

City of Desert Hot Springs

Desert Hot Springs, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2018



City of Desert Hot Springs
Basic Financial Statements
For the Year Ended June 30, 2018

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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, 2018, 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.

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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, 2018, 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

As discussed in Note 15 to the basic financial statements, the City reported prior period adjustment in the amount of \$417,263 in the governmental activities and governmental fund financial statements. 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, the Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liabilities and Related Ratios, and the Schedule of the City's Contributions on pages 5 through 14 and pages 89 through 95 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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 November 30, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Santa Ana, California
November 30, 2018

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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, 2018.

Overview of the Financial Statements

The City Executive Team of the City of Desert Hot Springs (the "City") offers readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2018. It has been designed in accordance with standards established by the Governmental Accounting Standards Board. Please read this overview in conjunction with the accompanying financial statements.

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

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

Financial Highlights

- The City's total net position was \$44,548,868 as of June 30, 2018;
- General Fund and Public Safety Special Revenue Fund revenue totaled \$23,771,315
- General Fund and Public Safety Special Revenue Fund expenses totaled \$23,312,214
- The fund balance in the General Fund and Public Safety Special Revenue Fund increased by \$459,101;
- The City implemented a priority-based budgeting system;
- The City approved a biennial budget with a surplus for both years;
- A rolling seven-year cash-flow model was updated and presented to the City Council;
- Current staffing levels were increased by 16 positions in various departments and the City was able to increase services to the citizens over prior years and will continue to make that a priority;
- Property value in the City's industrial area has rapidly increased due to demand generated from cultivators of marijuana;
- The City renewed two large tax measures that generate approximately \$5.0 million to the Public Safety Fund annually with no sunset clause;
- Large expenditure increases are expected from the County services, CalPERS and insurance in the coming years but the City is estimating and budgeting increases;
- The City approved a three-year Capital Improvement Plan totaling \$19 million;
- City has a 25% Marijuana reserve in place for economic contingency and 20% reserve in place for the General Fund of which 15% is for natural or fiscal emergencies and 5% is for future operations and capital use;
- The City's Tax revenue received in 2017-2018 is up 25.87% over the prior fiscal year;
- In 2017-2018 the City received Transient Occupancy Tax from a new source (Airbnb) which ranked in the top ten hotels and resorts bringing in a total of \$152,444;
- First Southern California City to legalize large scale cultivation facilities;
- Marijuana related taxes increased by \$696,224 in FY 2016-2017 up to \$1,723,752 in FY 2017-2018 which is an increase over the prior year of \$147%;

- Currently under construction for the next fiscal year are 13 new cultivation projects and two dispensaries;
- There have been 216 new business licenses issued since January 1, 2017 over the prior year;
- City staff continues to budget conservatively and captures all known and anticipated expenses in the budget process;
- The City's Assessed Value increased by \$127.6 million dollars;
- There has been an 18% growth over the last five years in property tax revenues and median home values continue to increase;
- The City participates in the County Teeter Plan;
- The City restructured existing debt for the General Fund and the Successor Agency;
- The City approved a new bond and the funds from the bond proceeds will be used to build the new City Hall facility.

Government-wide Financial Statements and Financial Analysis

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

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

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

Both 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 17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All 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 six (6) major governmental funds; the General Fund (which is consolidated with the Health and Wellness Facility and the Marijuana Reserve Fund), Public Safety Special Revenue Fund, Capital Improvements Deposits Special Revenue Fund, Housing Authority Special Revenue Fund, Capital Improvement Capital Projects Fund, and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other 61 nonmajor governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts a two-year budget for its General Fund.

The following funds are included to make up the nonmajor governmental funds:

Special Revenue Funds: Special Gas Tax Fund, SB1 Road Maintenance and Rehab, Municipal Lighting and Landscaping Assessment Districts Funds (19), Measure A Fund, SCAQMD Grant Fund, Air Quality Control Fund, Art in Public Places Fund, Quimby Act Fund, Drainage Assessment Districts Funds (17), County Service Area 152 (CSA-152) Fund, Cabot's Museum Fund, Supplement Law Enforcement Services Account Fund (SLESA), Abandoned Vehicle Abatement Fund and Community Development Block Grant Fund (CDBG).

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

The basic governmental fund financial statements can be found on page 17 of this report.

Proprietary Funds

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

Internal service funds are used to allocate costs amount the City's various functions. The City has (3) internal service funds: equipment replacement, workers' compensation insurance and general liability insurance.

