	Successor Agency Private - Purpose Trust Fund
ADDITIONS:	
Redevelopment Property Tax Trust Fund	\$ 4,807,906
Use of money and property	188,630
Other revenue	3,388
Total additions	4,999,924
 DEDUCTIONS:	
Interest expenses	2,332,576
Administration	334,414
Total deductions	2,666,990
Change in net position	2,332,934
 NET POSITION:	
Beginning of year	(23,426,582)
End of year	\$ (21,093,648)

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Desert Hot Springs
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For the Year Ended June 30, 2016

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City of Desert Hot Springs
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For the Year Ended June 30, 2014

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City of Desert Hot Springs
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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 conformity 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 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.

Component units are legally separate entities that meet any one of the following tests:

1. The City appoints the voting majority of the board and:
 - is able to impose its will on the component unit and/or
 - is in a relationship of financial benefit or burden with the component unit.
2. The component unit is fiscally dependent upon the City.
3. The financial statements of the City would be misleading if data from the component unit were omitted.

Management determined that the following component units should be blended based on the criteria above:

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.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

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.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position reports 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.

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 and liabilities, 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

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 and current liabilities 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.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

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.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

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. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund ("LAIF"), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

For purpose of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all cash and investments with fiscal agent as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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

In accordance with GASB Statement No. 72, *Fair Value Measurement and Applications*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about 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. Levels of inputs are as follows:

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, 2016

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 estimated fair market 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:

Building and improvements	30 years
Vehicles, machinery and equipment	3-10 years
Infrastructure	20 years

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. 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, 2016

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 8). 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, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

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. 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, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

O. 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”).

P. 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.

Q. 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.

Restricted – This component of net position consists of restricted assets 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.

R. Fund Balances

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, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

R. 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.

S. 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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

T. 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.

U. Accounting Changes

GASB has issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement became effective for periods beginning after June 15, 2015 and did not have any measurement impact on the City's investment portfolio, except for the additional disclosure regarding to measurement input as discussed in Note 2 of the City's financial statements for the year ended June 30, 2016.

GASB has issued Statement 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*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. This statement became effective for periods beginning after June 15, 2015 and did not have a significant impact on the City's financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes standards relating to the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement became effective for periods beginning after June 15, 2015, 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, 2016.

GASB has issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement establishes standards relating accounting and financial reporting for certain external investment pools and pool participants. This statement became effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2016.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016:

	Government-Wide Statement of Net Position				
	Governmental Activities	Business-Type Activities	Total	Fiduciary Fund Statement of Net Position	Total
Cash and investments	\$ 14,368,992	\$ 830	\$ 14,369,822	\$ 3,802,495	\$ 18,172,317
Cash and investments with fiscal agents	1,656,201	639,085	2,295,286	5,295,197	7,590,483
Total cash and investments	\$ 16,025,193	\$ 639,915	\$ 16,665,108	\$ 9,097,692	\$ 25,762,800

Cash and investments consisted of the following at June 30, 2016:

Cash:	
Petty cash	\$ 2,000
Demand deposits	18,062,856
Total cash and cash equivalents	18,064,856
Investments:	
Local Agency Investment Fund	881,610
Investments with fiscal agents:	
U.S. Government Sponsored Enterprise Securities	212,835
Commerical paper	232,103
Money market mutual funds	6,371,396
Total investments	7,697,944
Total cash and investments	\$ 25,762,800

A. Demand Deposits

The carrying amounts of the City's demand deposits were \$18,062,856 at June 30, 2016. Bank balances at that date were \$19,098,422, 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, 2016

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 June 17th, 2014 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, 2016, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2016:

Investment Type	Amount	Level 1	Level 2	Level 3	N/A
Local Agency Investment Fund (LAIF)	\$ 881,610	\$ -	\$ 881,610	\$ -	\$ -
Investments held with fiscal agents:					
U.S. Government Sponsored Enterprise Securities	212,835	-	212,835	-	-
Commerical paper	232,103	-	232,103	-	-
Money market mutual funds	6,371,396	-	-	-	6,371,396
Total	<u>\$ 7,697,944</u>	<u>\$ -</u>	<u>\$ 1,326,548</u>	<u>\$ -</u>	<u>\$ 6,371,396</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016, the City's investments had the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 2	3 to 4
Local Agency Investment Fund (LAIF)	\$ 881,610	\$ 881,610	\$ -	\$ -
Investments held with fiscal agents:				
U.S. Government Sponsored Enterprise Securities	212,835	-	-	212,835
Commerical paper	232,103	232,103	-	-
Money market mutual funds	6,371,396	6,371,396	-	-
Total	\$ 7,697,944	\$ 7,485,109	\$ -	\$ 212,835

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:

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).

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)	\$ 881,610	Not Rated	Not Rated	11.45%
Investments held with fiscal agents:				
U.S. Government Sponsored Enterprise Securities				
Federal Home Loan Bank	212,835	Not Rated	Not Rated	2.76%
Commerical paper	232,103	Not Rated	Not Rated	3.02%
Money market mutual funds	6,371,396	Not Rated	Not Rated	82.77%
Total	\$ 7,697,944			100.00%

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments (Continued)

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, 2016, 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, 2016, the City had \$881,610 invested in LAIF, which had invested 2.81% 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, 2016, 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, 2016.

Note 3 – Notes Receivable

A. Governmental Fund Financial Statements

Notes receivable, which amounted to \$3,722,868, are reported in the Housing Authority Special Revenue Fund as follows:

Housing Rehabilitation Loan Program	\$ 3,722,868
Owner Participation and Loan Agreement:	
Low and Moderate Income Housing Units	750,000
Multifamily Residential Housing	1,700,000
Subtotal	6,172,868
Less: Allowance for doubtful accounts	(2,450,000)
Total	\$ 3,722,868

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. Since the loans are not currently available resources, they are offset with unavailable revenue in the fund financial statements, and recognized as revenue in the government-wide financial statements.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Notes Receivable (Continued)

A. Governmental Fund Financial Statements (Continued)

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, 2016, 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, 2016, 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	\$ 115,374	\$ 517,264	\$ 632,638

The above interfund balances resulted from temporary reclassifications made at June 30, 2016 to cover cash shortfalls.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – Interfund Transactions (Continued)

B. Transfers In/Out

For the year ended June 30, 2016, the City had the following transfers in/out which arise in the normal course of operations:

	Transfers In				Total
	General Fund	Public Safety Special Revenue Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfers Out					
General Fund	\$ -	\$ 2,964,445	\$ 141,569	\$ 177,660	\$ 3,283,674
Public Safety Special Revenue Fund	-	-	-	124,282	124,282
Nonmajor Governmental Funds	402,194	149,618	1,125,885	-	1,677,697
Health & Wellness Foundation Enterprise Fund	80,349	-	-	-	80,349
Total	\$ 482,543	\$ 3,114,063	\$ 1,267,454	301,942	\$ 5,166,002

The transfer of \$2,964,445 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 \$141,569 from General Fund to the Nonmajor Governmental Funds were budgeted transfers to provide funding for the expenditures of Capital Improvements and Cabot’s Museum.

The transfer of \$177,660 from the General Fund to the Internal Service Funds was to move cash to cover workers’ compensation liability at year end, for future legal expenses and for future equipment purchases.

The transfer of \$124,282 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 \$402,194 from the Nonmajor Governmental Funds to the General Fund relates to reimbursement for expenditures originally subsidized by General Fund.

The transfers of \$149,618 from the Nonmajor Governmental Funds to the Public Safety Special Revenue Fund relates to assistance in funding public safety expenditures.

The transfers of \$1,125,885 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 transfer of \$80,349 from the Health & Wellness Foundation Enterprise Fund to the General Fund relates to Health & Wellness Center operating expenditures during the year.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016 is as follows:

	Governmental Activities				Balance June 30, 2016
	Balance July 1, 2015	Additions	Deletions	Transfers	
Nondepreciable assets:					
Land	\$ 1,455,359	\$ 9,583	\$ -	\$ -	\$ 1,464,942
Construction in progress	420,855	444,980	-	(38,256)	827,579
Total nondepreciable assets	<u>1,876,214</u>	<u>454,563</u>	<u>-</u>	<u>(38,256)</u>	<u>2,292,521</u>
Depreciable assets:					
Building and improvements	16,552,045	607,757	-	14,316	17,174,118
Machinery and equipment	8,089,862		-	-	8,089,862
Vehicles	1,682,161	474,740	(258,229)	-	1,898,672
Infrastructure	36,715,882	541,630	-	23,940	37,281,452
Total capital assets, being depreciated	<u>63,039,950</u>	<u>1,624,127</u>	<u>(258,229)</u>	<u>38,256</u>	<u>64,444,104</u>
Less accumulated depreciation:					
Building and improvements	(5,166,608)	(525,999)	-	-	(5,692,607)
Machinery and equipment	(5,510,728)	(681,012)	-	-	(6,191,740)
Vehicles	(1,192,544)	(185,015)	258,229	-	(1,119,330)
Infrastructure	(9,977,991)	(1,835,794)	-	-	(11,813,785)
Total accumulated depreciation	<u>(21,847,871)</u>	<u>(3,227,820)</u>	<u>258,229</u>	<u>-</u>	<u>(24,817,462)</u>
Total depreciable assets, net	<u>41,192,079</u>	<u>(1,603,693)</u>	<u>-</u>	<u>38,256</u>	<u>39,626,642</u>
Governmental activities capital assets, net	<u>\$ 43,068,293</u>	<u>\$ (1,149,130)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,919,163</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 5 – Capital Assets (Continued)

A. Governmental Activities (Continued)

Depreciation expense was charged to functions/programs of governmental activities for the fiscal year ended June 30, 2016 as follows:

General government	\$ 1,776,146
Public safety	461,683
Public works	145,610
Culture and leisure	630,041
Equipment replacement	214,340
Total depreciation expense	\$ 3,227,820

B. Business-Type Activities

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2016 is as follows:

	Business-Type Activities			
	July 1, 2015	Additions	Deletions	June 30, 2016
Nondepreciable assets:				
Land	\$ 370,415	\$ -	\$ -	\$ 370,415
Total nondepreciable assets	370,415	-	-	370,415
Depreciable assets:				
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
Less accumulated depreciation:				
Building and improvements	(1,255,888)	(540,041)	-	(1,795,929)
Furniture and fixtures	(116,953)	(49,883)	-	(166,836)
Total accumulated depreciation	(1,372,841)	(589,924)	-	(1,962,765)
Total depreciable assets, net	14,757,413	(589,924)	-	14,167,489
Business-type activities capital assets, net	\$ 15,127,828	\$ (589,924)	\$ -	\$ 14,537,904

Depreciation expense was charged to functions/programs of business-type activities for the fiscal year ended June 30, 2016 as follows:

Heath and Wellness Foundation	\$ 589,924
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City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within One Year	Due in more than One Year
Judgment Obligation Bonds	\$ 9,725,000	\$ -	\$ -	\$ 9,725,000	\$ -	\$ 9,725,000
Certificates of Participation	1,575,000	-	(180,000)	1,395,000	190,000	1,205,000
2012A Certificates of Participation	5,585,000	-	(120,000)	5,465,000	120,000	5,345,000
Subtotal	16,885,000	-	(300,000)	16,585,000	310,000	16,275,000
Add/(less) deferred amounts:						
Bond discount - Judgment Bonds	(156,683)	-	2,920	(153,763)	(2,920)	(150,843)
Bond discount - COP	(20,548)	-	2,555	(17,993)	(2,555)	(15,438)
Bond premium - 2012A COP	208,305	-	(7,665)	200,640	7,665	192,975
Total bonds payable	16,916,074	-	(302,190)	16,613,884	312,190	16,301,694
Capital lease payable	230,436	-	(112,298)	118,138	118,138	-
Claims and judgments payable	702,990	355,300	(342,528)	715,762	715,762	-
Compensated absences	310,646	1,080,960	(1,041,071)	350,535	-	350,535
Pension-related debt	2,482,141	-	(283,325)	2,198,816	291,825	1,906,991
Total	\$ 20,642,287	\$ 1,436,260	\$ (2,081,412)	\$ 19,997,135	\$ 1,437,915	\$ 18,559,220

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 are to be 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 is required to consummate a bond or private financing transaction that will produce 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 will constitute the City’s Exit Financing and the finalization of the pending Chapter 9 Case. The net proceeds of the Bonds will be 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. Such payment will constitute payment of the Judgment and settlement of all claims involving Silver Sage. Total claims to be satisfied under the City’s Plan in the Chapter 9 Case are approximately \$11.5 million. Remaining claims will be paid under the Plan from earmarked available funds of the City and proceeds of the Certificates of Participation to be delivered concurrently with the Bonds.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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.

At June 30, 2016, the outstanding balance of the bonds was \$9,725,000. The annual debt service requirements on the Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 476,250	\$ 476,250
2018	-	476,250	476,250
2019	-	476,250	476,250
2020	-	476,250	476,250
2021	-	476,250	476,250
2022-2026	1,025,000	2,318,076	3,343,076
2027-2031	1,730,000	1,981,063	3,711,063
2032-2036	2,180,000	1,528,675	3,708,675
2037-2041	2,770,000	934,250	3,704,250
2042-2044	2,020,000	205,250	2,225,250
TOTAL	<u>\$ 9,725,000</u>	<u>\$ 9,348,564</u>	<u>\$ 19,073,564</u>

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

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

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.

At June 30, 2016, the outstanding balance of the Certificates was \$1,395,000. The annual debt service requirements on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 190,000	\$ 74,200	\$ 264,200
2018	200,000	64,700	264,700
2019	210,000	54,200	264,200
2020	220,000	43,175	263,175
2021	235,000	31,625	266,625
2022-2023	340,000	23,925	363,925
TOTAL	<u>\$ 1,395,000</u>	<u>\$ 291,825</u>	<u>\$ 1,686,825</u>

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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 (Continued)

At June 30, 2016, the outstanding balance of the Certificates was \$5,465,000. The annual debt service requirements on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 120,000	\$ 277,794	\$ 397,794
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
2022-2026	755,000	1,238,350	1,993,350
2027-2031	920,000	1,076,900	1,996,900
2032-2036	1,185,000	809,400	1,994,400
2037-2041	1,585,000	408,900	1,993,900
2042	375,000	22,500	397,500
TOTAL	<u>\$ 5,465,000</u>	<u>\$ 4,907,520</u>	<u>\$ 10,372,520</u>

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, 2016 was \$230,733. The total principal balance of the leases outstanding at June 30, 2016 was \$118,138.

Future minimum lease payments under the capital lease were as follows:

<i>Capital Lease</i>	
Year Ending June 30,	
2017	\$ 124,281
Less: Interest	<u>(6,143)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 118,138</u>

Claims and Judgments Payable

The amount of claims and judgments payable at June 30, 2016 was \$715,762. The Risk Management Internal Service Fund has been used to liquidate the liability for claims and judgments payable. See Note 7 for details.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

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 \$350,535. 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, 2016 totaled \$2,198,816, including \$543,474 for the Miscellaneous Plan and \$1,655,342 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, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	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
Total long-term debt	\$ 20,697,000	\$ -	\$ -	\$ 20,697,000	\$ -	\$ 20,697,000

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, 2016

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, 2016, 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
2017	\$ -	\$ 46,040	\$ 46,040
2018	-	46,040	46,040
2019	-	46,040	46,040
2020	487,888	45,132	533,020
2021	146,676	43,324	190,000
2022-2026	809,180	205,320	1,014,500
2027-2031	1,047,221	182,279	1,229,500
2032-2036	1,291,287	153,213	1,444,500
2037-2041	1,541,526	117,974	1,659,500
2042-2046	1,798,100	76,400	1,874,500
2047-2051	2,061,163	28,337	2,089,500
2052	24,580	-	24,580
TOTAL	<u>\$ 9,207,621</u>	<u>\$ 990,099</u>	<u>\$ 10,197,720</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, 2016, 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, 2016

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
2017	\$ -	\$ 19,800	\$ 19,800
2018	-	19,800	19,800
2019	-	19,800	19,800
2020	299,684	19,216	318,900
2021	53,799	18,201	72,000
2022-2026	304,664	86,836	391,500
2027-2031	418,631	77,869	496,500
2032-2036	535,474	66,026	601,500
2037-2041	655,279	51,221	706,500
2042-2046	778,112	33,388	811,500
2047-2051	904,054	12,446	916,500
2052	10,303	-	10,303
TOTAL	<u>\$ 3,960,000</u>	<u>\$ 424,603</u>	<u>\$ 4,384,603</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, 2016, the outstanding balance of the LCD – Promissory Note B-1 was \$3,272,379.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

LCD – Promissory Note B-1 (Continued)

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 16,360	\$ 16,360
2018	-	16,360	16,360
2019	-	16,360	16,360
2020	24,335	16,345	40,680
2021	48,852	16,149	65,001
2022-2026	275,037	76,963	352,000
2027-2031	373,072	68,928	442,000
2032-2036	473,585	58,415	532,000
2037-2041	576,644	45,356	622,000
2042-2046	682,310	29,690	712,000
2047-2051	790,647	11,353	802,000
2052	27,897	-	27,897
TOTAL	<u>\$ 3,272,379</u>	<u>\$ 372,279</u>	<u>\$ 3,644,658</u>

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, 2016, the outstanding balance of the NMCC – Promissory Note B-2 was \$1,958,973.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

NMCC – Promissory Note B-2 (Continued)

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 9,796	\$ 9,796
2018	-	9,796	9,796
2019	-	9,796	9,796
2020	10,609	9,789	20,398
2021	21,298	9,702	31,000
2022-2026	129,168	46,832	176,000
2027-2031	203,272	42,728	246,000
2032-2036	279,255	36,745	316,000
2037-2041	357,159	28,841	386,000
2042-2046	437,030	18,970	456,000
2047-2051	518,925	7,075	526,000
2052	2,257	-	2,257
TOTAL	\$ 1,958,973	\$ 230,070	\$ 2,189,043

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, 2016, 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
2017	\$ -	\$ 11,492	\$ 11,492
2018	-	11,492	11,492
2019	-	11,492	11,492
2020	12,762	11,484	24,246
2021	25,620	11,380	37,000
2022-2026	154,122	54,878	209,000
2027-2031	238,977	50,023	289,000
2032-2036	325,980	43,020	369,000
2037-2041	415,185	33,815	449,000
2042-2046	506,648	22,352	529,000
2047-2051	600,424	8,576	609,000
2052	18,309	-	18,309
TOTAL	\$ 2,298,027	\$ 270,004	\$ 2,568,031