The basic proprietary fund financial statements can be found on pages 33 of this report and the internal service funds can be found on page 131 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 page 39 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 47 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 page 87 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 page 103 of this report.

Government-wide Financial Analysis

The City's financial position and outlook continues to improve over the last five years. A combination of a reduction in structural expenses and an improvement in economic development activity, marijuana projects and businesses and the passing of the Public Safety Tax Measure have stabilized the City's cash position.

In Fiscal Year 2016-2017, the City received marijuana taxes totaling \$696,224. In Fiscal Year 2017-2018 the City received marijuana taxes totaling \$1,723,752. which is an increase of 147% from the prior year. Within the upcoming years, staff expects such receipts to increase, respectively. The City has set aside the 25% marijuana reserve in the amount of \$657,007 for economic uncertainties.

Major revenue increases occurred during fiscal year 2017-2018 in the following areas;

- Transient Occupancy taxes increased from \$1,768,522 in FY 2016-2017 to \$2,169,988 in FY 2017-218 approximately 23% increase in tax revenue over the prior year. The City entered into an agreement with Airbnb pursuant to which Airbnb has agreed to collect and remit all Transient Occupancy revenues in the same manner as other traditional operators subject to the City's (TOT) tax.
- Franchise Fees increased from \$1,393,460 in FY 2016-2017 to \$1,505,206 in FY 2017-2018 approximately 8% over the prior year.
- Sales taxes increased from \$3,270,340 in FY 2016-2017 to \$3,623,448 in FY 17-18 approximately 11.0% over the prior year.

Expiring Tax Measures

Originally set to sunset in 2018 and 2020, the Public Safety Parcel Tax and the Utility Users Taxes were renewed in November 2017 with no sunset date and were overwhelmingly approved at a 75% rate by the citizens. The vote authorized the City to continue to levy a utility tax of 7% on telecommunications, water, sewer, electric, gas and cable utilities services, and allocates the revenue for public safety services.

The Public Safety Tax replaced the City's previous parcel tax, which was set to expire in 2020, and decreased single family residential rates while increasing rates on vacant residential, commercial and industrial properties.

Property taxes contributed \$1,280,166 to the General Fund Revenues in the Fiscal Year ended in June 30, 2018 equating to approximately 5.25% of the total General fund revenues for the fiscal year.

The County as adopted the Alternative Method of Distribution of the Tax Levies and Collections and of the Tax Sale Proceeds (the "Teeter Plan"), as approved for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each local participating local agency levying property taxes in the County, including the City, received the amount of uncollected taxes credited to its fund, in the same manner as of the account due from the taxpayers have been collected.

Although the economy and City finances have improved there remains several unfunded needs for the community and the organization. Equipment replacement, service levels and large capital projects have been reduced over the years. The City recognizes that as more revenue becomes available the City will allocate funds towards maintenance, capital projects and service levels and will continue to work on grant opportunities to fund these items.

The City continues to monitor the unfunded liability for CalPERS and pays all current contributions and unfunded liability contributions timely.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44,548,868. as of June 30, 2018, in the Governmental activities and Business-type activities.

Table 1
City of Desert Hot Springs
Net Position
June 30, 2018 and 2017

	Governmental activities		Business-type activities		Total	
	2018	(As Restated) 2017	2018	2017	2018	(As Restated) 2017
Current and other assets	\$ 27,490,681	\$ 28,807,602	\$ 15,462,663	\$ 15,643,024	\$ 42,953,344	\$ 44,450,626
Capital assets	44,174,748	42,594,966	13,358,057	13,947,980	57,532,805	56,542,946
Total assets	71,665,429	71,402,568	28,820,720	29,591,004	100,486,149	100,993,572
Deferred outflow of resources	3,424,942	2,933,834	-	-	3,424,942	2,933,834
Current liabilities	4,599,745	5,101,519	70,850	89,775	4,670,595	5,191,294
Long-term liabilities	33,886,226	33,035,998	20,697,000	20,697,000	54,583,226	53,732,998
Total liabilities	38,485,971	38,137,517	20,767,850	20,786,775	59,253,821	58,924,292
Deferred inflow of resources	108,402	516,570	-	-	108,402	516,570
Invested in capital assets	38,562,083	37,242,301	(7,338,943)	(6,749,020)	31,223,140	30,493,281
Restricted	14,118,710	12,759,826	-	-	14,118,710	12,759,826
Unrestricted	(16,184,795)	(14,319,812)	15,391,813	15,553,249	(792,982)	1,233,437
Total net position	\$ 36,495,998	\$ 35,682,315	\$ 8,052,870	\$ 8,804,229	\$ 44,548,868	\$ 44,486,544

The largest portion of the City's net position, \$31.2 million (70.1%), are reflected in its net investment in capital assets (e.g., land, street infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining (29.9%) of the City's net position, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$14.1million (31.7%), represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of the net position is deficit of (\$0.8 million).