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Fund

A summary of changes in long-term liabilities for the fiduciary fund for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within One Year	Due in more than One Year
2006 Tax Allocation						
Refunding Bonds	\$ 3,215,000	\$ -	\$ (590,000)	\$ 2,625,000	\$ 600,000	\$ 2,025,000
2008 Tax Allocation Bonds A-1	14,280,000	-	(1,190,000)	13,090,000	1,275,000	11,815,000
2008 Tax Allocation Bonds A-2	15,870,000	-	-	15,870,000	-	15,870,000
2009 Tax Allocation Bonds	5,180,000	-	(115,000)	5,065,000	120,000	4,945,000
Subtotal	38,545,000	-	(1,895,000)	36,650,000	1,995,000	34,655,000
Add/(less) deferred amounts:						
Bond premium - 2006 Tax						
Allocation Refunding Bonds	10,993	-	(1,825)	9,168	1,825	7,343
Bond discount - 2008 TAB A-1	(481,283)	-	58,765	(422,518)	(58,765)	(363,753)
Bond discount - 2008 TAB A-2	(162,824)	-	6,935	(155,889)	(6,935)	(148,954)
Bond premium - 2009 TAB	56,797	-	(2,555)	54,242	2,555	51,687
Total bonds payable	\$ 37,968,683	\$ -	\$ (1,833,680)	\$ 36,135,003	\$ 1,933,680	\$ 34,201,323

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.

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 \$707,856 and a total net revenue reported by the Successor Agency was \$4,807,906. The ratio of net revenues to the debt service payments due during the year ended June 30, 2016 was 6.79 (679%).

The amount of Refunding Bonds outstanding at June 30, 2016 totaled \$2,625,000 in the Successor Agency Private-Purpose Trust Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Fund (Continued)

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

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 600,000	\$ 94,057	\$ 694,057
2018	625,000	69,556	694,556
2019	645,000	44,156	689,156
2020	665,000	17,541	682,541
2021	80,000	2,125	82,125
2022	10,000	213	10,213
TOTAL	<u>\$ 2,625,000</u>	<u>\$ 227,648</u>	<u>\$ 2,852,648</u>

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 \$2,147,950 and a total net revenue reported by the Successor Agency was \$4,807,906. The ratio of net revenues to the debt service payments due during the year ended June 30, 2016 was 2.23 (223%).

The amount of Series 2008A-1 Bonds outstanding at June 30, 2016 totaled \$13,090,000 in the Successor Agency Private-Purpose Trust Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Fund (Continued)

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

The annual debt service requirements on the Series 2008A-1 Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,275,000	\$ 871,675	\$ 2,146,675
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
2022-2024	5,755,000	622,475	6,377,475
TOTAL	<u>\$ 13,090,000</u>	<u>\$ 3,989,650</u>	<u>\$ 17,079,650</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.

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 \$4,807,906. The ratio of net revenues to the debt service payments due during the year ended June 30, 2016 was 5.55 (555%).

The amount of Series 2008A-2 Bonds outstanding at June 30, 2016 totaled \$15,870,000 in the Successor Agency Private-Purpose Trust Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Fund (Continued)

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

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 865,773	\$ 865,773
2018	-	865,772	865,772
2019	-	865,773	865,773
2020	-	865,772	865,772
2021	545,000	852,148	1,397,148
2022-2026	3,625,000	3,754,137	7,379,137
2027-2031	4,690,000	2,668,403	7,358,403
2032-2036	4,610,000	1,275,182	5,885,182
2037-2038	2,400,000	209,752	2,609,752
TOTAL	\$ 15,870,000	\$ 12,222,712	\$ 28,092,712

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 \$474,270 and total net revenues reported by the Successor Agency were \$4,807,906. The ratio of net revenues to the debt service payments due during the year ended June 30, 2016 was 10.14 (1014%).

The amount of the 2009 Bonds outstanding at June 30, 2016 totaled \$5,065,000 in the Successor Agency Private-Purpose Trust Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Fund (Continued)

Tax Allocation Bonds Issue of 2009 – Original Issue \$5,635,000 (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 120,000	\$ 351,419	\$ 471,419
2018	130,000	344,789	474,789
2019	135,000	337,499	472,499
2020	145,000	329,550	474,550
2021	150,000	320,881	470,881
2022-2026	905,000	1,447,427	2,352,427
2027-2031	1,280,000	1,061,263	2,341,263
2032-2036	1,350,000	544,643	1,894,643
2037-2039	850,000	130,907	980,907
TOTAL	<u>\$ 5,065,000</u>	<u>\$ 4,868,378</u>	<u>\$ 9,933,378</u>

D. Non-City Obligation Debt

The Desert Hot Springs Public Financing Authority issued the “Health Care Refund and Improvement Certificates of Participation” (the “Certificates”) for the Heritage Hospital Project on August 15, 1998. The Certificates were issued in two series: Series A for \$13,900,000 (tax exempt) and Series B for \$8,430,000 (taxable). The Certificates do not constitute a debt or liability of the City. As of June 30, 2009, the Certificates were in default and have been transferred to the Bank of New York as the successor indenture trustee. The outstanding balance of the Certificates at June 30, 2016 was approximately \$6,000,000.

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, 2016 was \$2,100,000.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 7 – 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 \$1,000,000 with a \$2,500 deductible. 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.

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, 2016, the amount of these liabilities was \$715,762 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
2014	\$ 701,606	\$ 541,471	\$ (744,619)	\$ 498,458
2015	498,458	608,214	(403,682)	702,990
2016	702,990	355,300	(342,528)	715,762

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 7 – Risk Management (Continued)

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.

Note 8 – Defined Benefit Pension Plan

Deferred outflows of resources:	
Pension contribution made after measurement date:	\$ 952,811
Employer contributions in excess of proportionated share of contributions	21,744
Total deferred outflows of resources	\$ 974,555
Aggregate net pension liabilities:	
Aggregate net pension liabilities	\$ (8,797,947)
Total net pension liabilities	\$ (8,797,947)
Deferred inflows of Resources:	
Changes of assumptions	\$ (361,965)
Difference between Expected and Actual Experience	(36,175)
Difference in projected and actual earnings on pension investments:	(182,724)
Adjustment due to differences in proportions	(203,743)
Total deferred inflows of Resources	\$ (784,607)

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Employees Covered by Benefit Terms

At valuation date of June 30, 2014, 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	23	2	4	13	4	6
Transferred and terminated employees	37	1	-	31	1	-
Separated	39	-	-	9	-	-
Retired Employees and Beneficiaries	37	-	-	50	-	-
Total	136	3	4	103	5	6

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, 2016

Note 8 – 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, 2015, the contribution rate were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Miscellaneous First Tier	8.000%	20.862%
Miscellaneous Second Tier	7.000%	8.005%
Miscellaneous PEPRAs	6.250%	6.250%
Safety Police First Tier	9.000%	37.748%
Safety Police Second Tier	9.000%	24.823%
Safety Police PEPRAs	13.500%	13.700%

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – 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, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
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

¹The 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, 2014 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

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 % (net of administrative expense in 2014) to 7.65% for the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

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, 2016

Note 8 – 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)

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, 2014.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	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	2.00%	-0.55%	-1.05%

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period.

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:

	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1% (8.65%)</u>
Miscellaneous Plan	\$ 4,353,061	\$ 2,595,635	\$ 1,144,676
Safety Plan	\$ 9,944,436	\$ 6,202,312	\$ 3,133,839

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – 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

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

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Miscellaneous Plan			
Balance at: 6/30/14 (Valuation date)	\$ 9,381,333	\$ 7,152,634	\$ 2,228,699
Balance at: 6/30/15 (Measurement date)	\$ 9,897,505	\$ 7,301,870	\$ 2,595,635
Net Changes during 2014-2015	\$ 516,172	\$ 149,236	\$ 366,936
Safety Plan			
Balance at: 6/30/14 (Valuation date)	\$ 21,506,619	\$ 15,863,959	\$ 5,642,660
Balance at: 6/30/15 (Measurement date)	\$ 23,663,156	\$ 17,460,844	\$ 6,202,312
Net Changes during 2014-2015	\$ 2,156,537	\$ 1,596,885	\$ 559,652

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – 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, 2014). 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, 2015). 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, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (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, 2016

Note 8 – 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, 2014	0.035817%	0.090682%
June 30, 2015	0.037816%	0.090361%
Change - Increase (Decrease)	0.001999%	-0.000321%

For the year ended June 30, 2016, the City recognized pension expense in the amounts of \$146,478 and \$439,702 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 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired).

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – 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)

At June 30, 2016, 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	\$ 313,565	\$ -	\$ 639,246	\$ -	\$ 952,811	\$ -
Difference between expected and actual experience	-	13,910	-	(50,085)	-	(36,175)
Changes of assumptions	-	(131,606)	-	(230,359)	-	(361,965)
Difference between projected and actual earning on pension plan investments		(65,975)		(116,749)	-	(182,724)
Adjustment due to differences in proportions	-	80,051	-	(283,794)	-	(203,743)
Difference between City contributions and proportionate share of contributions	29,188		(7,444)	-	21,744	-
Total	\$ 342,753	\$ (103,620)	\$ 631,802	\$ (680,987)	\$ 974,555	\$ (784,607)

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – 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)

<u>Year Ended June 30,</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>	
	<u>Plans</u>	
	<u>Miscellaneous</u>	<u>Safety</u>
2017	\$ (55,769)	\$ (303,102)
2018	(54,289)	(296,246)
2019	(48,707)	(232,397)
2020	84,333	143,314
2021	-	-
Thereafter	-	-
	<u>\$ (74,432)</u>	<u>\$ (688,431)</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – 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,		
2017	\$	138,393
2018		138,393
2019		138,393
2020		138,393
2021		138,393
2022-2024		415,179
	\$	1,107,144

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Classification of Fund Balances

At June 30, 2016, fund balances are classified as follows:

	Major Funds			Nonmajor	Total
	General	Public Safety	Housing Authority	Governmental Funds	
Nonspendable:					
Prepaid items	\$ 61,277	\$ -	\$ -	\$ -	\$ 61,277
Total nonspendable	61,277	-	-	-	61,277
Restricted:					
Housing and economic development	-	-	211,338	-	211,338
Public safety	-	-	-	8,348	8,348
Public works	-	-	-	401,957	401,957
Park development	-	-	-	-	-
Debt service	-	-	-	2,887,809	2,887,809
Air quality	-	-	-	28,621	28,621
Lighting/Landscaping/Drainage	-	-	-	2,005,780	2,005,780
County Service Area 152	-	-	-	4,957	4,957
Assessment District 91-1	-	-	-	115,868	115,868
Assessment District 92-1	-	-	-	38,378	38,378
Assessment District 93-2	-	-	-	28,729	28,729
Total restricted	-	-	211,338	5,520,447	5,731,785
Committed:					
Art in public places	-	-	-	32,578	32,578
Capital projects	-	-	-	1,597,694	1,597,694
Total assigned	-	-	-	1,630,272	1,630,272
Assigned:					
Operations	6,175,598	-	-	-	6,175,598
Unassigned:					
	-	(46,679)	-	-	(46,679)
Total	\$ 6,236,875	\$ (46,679)	\$ 211,338	\$ 7,150,719	\$ 13,552,253

The assigned fund balance totaling \$6,175,598 is being held in the General Fund to fund the operations of the City for the fiscal year ending 2016-2017. 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, 2016

Note 11 – Individual Fund Disclosure

The following funds report expenditures in excess of appropriations for the year ended June 30, 2016.

Other Governmental Funds	<u>Appropriation</u>	<u>Expenditure</u>	<u>Overage</u>
Special Revenue Funds:			
Measure A			
Public works	\$ -	\$ 32,035	\$ (32,035)
Capital outlay	258,160	374,056	(115,896)
Art in Public Places			
Capital outlay	-	66,272	(66,272)
Cabot's Museum			
Culture and leisure	63,190	78,859	(15,669)
Debt Service Fund			
City's Debt Service Fund:			
Interest and fiscal charges	563,500	565,250	(1,750)

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Contingencies and Commitments (Continued)

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.

Note 13 – Mission Springs Water District

In FY 2014-2015 and FY 2015-2016 the City entered into an Encroachment Permit Fee Credit Agreement with Mission Springs Water District (the “MSWD”) whereby the City would grant MSWD an irrevocable credit against any Encroachment Permit Fees owed in an amount equal to the water fees or other fees charged by Mission Springs Water District to the City for park-related services and materials. The term of the original agreement was for (12) months which was again extended through June 30, 2016. The agreement calls for reconciliation at the end of the second year in which each party will produce a final statement that includes the value of the fees that MSWD could have charged to the City and the total value of the Encroachment Permits Fees that the City could have charged to MSWD. If there is a remaining balance on the Final Statement that indicates that one party’s fees have not been adequately compensated, then that party’s fees shall be paid by the owing party as agreed to by both parties. There is a second adjustment that needs to be made and that is a transfer from the restricted Citywide Landscape and Lighting District for the water fees expended for two years to the General fund as the Encroachment Permits Fee revenue is recorded in the General Fund. The City is currently working with MSWD on determining the final payout amount.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – 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 15 – City’s Financial Condition

The City ended the 2015-16 fiscal year with a positive cash flow and necessary Operating Capital needed to sustain the City for the first six months of the fiscal year (2016-2017) totaling \$4.1 million. The continued progress to stabilize the City’s overall financial condition and to increase the General Fund reserves is on the forefront of all of the elected and staff to ensure the City’s future and fiscal solvency.

In FY 2013-2014 the City made significant cuts to expenses including: reductions to staffing levels, salaries and benefits, eliminated or reduced contracted services. In mid year FY 2015-2016 the City Council made additional reductions to costs by \$200,000.

In fiscal year 2015-2016 the City’s General Fund received 2% of increased revenues over total budgeted revenues of approximately \$17,659,223 due to revenue collected for franchise fees, building fees and engineering fees, increased property tax, increased sales tax and transient occupancy tax and triple flip vehicle in-lieu fees.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – City’s Financial Condition (Continued)

The City did anticipate an increase in tax revenues for the marijuana dispensaries and cultivation facilities in 2015 and 2016. In year ended June 30, 2016 there was an increase in marijuana and cultivation taxes totaling \$95,000. As of June 30, 2016 there were total of (6) dispensaries and total of (18) marijuana cultivation developers that were approved by staff and the City Council within the City limits. Unfortunately, none were opened in the current fiscal year. However, it is anticipated that there will be a minimum of three that will open in FY 2016-2017, which includes the Cannadescent Cultivation Facility which did open in September 2016. Additionally the new cultivation facilities will bring in development impact fees over the next few years to help pay for the additional infrastructure that will be needed to support the City’s growth.

Progress continues and the staff and City Council have been working very hard and will continue to work on several of the critical issues surrounding the continued health of the City:

- The sunset of DHS Public Safety Measure Tax and Utility Users Tax in 2020 have a drastic impact on the Consolidated General fund as they both directly support the Public Safety department costs and debt service payments for the City’s Bankruptcy which was financed in 2004. These revenue streams make up approximately 5 million dollars of the General Fund and the Debt Service Fund. Without this funding the City will be forced into drastic reductions in service. The City Council appointed a Revenue Advisory Committee that meets monthly. The sole purpose of this committee is to assist in the hiring of the outside consultant who will assist with and perform a citizen’s study to gather research data on the sustainability of the tax measures and to work with City Staff to supply the consultant with data for the marketing strategy process. It is the hope of the committee members to get a tax revenue measure passed by November 2017.
- CalPERS unfunded liability payments are estimated by CalPERS for both the miscellaneous and safety plans and in fiscal year 2015-2016 the annual unfunded liability payments totaled \$535,260. For fiscal year 2016-2017 the unfunded liability payment increased to \$576,608 for both miscellaneous and public safety classes and the General fund will be covering 98% of all costs which is approximately an 8% increase over the prior fiscal year.
- The contracted County of Riverside Fire Prevention, Rescue and Medical Emergency services did increase from \$1,432,763 in FY 2015-16 to an adjusted total of \$1,688,669 in FY 2016-17 which is an overall increase for contracted services of approximately 18%.
- The City increased funding to add additional staffing to support new economic growth in Community Development and other service areas in FY 2016-17.
- The City increased costs for legal and consulting fees associated with the unwinding of the PUT Agreement which is directly associated to the New Market Tax Credit for the Foundation. The unwind process will start in FY 2017-18 and must be completed prior to July 2019.
- Additional funding is needed from other sources for the operational costs of the Health and Wellness Facility until July 2020. Staff is working with the Renaissance Group whose services are funded by outside parties to find operational and equipment funding for the facility.
- Additional or increased funding is needed through tax measures to reduce the drain on the General fund for Public Safety costs for the Police, Fire and Animal Control.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – City’s Financial Condition (Continued)

- The City budgeted an additional 4% increase for all sworn and non sworn positions in the City for the fiscal year 2016-17. No additional increases were budgeted in FY 2017-18.
- The City staff prepared a two-year budget for fiscal years 2016-17 and 2017-18 which was approved by the City Council. There will be mid-year reviews done by staff as well as a true up process as needed for the FY 2017-18 budget prior to March 31, 2017.
- The City received approval of CDBG funding for fiscal years 2016-17 and 2017-18, which will mainly be used to revitalize the parks. It will reduce some funding that otherwise might be needed to cover costs that would not be covered under the restricted Citywide Lighting and Maintenance District.
- The City continues to monitor finances very closely and gives a report to the City Council quarterly.
- The City will bring back a budget adjustment for the consultant to work on the taxes which are to sunset in 2020 in FY 2017-2018 once the Revenue Advisory Committee has brought back a timeline for the process. It is estimated that the costs will be approximately \$150,000.

The City must continue to meet these challenges head on and continue to search out viable solutions to continue to make up the losses of the past few years that have directly hit the General Fund.

In fiscal year ended June 30, 2016, the City’s General Fund had a new gain of \$2,309,439 for an ending fund balance of \$6,236,875. The increase was primarily due to setting aside an operating capital funding within the budget document of \$1,400,000, increase in revenues totaling an estimated \$400,000, the Police Department was not fully staff up to the fully funded positions with a savings of \$322,000.00 and the reduction of contracted services at mid-year by the City Council totaling \$200,000. Of the \$6.2 million in fund balance for the fiscal year ended June 30, 2016 only \$4.7 million is liquid and available.