The City's governmental activities total revenues were \$24.4 million, while the total cost of all programs and services were approximately \$23.4 million. Charges for services were the City's largest resource at \$5.3 million (21.8% of the total revenue of the governmental activities). Capital grants and contributions services were the second largest revenue source at \$4.9 million (19.4% of the total revenue of the governmental activities). Operating grants and contribution revenue was the third largest resource at \$4.5 million (18.4% of the total revenue of the governmental activities). Sales taxes were the fourth largest revenue source at \$3.6 million (14.8% of the total revenue of the governmental activities).

TABLE 2
City of Desert Hot Springs
Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 5,322,295	\$ 3,538,601	\$ 104,000	\$ 104,000	\$ 5,426,295	\$ 3,642,601
Operating grants and contributions	4,455,191	3,607,194	-	-	4,455,191	3,607,194
Capital grants and contributions	4,863,198	6,097,322	-	-	4,863,198	6,097,322
General revenues:						
Property taxes	1,299,147	1,161,775	-	-	1,299,147	1,161,775
Sales taxes	3,623,448	3,270,340	-	-	3,623,448	3,270,340
Transient occupancy taxes	2,169,988	1,768,552	-	-	2,169,988	1,768,552
Other taxes	1,555,907	1,443,828	-	-	1,555,907	1,443,828
Gains on investments	96,835	95,935	75,637	75,633	172,472	171,568
Miscellaneous	914,674	1,111,341	-	-	914,674	1,111,341
Transfers	75,400	-	(75,400)	-	-	-
Total revenues	24,376,083	22,094,888	104,237	179,633	24,480,320	22,274,521
Program expenses:						
General government	6,084,434	4,896,860	-	-	6,084,488	4,896,860
Public safety	9,969,636	8,022,985	-	-	9,765,804	8,022,985
Public works	3,228,778	2,165,174	-	-	3,279,660	2,165,174
Economic development	2,001,519	1,492,956	-	-	2,001,546	1,492,956
Culture and leisure	1,405,176	1,478,245	-	-	1,405,188	1,478,245
Interest and fiscal charges	872,857	1,354,754	-	-	872,857	1,354,754
Health and wellness foundation	-	-	855,596	855,320	855,596	855,320
Total expenses	23,562,400	19,410,974	855,596	855,320	24,265,139	20,266,294
Change in net position	\$ 813,683	\$ 2,683,914	\$ (751,359)	\$ (675,687)	\$ 215,181	\$ 2,008,227

Governmental activities

Public Safety expenses of \$10.0 million comprise the largest component of government activities (42.3% of the total cost of governmental activities).

General Government expenses of \$6.1 million (includes City Council, City Manager, City Attorney, City Clerk, Finance, Information Systems and Non-Departmental) were the second largest governmental activities (25.8% of the total cost of governmental activities).

Public Works expenses of \$3.2 million were the third largest governmental activities (13.7% of the total cost of governmental activities).

Economic Development expenses of \$2.0 million was the fourth largest governmental activities (8.5% of the total cost of governmental activities).

Business-type activities

Net position for Business-type activities of the City decreased by \$0.7 million for the current year. The combined costs of the City's business-type activities for the Health and Wellness Foundation were primarily financed through reimbursement of interest income and support from General Governmental activities.

Financial Analysis of the City's Funds

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

Governmental Funds

The General Fund is the City's chief operating fund. At the end of fiscal year 2017-2018, there was no unassigned fund balance while total fund balance was \$9.0 million.

The General Fund balance increased by \$0.5 million in 2017-2018. Key Factors were:

- The City has implemented a number of effective budget practices such as a structural balanced budget, multi-year forecasting, use of one-time resources on one-time expenses, established a reserve, employee retention and recruitment, collecting appropriate fees for services and being more aggressive in obtaining grants.
- Marijuana revenues were budgeted very conservatively as they are new, and the City is still building the historical data for future budget years.
- When budgeting expenses the City uses inflators annually on all operating costs.
- Budget adjustments are done on an as need basis during the year.