In FY 2016-2017 and FY 2017-2018 there was minimal operating capital budgeted due to the fact that the City Management felt that it was important to reward the employees that stayed and continued to perform at peak performance even with an increased work load. As a result, the City Council approved a 4% increase of salaries across the board for non sworn and sworn employees.

The City is also anticipating that there will be additional revenue streams for the marijuana dispensaries and cultivation facilities which will be collected and reflected in the General Fund in the next two years. The City continues to work the Renaissance Group on several other grants for future street projects, Health and Wellness Foundation equipment and operational costs, police and public works equipment.

City staff will monitor the current year’s budget performance and will notify the City Council of any cuts that may be needed in order to stay within the budgeted amounts for fiscal years 2016-17 and 2017-18.

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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, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 6,976,404	\$ 6,976,404	\$ 7,186,984	\$ 210,580
Permits and fees	956,600	957,557	1,342,333	384,776
Licenses	185,000	185,000	187,082	2,082
Interest	1,910	1,910	2,662	752
Miscellaneous	825,357	850,465	598,260	(252,205)
Total revenues	<u>8,945,271</u>	<u>8,971,336</u>	<u>9,317,321</u>	<u>345,985</u>
EXPENDITURES:				
Current:				
General government	3,841,937	3,989,851	2,410,522	1,579,329
Public safety	55,761	57,558	15,377	42,181
Public works	627,280	570,835	527,829	43,006
Economic development	892,550	830,137	787,388	42,749
Culture and leisure	438,481	486,521	465,635	20,886
Total expenditures	<u>5,856,009</u>	<u>5,934,902</u>	<u>4,206,751</u>	<u>1,728,151</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>3,089,262</u>	<u>3,036,434</u>	<u>5,110,570</u>	<u>2,074,136</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	828,903	828,903	482,543	(346,360)
Transfers out	(403,126)	(403,126)	(3,283,674)	(2,880,548)
Total other financing sources (uses)	<u>425,777</u>	<u>425,777</u>	<u>(2,801,131)</u>	<u>(3,226,908)</u>
Net change in fund balance	<u>\$ 3,515,039</u>	<u>\$ 3,462,211</u>	2,309,439	<u>\$ (1,152,772)</u>
FUND BALANCE:				
Beginning of year			<u>3,927,436</u>	
End of year			<u>\$ 6,236,875</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule, Public Safety Special Revenue Fund
For the Year Ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 3,922,000	\$ 3,922,000	\$ 3,982,187	\$ 60,187
Permits and fees	77,000	77,000	75,011	(1,989)
Intergovernmental	-	111,705	76,146	(35,559)
Miscellaneous	320,916	320,916	306,197	(14,719)
Total revenues	<u>4,319,916</u>	<u>4,431,621</u>	<u>4,439,541</u>	<u>7,920</u>
EXPENDITURES:				
Current:				
Public safety	8,009,418	8,121,623	7,476,459	645,164
Total expenditures	<u>8,009,418</u>	<u>8,121,623</u>	<u>7,476,459</u>	<u>645,164</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,689,502)</u>	<u>(3,690,002)</u>	<u>(3,036,918)</u>	<u>653,084</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	135,000	135,000	3,114,063	2,979,063
Transfers out	(124,282)	(124,282)	(124,282)	-
Total other financing sources (uses)	<u>10,718</u>	<u>10,718</u>	<u>2,989,781</u>	<u>2,979,063</u>
Net change in fund balance	<u>\$ (3,678,784)</u>	<u>\$ (3,679,284)</u>	<u>(47,137)</u>	<u>\$ 3,632,147</u>
FUND BALANCE:				
Beginning of year			458	
End of year			<u>\$ (46,679)</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule, Housing Authority Special Revenue Fund
For the Year Ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Miscellaneous	\$ -	\$ -	\$ 4,111	\$ 4,111
Total revenues	-	-	4,111	4,111
EXPENDITURES:				
Current:				
Economic development	-	230	227	3
Total expenditures	-	230	227	3
REVENUES OVER (UNDER) EXPENDITURES	-	(230)	3,884	4,114
Net change in fund balance	\$ -	\$ (230)	3,884	\$ 4,114
FUND BALANCE:				
Beginning of year			207,454	
End of year			<u>\$ 211,338</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited) (Continued)
For the Year Ended June 30, 2016

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, 2016

Last Ten Fiscal Years

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

	June 30, 2015 ¹	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.037816%	0.035817%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 2,595,635	\$ 2,228,699
City's Covered-Employee Payroll	\$ 1,377,634	\$ 2,073,622
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	188.41%	107.48%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	73.82%	76.24%

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

	June 30, 2015 ¹	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.090361%	0.090082%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 6,202,312	\$ 5,642,660
City's Covered-Employee Payroll	\$ 1,523,928	\$ 2,800,049
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	407.00%	201.52%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	73.79%	73.76%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Schedule of the City's Contributions
For the Year Ended June 30, 2016

Last Ten Fiscal Years

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

	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 132,233	\$ 217,165	\$ 310,127
Contribution in Relation to the Actuarially Determined Contribution	(313,565)	(217,165)	(310,127)
Contribution Deficiency (Excess)	\$ (181,332)	\$ -	\$ -
Covered-Employee Payroll ^{2,3}	\$ 1,418,963	\$ 1,377,634	\$ 2,073,622
Contributions as a Percentage of Covered-Employee Payroll	9.32%	15.76%	14.96%

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

	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 285,318	\$ 380,758	\$ 765,202
Contribution in Relation to the Actuarially Determined Contribution	(639,246)	(380,758)	(765,202)
Contribution Deficiency (Excess)	\$ (353,928)	\$ -	\$ -
Covered-Employee Payroll ^{2,3}	\$ 1,569,646	\$ 1,523,928	\$ 2,800,049
Contributions as a Percentage of Covered-Employee Payroll	18.18%	24.99%	27.33%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

³ Payroll from 2014-15 (\$1,377,634 for miscellaneous plan and \$1,523,928 for safety plan) was assumed to increase by 3% payroll growth assumption.

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

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

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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)

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.

Park and Recreation Grant Special Revenue Fund - To account for funds restricted for construction of a new pool and related facilities at the Desert Hot Springs Health and Wellness and Aquatic Center.

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.

DEBT SERVICE FUND:

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

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. Liabilities are paid from tax revenues.

Assessment District 92-1 Capital Projects Fund - To account for improvements to the Assessment District 92-1, which are financed from bond proceeds. Liabilities are paid from tax revenues.

Assessment District 93-2 Capital Projects Fund - To account for improvements to the Assessment District 93-2, which are financed from bond proceeds. Liabilities are paid from tax revenues.

City of Desert Hot Springs
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue				
	Special Gas Tax	Capital Improvement Deposits	Municipal Lighting / Landscaping Assessment District	Measure A	SCAQMD Grant
ASSETS					
Cash and investments	\$ 348,911	\$ 2,114,797	\$ 1,297,077	\$ 104,331	\$ -
Cash and investments with fiscal agent	-	-	-	-	-
Receivables:					
Accounts	399	-	-	-	25,000
Interest	23	161	91	7	-
Due from other governments	48,612	-	49,214	86,712	-
Due from other funds	-	-	-	-	-
Total assets	\$ 397,945	\$ 2,114,958	\$ 1,346,382	\$ 191,050	\$ 25,000
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 19,314	\$ -	\$ 63,530	\$ 185,856	\$ -
Due to other funds	-	517,264	-	-	25,000
Deposits payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	19,314	517,264	63,530	185,856	25,000
Deferred Inflows of Resources					
Unavailable revenue	-	-	31,822	-	-
Fund Balances:					
Restricted	378,631	-	1,251,030	5,194	-
Committed	-	1,597,694	-	-	-
Total fund balances	378,631	1,597,694	1,251,030	5,194	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 397,945	\$ 2,114,958	\$ 1,346,382	\$ 191,050	\$ 25,000

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue				
	Air Quality Control	Art in Public Places	Quimby Act	Drainage Assessment District	County Service Area 152
ASSETS					
Cash and investments	\$ 24,769	\$ 37,089	\$ 76,553	\$ 750,187	\$ -
Cash and investments with fiscal agent	-	-	-	-	-
Receivables:					
Accounts	-	-	-	15,000	114,225
Interest	2	3	6	54	-
Due from other governments	9,626	-	-	6,610	-
Due from other funds	-	-	-	-	-
Total assets	\$ 34,397	\$ 37,092	\$ 76,559	\$ 771,851	\$ 114,225
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,776	\$ 4,514	\$ 58,427	\$ 17,101	\$ 16,602
Due to other funds	-	-	-	-	73,708
Deposits payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	5,776	4,514	58,427	17,101	90,310
Deferred Inflows of Resources					
Unavailable revenue	-	-	-	-	18,958
Fund Balances:					
Restricted	28,621	-	18,132	754,750	4,957
Committed	-	32,578	-	-	-
Total fund balances	28,621	32,578	18,132	754,750	4,957
Total liabilities, deferred inflows of resources, and fund balances	\$ 34,397	\$ 37,092	\$ 76,559	\$ 771,851	\$ 114,225

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue			Debt Service	
	Parks and Recreation Grant	Cabot's Museum	SLESF	Abandoned Vehicle Abatement	City Debt Service
ASSETS					
Cash and investments	\$ -	\$ 3,812	\$ -	\$ 3,570	\$ 1,257,387
Cash and investments with fiscal agent	-	-	-	-	1,410
Receivables:					
Accounts	-	-	16,666	4,778	94,071
Interest	-	-	-	-	66
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ -	\$ 3,812	\$ 16,666	\$ 8,348	\$ 1,352,934
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 3,812	\$ -	\$ -	\$ -
Due to other funds	-	-	16,666	-	-
Deposits payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	-	3,812	16,666	-	-
Deferred Inflows of Resources					
Unavailable revenue	-	-	-	-	-
Fund Balances:					
Restricted	-	-	-	8,348	1,352,934
Committed	-	-	-	-	-
Total fund balances	-	-	-	8,348	1,352,934
Total liabilities, deferred inflows of resources, and fund balances	\$ -	\$ 3,812	\$ 16,666	\$ 8,348	\$ 1,352,934

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Capital Projects					Total Nonmajor Governmental Funds
	2012 Street Bond	Capital Improvement	Assessment District 91-1	Assessment District 92-1	Assessment District 93-2	
ASSETS						
Cash and investments	\$ 55,390	\$ 585,133	\$ 113,969	\$ 38,316	\$ 28,528	\$ 6,839,819
Cash and investments with fiscal agent	1,654,791	-	-	-	-	1,656,201
Receivables:						
Accounts	-	-	-	59	199	270,397
Interest	14	-	9	3	2	441
Due from other governments	-	-	1,890	-	-	202,664
Due from other funds	-	517,264	-	-	-	517,264
Total assets	\$ 1,710,195	\$ 1,102,397	\$ 115,868	\$ 38,378	\$ 28,729	\$ 9,486,786
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 175,320	\$ 167,144	\$ -	\$ -	\$ -	\$ 717,396
Due to other funds	-	-	-	-	-	632,638
Deposits payable	-	217,988	-	-	-	217,988
Unearned revenue	-	200,000	-	-	-	200,000
Total liabilities	175,320	585,132	-	-	-	1,768,022
Deferred Inflows of Resources						
Unavailable revenue	-	517,265	-	-	-	568,045
Fund Balances:						
Restricted	1,534,875	-	115,868	38,378	28,729	5,520,447
Committed	-	-	-	-	-	1,630,272
Total fund balances	1,534,875	-	115,868	38,378	28,729	7,150,719
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,710,195	\$ 1,102,397	\$ 115,868	\$ 38,378	\$ 28,729	\$ 9,486,786

(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, 2016

	Special Revenue				
	Special Gas Tax	Capital Improvement Deposits	Municipal Lighting / Landscaping Assessment District	Measure A	SCAQMD Grant
REVENUES:					
Taxes	\$ -	\$ -	\$ 751,413	\$ -	\$ -
Permits and fees	-	320,635	-	-	-
Intergovernmental	586,369	-	-	457,775	1,809,087
Interest	92	558	294	38	-
Miscellaneous	-	-	290	25,000	-
Total revenues	<u>586,461</u>	<u>321,193</u>	<u>751,997</u>	<u>482,813</u>	<u>1,809,087</u>
EXPENDITURES:					
Current:					
General government	141,859	-	-	-	-
Public works	203,299	-	511,371	32,035	-
Culture and leisure	-	-	-	-	-
Capital outlay	-	-	-	374,056	1,809,087
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>345,158</u>	<u>-</u>	<u>511,371</u>	<u>406,091</u>	<u>1,809,087</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>241,303</u>	<u>321,193</u>	<u>240,626</u>	<u>76,722</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	312,950	-	-	-
Transfers out	(201,394)	(19,879)	-	(200,000)	-
Total other financing sources (uses)	<u>(201,394)</u>	<u>293,071</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	39,909	614,264	240,626	(123,278)	-
FUND BALANCES:					
Beginning of year	338,722	983,430	1,010,404	128,472	-
End of year	<u>\$ 378,631</u>	<u>\$ 1,597,694</u>	<u>\$ 1,251,030</u>	<u>\$ 5,194</u>	<u>\$ -</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, 2016

	Special Revenue				
	Air Quality Control	Art in Public Places	Quimby Act	Drainage Assessment District	County Service Area 152
REVENUES:					
Taxes	\$ 35,510	\$ -	\$ -	\$ 179,697	\$ -
Permits and fees	-	-	-	-	-
Intergovernmental	-	23,254	-	-	114,805
Interest	7	18	27	190	-
Miscellaneous	-	-	-	-	-
Total revenues	35,517	23,272	27	179,887	114,805
EXPENDITURES:					
Current:					
General government	29,454	-	-	-	-
Public works	-	66,272	-	108,704	104,028
Culture and leisure	-	-	85,311	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	29,454	66,272	85,311	108,704	104,028
REVENUES OVER (UNDER) EXPENDITURES	6,063	(43,000)	(85,284)	71,183	10,777
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGES IN FUND BALANCES	6,063	(43,000)	(85,284)	71,183	10,777
FUND BALANCES:					
Beginning of year	22,558	75,578	103,416	683,567	(5,820)
End of year	\$ 28,621	\$ 32,578	\$ 18,132	\$ 754,750	\$ 4,957

(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, 2016

	Special Revenue			Debt Service	
	Parks and Recreation Grant	Cabot's Museum	SLESF	Abandoned Vehicle Abatement	City Debt Service
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,011,144
Permits and fees	-	-	-	-	-
Intergovernmental	-	-	114,618	12,006	-
Interest	-	-	-	-	200
Miscellaneous	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>114,618</u>	<u>12,006</u>	<u>1,011,344</u>
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public works	-	-	-	-	-
Culture and leisure	-	78,859	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	180,000
Interest and fiscal charges	-	-	-	-	565,250
Total expenditures	<u>-</u>	<u>78,859</u>	<u>-</u>	<u>-</u>	<u>745,250</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(78,859)</u>	<u>114,618</u>	<u>12,006</u>	<u>266,094</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	78,859	-	-	-
Transfers out	(704,644)	-	(114,618)	(35,000)	-
Total other financing sources (uses)	<u>(704,644)</u>	<u>78,859</u>	<u>(114,618)</u>	<u>(35,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(704,644)	-	-	(22,994)	266,094
FUND BALANCES:					
Beginning of year	704,644	-	-	31,342	1,086,840
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,348</u>	<u>\$ 1,352,934</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, 2016

	Capital Projects					Total Nonmajor Governmental Funds
	2012 Street Bond	Capital Improvement	Assessment District 91-1	Assessment District 92-1	Assessment District 93-2	
REVENUES:						
Taxes	\$ -	\$ -	\$ 3,131	\$ 59	\$ 199	\$ 1,981,153
Permits and fees	-	-	-	-	-	320,635
Intergovernmental	-	109,530	-	-	-	3,227,444
Interest	6,992	-	31	10	8	8,465
Miscellaneous	-	60,861	-	-	-	86,151
Total revenues	6,992	170,391	3,162	69	207	5,623,848
EXPENDITURES:						
Current:						
General government	-	-	-	-	-	171,313
Public works	-	-	-	-	-	1,025,709
Culture and leisure	-	-	-	-	-	164,170
Capital outlay	206,236	261,927	-	-	-	2,651,306
Debt service:						
Principal retirement	120,000	-	-	-	-	300,000
Interest and fiscal charges	284,010	-	-	-	-	849,260
Total expenditures	610,246	261,927	-	-	-	5,161,758
REVENUES OVER (UNDER) EXPENDITURES	(603,254)	(91,536)	3,162	69	207	462,090
OTHER FINANCING SOURCES (USES):						
Transfers in	401,394	474,251	-	-	-	1,267,454
Transfers out	-	(402,162)	-	-	-	(1,677,697)
Total other financing sources (uses)	401,394	72,089	-	-	-	(410,243)
NET CHANGES IN FUND BALANCES	(201,860)	(19,447)	3,162	69	207	51,847
FUND BALANCES:						
Beginning of year	1,736,735	19,447	112,706	38,309	28,522	7,098,872
End of year	\$ 1,534,875	\$ -	\$ 115,868	\$ 38,378	\$ 28,729	\$ 7,150,719

(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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 598,803	\$ 598,803	\$ 586,369	\$ (12,434)
Interest	25	25	92	67
Total revenues	<u>598,828</u>	<u>598,828</u>	<u>586,461</u>	<u>(12,367)</u>
EXPENDITURES:				
Current:				
General Government	135,663	154,781	141,859	12,922
Public works	261,000	241,882	203,299	38,583
Total expenditures	<u>396,663</u>	<u>396,663</u>	<u>345,158</u>	<u>51,505</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>202,165</u>	<u>202,165</u>	<u>241,303</u>	<u>39,138</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(201,394)	(201,394)	(201,394)	-
Total other financing sources (uses)	<u>(201,394)</u>	<u>(201,394)</u>	<u>(201,394)</u>	<u>-</u>
Net change in fund balance	<u>\$ 771</u>	<u>\$ 771</u>	39,909	<u>\$ 39,138</u>
FUND BALANCE:				
Beginning of year			<u>338,722</u>	
End of year			<u>\$ 378,631</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Permits and fees	\$ 108,756	\$ 320,885	\$ 320,635	\$ (250)
Interest	760	574	558	(16)
Total revenues	<u>109,516</u>	<u>321,459</u>	<u>321,193</u>	<u>(266)</u>
EXPENDITURES:				
Public works	606,518	606,518	-	606,518
Total expenditures	<u>606,518</u>	<u>606,518</u>	<u>-</u>	<u>606,518</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(497,002)</u>	<u>(285,059)</u>	<u>321,193</u>	<u>606,252</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,500	7,500	312,950	305,450
Transfers out	-	(19,879)	(19,879)	-
Total other financing sources (uses)	<u>7,500</u>	<u>(12,379)</u>	<u>293,071</u>	<u>305,450</u>
NET CHANGES IN FUND BALANCE	<u>\$ (489,502)</u>	<u>\$ (297,438)</u>	<u>614,264</u>	<u>\$ 911,702</u>
FUND BALANCE:				
Beginning of year			<u>983,430</u>	
End of year			<u>\$ 1,597,694</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 749,117	\$ 765,313	\$ 751,413	\$ (13,900)
Interest	340	471	294	(177)
Miscellaneous	-	290	290	-
Total revenues	<u>749,457</u>	<u>766,074</u>	<u>751,997</u>	<u>(14,077)</u>
EXPENDITURES:				
Current:				
Public works	939,128	942,017	511,371	430,646
Total expenditures	<u>939,128</u>	<u>942,017</u>	<u>511,371</u>	<u>430,646</u>
Net change in fund balance	<u>\$ (189,671)</u>	<u>\$ (175,943)</u>	240,626	<u>\$ 416,569</u>
FUND BALANCE:				
Beginning of year			1,010,404	
End of year			<u>\$ 1,251,030</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 498,000	\$ 498,000	\$ 457,775	\$ (40,225)
Interest	50	50	38	(12)
Miscellaneous	-	25,000	25,000	-
Total revenues	<u>498,050</u>	<u>523,050</u>	<u>482,813</u>	<u>(40,237)</u>
EXPENDITURES:				
Public works	-	-	32,035	(32,035)
Capital outlay	258,160	258,160	374,056	(115,896)
Total expenditures	<u>258,160</u>	<u>258,160</u>	<u>406,091</u>	<u>(147,931)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>239,890</u>	<u>264,890</u>	<u>76,722</u>	<u>(188,168)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(200,000)	(200,000)	(200,000)	-
Total other financing sources (uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ 39,890</u>	<u>\$ 64,890</u>	<u>(123,278)</u>	<u>\$ (188,168)</u>
FUND BALANCE:				
Beginning of year			<u>128,472</u>	
End of year			<u>\$ 5,194</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 82,500	\$ 1,809,088	\$ 1,809,087	\$ (1)
Total revenues	<u>82,500</u>	<u>1,809,088</u>	<u>1,809,087</u>	<u>(1)</u>
EXPENDITURES:				
Public works	7,500	7,500	-	7,500
Capital outlay	75,000	1,838,413	1,809,087	29,326
Total expenditures	<u>82,500</u>	<u>1,845,913</u>	<u>1,809,087</u>	<u>36,826</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (36,825)</u>	-	<u>\$ 36,825</u>
FUND BALANCE:				
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
Air Quality Control Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 34,700	\$ 34,700	\$ 35,510	\$ 810
Interest	10	10	7	(3)
Total revenues	<u>34,710</u>	<u>34,710</u>	<u>35,517</u>	<u>807</u>
EXPENDITURES:				
Current:				
General government	34,710	34,710	29,454	5,256
Total expenditures	<u>34,710</u>	<u>34,710</u>	<u>29,454</u>	<u>5,256</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	6,063	<u>\$ 6,063</u>
FUND BALANCE:				
Beginning of year			<u>22,558</u>	
End of year			<u>\$ 28,621</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 10,000	\$ 23,254	\$ 23,254	\$ -
Interest	-	18	18	-
Total revenues	<u>10,000</u>	<u>23,272</u>	<u>23,272</u>	<u>-</u>
EXPENDITURES:				
Current:				
Capital outlay	-	-	66,272	(66,272)
Total expenditures	<u>-</u>	<u>-</u>	<u>66,272</u>	<u>(66,272)</u>
Net change in fund balance	<u>\$ 10,000</u>	<u>\$ 23,272</u>	(43,000)	<u>\$ 66,272</u>
FUND BALANCE:				
Beginning of year			75,578	
End of year			<u>\$ 32,578</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ 25	\$ 28	\$ 27	\$ (1)
Total revenues	<u>25</u>	<u>28</u>	<u>27</u>	<u>(1)</u>
EXPENDITURES:				
Capital outlay	99,014	114,901	85,311	29,590
Total expenditures	<u>99,014</u>	<u>114,901</u>	<u>85,311</u>	<u>29,590</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(98,989)</u>	<u>(114,873)</u>	<u>(85,284)</u>	<u>29,589</u>
Net change in fund balance	<u>\$ (98,989)</u>	<u>\$ (114,873)</u>	<u>(85,284)</u>	<u>\$ 29,589</u>
FUND BALANCE:				
Beginning of year			<u>103,416</u>	
End of year			<u>\$ 18,132</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 157,874	\$ 182,794	\$ 179,697	\$ (3,097)
Interest	470	470	190	(280)
Total revenues	<u>158,344</u>	<u>183,264</u>	<u>179,887</u>	<u>(3,377)</u>
EXPENDITURES:				
Current:				
Public works	426,315	430,155	108,704	321,451
Total expenditures	<u>426,315</u>	<u>430,155</u>	<u>108,704</u>	<u>321,451</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(267,971)</u>	<u>(246,891)</u>	<u>71,183</u>	<u>318,074</u>
Net change in fund balance	<u>\$ (267,971)</u>	<u>\$ (246,891)</u>	<u>71,183</u>	<u>\$ 318,074</u>
FUND BALANCE:				
Beginning of year			683,567	
End of year			<u>\$ 754,750</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 129,920	\$ 129,920	\$ 114,805	\$ (15,115)
Interest	5	5	-	(5)
Total revenues	<u>129,925</u>	<u>129,925</u>	<u>114,805</u>	<u>(15,120)</u>
EXPENDITURES:				
Current:				
Public works	129,925	129,925	104,028	25,897
Total expenditures	<u>129,925</u>	<u>129,925</u>	<u>104,028</u>	<u>25,897</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	10,777	<u>\$ 10,777</u>
FUND BALANCE:				
Beginning of year			(5,820)	
End of year			<u>\$ 4,957</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Parks and Recreation Grant Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Interest	\$ -	\$ 200	\$ -	\$ (200)
OTHER FINANCING SOURCES (USES):				
Transfers out	(704,788)	(704,788)	(704,644)	144
Net change in fund balance	\$ (704,788)	\$ (704,588)	(704,644)	\$ (56)
FUND BALANCE:				
Beginning of year			704,644	
End of year			\$ -	

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current:				
Culture and leisure	\$ 63,190	\$ 63,190	\$ 78,859	\$ (15,669)
OTHER FINANCING SOURCES (USES):				
Transfers in	63,190	63,190	78,859	15,669
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE:				
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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 114,618	\$ 14,618
OTHER FINANCING SOURCES (USES):				
Transfers out	(100,000)	(100,000)	(114,618)	(14,618)
Net changes in fund balance	\$ -	\$ -	-	\$ -
FUND BALANCE:				
Beginning of year			-	
End of year			\$ -	

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 35,000	\$ 35,000	\$ 12,006	\$ (22,994)
Total revenues	35,000	35,000	12,006	(22,994)
OTHER FINANCING SOURCES (USES):				
Transfers out	(35,000)	(35,000)	(35,000)	-
Total other financing sources (uses)	(35,000)	(35,000)	(35,000)	-
Net changes in fund balance	\$ -	\$ -	(22,994)	\$ (22,994)
FUND BALANCE:				
Beginning of year			31,342	
End of year			\$ 8,348	

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 1,000,000	\$ 1,000,000	\$ 1,011,144	\$ 11,144
Interest	500	500	200	(300)
Total revenues	<u>1,000,500</u>	<u>1,000,500</u>	<u>1,011,344</u>	<u>10,844</u>
EXPENDITURES:				
Debt service:				
Principal retirement	180,000	180,000	180,000	-
Interest and fiscal charges	563,500	563,500	565,250	(1,750)
Total expenditures	<u>743,500</u>	<u>743,500</u>	<u>745,250</u>	<u>(1,750)</u>
Net changes in fund balance	<u>\$ 257,000</u>	<u>\$ 257,000</u>	266,094	<u>\$ 9,094</u>
FUND BALANCE:				
Beginning of year			1,086,840	
End of year			<u>\$ 1,352,934</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ 5,000	\$ 8,986	\$ 6,992	\$ (1,994)
Total revenues	<u>5,000</u>	<u>8,986</u>	<u>6,992</u>	<u>(1,994)</u>
EXPENDITURES:				
Capital outlay	906,124	906,124	206,236	699,888
Debt service:				
Principal retirement	120,000	120,000	120,000	-
Interest and fiscal charges	284,394	284,394	284,010	384
Total expenditures	<u>1,310,518</u>	<u>1,310,518</u>	<u>610,246</u>	<u>700,272</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,305,518)</u>	<u>(1,301,532)</u>	<u>(603,254)</u>	<u>698,278</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	401,394	401,394	401,394	-
Total other financing sources (uses)	<u>401,394</u>	<u>401,394</u>	<u>401,394</u>	<u>-</u>
Net changes in fund balance	<u>\$ (904,124)</u>	<u>\$ (900,138)</u>	(201,860)	<u>\$ 698,278</u>
FUND BALANCE:				
Beginning of year			<u>1,736,735</u>	
End of year			<u>\$ 1,534,875</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 109,530	\$ 109,530
Miscellaneous	-	-	60,861	60,861
Total revenues	-	-	170,391	170,391
EXPENDITURES:				
Capital outlay	1,160,660	1,160,660	261,927	898,733
Total expenditures	1,160,660	1,160,660	261,927	898,733
REVENUES OVER (UNDER) EXPENDITURES	(1,160,660)	(1,160,660)	(91,536)	1,069,124
OTHER FINANCING SOURCES (USES):				
Transfers in	63,190	63,190	474,251	411,061
Transfers out	-	-	(402,162)	(402,162)
Total other financing sources (uses)	63,190	63,190	72,089	8,899
Net changes in fund balance	\$ (1,097,470)	\$ (1,097,470)	(19,447)	\$ 1,078,023
FUND BALANCE:				
Beginning of year			19,447	
End of year			<u>\$ -</u>	

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 3,131	\$ 3,131
Interest	35	35	31	(4)
Total revenues	<u>35</u>	<u>35</u>	<u>3,162</u>	<u>3,127</u>
Net changes in fund balance	<u>\$ 35</u>	<u>\$ 35</u>	3,162	<u>\$ 3,127</u>
FUND BALANCE:				
Beginning of year			<u>112,706</u>	
End of year			<u>\$ 115,868</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 59	\$ 59
Interest	25	25	10	(15)
Total revenues	<u>25</u>	<u>25</u>	<u>69</u>	<u>(15)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>25</u>	<u>25</u>	<u>69</u>	<u>44</u>
Net changes in fund balance	<u>\$ 25</u>	<u>\$ 25</u>	69	<u>\$ 44</u>
FUND BALANCE:				
Beginning of year			<u>38,309</u>	
End of year			<u>\$ 38,378</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 199	\$ 199
Interest	25	25	8	(17)
Total revenues	<u>25</u>	<u>25</u>	<u>207</u>	<u>182</u>
Net changes in fund balance	<u>\$ 25</u>	<u>\$ 25</u>	207	<u>\$ 182</u>
FUND BALANCE:				
Beginning of year			<u>28,522</u>	
End of year			<u>\$ 28,729</u>	

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INTERNAL SERVICE FUNDS

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.

City of Desert Hot Springs
Combining Statement of Net Position
Internal Service Funds
June 30, 2016

	<u>Risk Management</u>	<u>Equipment Replacement</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 945,430	\$ 102,593	\$ 1,048,023
Total current assets	<u>945,430</u>	<u>102,593</u>	<u>1,048,023</u>
Capital assets:			
Depreciable, net	-	475,238	475,238
Total capital assets	<u>-</u>	<u>475,238</u>	<u>475,238</u>
Total assets	<u>945,430</u>	<u>577,831</u>	<u>1,523,261</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,149	-	4,149
Capital lease payable - due within one year	-	118,138	118,138
Claims payable - due within one year	<u>715,762</u>	<u>-</u>	<u>715,762</u>
Total current liabilities	<u>719,911</u>	<u>118,138</u>	<u>838,049</u>
NET POSITION			
Net investment in capital assets	-	357,100	357,100
Unrestricted	<u>225,519</u>	<u>102,593</u>	<u>328,112</u>
Total net position	<u>\$ 225,519</u>	<u>\$ 459,693</u>	<u>\$ 685,212</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, 2016

	Risk Management	Equipment Replacement	Total
OPERATING REVENUES:			
Insurance recovery	\$ 89,059	\$ -	\$ 89,059
Total operating revenues	<u>89,059</u>	<u>-</u>	<u>89,059</u>
OPERATING EXPENSES:			
Insurance and claims	97,212	-	97,212
Depreciation	-	214,340	214,340
Total operating expenses	<u>97,212</u>	<u>214,340</u>	<u>311,552</u>
OPERATING INCOME (LOSS)	<u>(8,153)</u>	<u>(214,340)</u>	<u>(222,493)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest expenses	-	(11,984)	(11,984)
Total nonoperating revenues (expenses)	<u>-</u>	<u>(11,984)</u>	<u>(11,984)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(8,153)</u>	<u>(226,324)</u>	<u>(234,477)</u>
TRANSFERS:			
Transfers in	127,660	174,282	301,942
Total transfers	<u>127,660</u>	<u>174,282</u>	<u>301,942</u>
Changes in net position	<u>119,507</u>	<u>(52,042)</u>	<u>67,465</u>
NET POSITION:			
Beginning of year	106,012	511,735	617,747
End of year	<u>\$ 225,519</u>	<u>\$ 459,693</u>	<u>\$ 685,212</u>

City of Desert Hot Springs
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016

	Risk Management	Equipment Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from claims recoveries	\$ 118,444	\$ -	\$ 118,444
Payments for insurance claims	(80,291)	-	(80,291)
Net cash (used in) operating activities	38,153	-	38,153
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in from other funds	127,660	174,282	301,942
Net cash provided by noncapital financing activities	127,660	174,282	301,942
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payment on capital leases	-	(112,298)	(112,298)
Interest paid on capital leases	-	(11,984)	(11,984)
Net cash (used in) capital and related financing activities	-	(124,282)	(124,282)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	16	3	19
Net cash provided by investing activities	16	3	19
Net increase (decrease) in cash and cash equivalents	165,829	50,003	215,832
CASH AND CASH EQUIVALENTS:			
Beginning of year	779,601	52,590	832,191
End of year	<u>\$ 945,430</u>	<u>\$ 102,593</u>	<u>\$ 1,048,023</u>
RECONCILIATION OF OPERATING (LOSS) TO NET			
CASH (USED IN) OPERATING ACTIVITIES:			
Operating (loss)	\$ (8,153)	\$ (214,340)	\$ (222,493)
Depreciation	-	214,340	214,340
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in accounts receivable	29,385	-	29,385
Increase (decrease) in accounts payable	4,149	-	4,149
Increase (decrease) in claims payable	12,772	-	12,772
Total adjustments	46,306	-	46,306
Net cash (used in) operating activities	<u>\$ 38,153</u>	<u>\$ -</u>	<u>\$ 38,153</u>

AGENCY FUNDS

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 Assets and Liabilities
Agency Funds
June 30, 2016

	Agency Funds		
	Community	Community	Totals
	Services Fund	Facilities District Skyborne Fund	
ASSETS			
Cash and investments	\$ 30,664	\$ 586,768	\$ 617,432
Cash with fiscal agent	-	179,927	179,927
Accounts receivable	-	4,025	4,025
Interest receivable	-	39	39
Total assets	\$ 30,664	\$ 770,759	\$ 801,423
LIABILITIES			
Accounts payable	\$ 14,840	\$ 5,768	\$ 20,608
Deposits payable	15,824	10,000	25,824
Due to bondholders	-	754,991	754,991
Total liabilities	\$ 30,664	\$ 770,759	\$ 801,423

City of Desert Hot Springs
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<u>Community Services Fund</u>				
Assets:				
Cash and investments	\$ 96,373	\$ 429,583	\$ (495,292)	\$ 30,664
Total assets	\$ 96,373	\$ 429,583	\$ (495,292)	\$ 30,664
Liabilities:				
Accounts payable	\$ 76,471	\$ 273,386	\$ (335,017)	\$ 14,840
Deposits payable	19,902	156,197	(160,275)	15,824
Total liabilities	\$ 96,373	\$ 429,583	\$ (495,292)	\$ 30,664
<u>Community Facilities District Skyborne Fund</u>				
Assets:				
Cash and investments	\$ 514,788	\$ 266,341	\$ (194,361)	\$ 586,768
Cash with fiscal agent	182,935	534,069	(537,077)	179,927
Accounts receivable	9,847	4,025	(9,847)	4,025
Interest receivable	24	39	(24)	39
Total assets	\$ 707,594	\$ 804,474	\$ (741,309)	\$ 770,759
Liabilities:				
Accounts payable	\$ 2,973	197,538	(194,743)	\$ 5,768
Deposits payable	10,000	10,000	(10,000)	10,000
Due to bondholders	694,621	596,936	(536,566)	754,991
Total liabilities	\$ 707,594	\$ 804,474	\$ (741,309)	\$ 770,759
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 611,161	\$ 695,924	\$ (689,653)	\$ 617,432
Cash with fiscal agent	182,935	534,069	(537,077)	179,927
Accounts receivable	9,847	4,025	(9,847)	4,025
Interest receivable	24	39	(24)	39
Total assets	\$ 803,967	\$ 1,234,057	\$ (1,236,601)	\$ 801,423
Liabilities:				
Accounts payable	\$ 79,444	\$ 470,924	\$ (529,760)	\$ 20,608
Deposits payable	29,902	166,197	(170,275)	25,824
Due to bondholders	694,621	596,936	(536,566)	754,991
Total liabilities	\$ 803,967	\$ 1,234,057	\$ (1,236,601)	\$ 801,423