Public Safety Fund

The Public Safety Fund accounts for the community safety activities of the City including Police, Fire and Animal Control. The major outside revenue sources for this fund are parcel taxes and utility user taxes. These taxes were enacted specifically for the support of public safety within the City. The single largest revenue source is an interfund transfer from the General Fund. The transfer from the General Fund is to support the operating expenses that exceeds the revenues earned in taxes, fines, fees, and other revenue items. Since this fund has a majority of its support from the General Fund, fund balance is kept at a minimum. Expenditures increased for the 2017-2018 fiscal year by over \$1.2 million dollars. The increase was due mostly to the creation of the Animal Control program during this fiscal year. The additional expensed were covered by an increase in a transfer from the General Fund.

Housing Authority Fund

This fund was established to account for the housing rehabilitation loan programs from the former Redevelopment Agency of the City. Activity in this fund is based on the managing loan and grant agreements with other agencies that were established to provide low to moderate income housing units. Since these are long-term agreements (55 years) started in the last 10 years, there were few transactions in this fund during the 2017-2018 fiscal year. At the end of the year, the fund balance was \$3.7 million consisting mostly of grant and loan agreements.

Capital Improvement Deposits Special Revenue Fund

This fund was established for the accumulation of resources that will provide equipment and capital improvements for fire, streets, traffic signals, facilities, police, and parks. The revenue sources are provided through development impact fees on all new commercial and residential construction. Development fees for the year was over \$1.4 million which was a 65% increase over the previous year. The fund balance increased by 32% for an ending fund balance of \$3,8 million.

Capital Improvement Capital Projects Fund

This fund is a consolidation of two capital improvement funds. The first in the Capital Improvement Projects fund which is used to record the expenditures of the funds for the City's general capital projects. The fund had a total of three Capital Improvement Projects that were started in 2017-2018. In all cases, these projects will span over a two or three-year period and will have multiple funding sources. The first key and essential project is design and construction of Desert View totaling \$509,000 with preliminary design costs of \$15,575 expended in the fiscal year; the second project is the Palm Drive Traffic and Street Lighting project funded at \$3,165,448 with preliminary design costs of \$13,087 expended in this fiscal year and the third project is the Palm Drive – I-10 Corridor Study funded at \$101,000 with initial costs of \$83,337 expended in this fiscal year.

The second fund in the consolidation is the Capital Improvement Project Fund (222) City Hall Phase II. This fund is used to record the expenditures for the new City Hall project Phase 2 located at 11999 Palm Drive. The total funds expended since the inception of the project on parking lots, underground facilities, engineering and design, and other building costs totaled \$1,804,136. It is anticipated that in FY 2018-2019 and FY 2019-2020 that the new City Hall Site Phase 2 will be built out consisting of a 14,000 square foot building and infrastructure. We anticipate that the overall costs for this facility will be \$7.5 million.

Debt Service Fund

This fund is to account for the debt service payments on the City's Lease Revenue Bonds and Certificates of Participation. The debt service obligations are paid twice annually. The debt service obligations are funded by a utility user tax. For this fiscal year, \$300,000 was paid for the required principal payment and \$508,233 was paid out in interest expense. The fund balance at June 30, 2018 was \$4.1 million.

Capital Assets

At the end of fiscal year 2017-2018, the City had invested \$57.5 million in a broad range of capital assets, net of depreciation. The investment in capital assets includes land, right of way, buildings and improvements, machinery and equipment, streets and bridges and construction in progress.

Table 3
City of Desert Hot Springs
Capital Assets
As of June 30, 2018 and 2017

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,703,668	\$ 2,319,028	\$ 370,415	\$ 370,415	\$ 3,074,083	\$ 2,689,443
Construction in progress	4,229,913	2,164,189	-	-	4,229,913	2,164,189
Building and improvements, net	11,939,051	11,225,508	12,905,068	13,445,112	24,844,119	24,670,620
Machinery and equipment, net	772,281	1,348,391	82,574	132,453	854,855	1,480,844
Vehicles, net	974,598	706,772	-	-	974,598	706,772
Infrastructure, net	23,555,237	24,831,078	-	-	23,555,237	24,831,078
Total	\$ 44,174,748	\$ 42,594,966	\$ 13,358,057	\$ 13,947,980	\$ 57,532,805	\$ 56,542,946

For more information on Capital Asset Activity, please see Capital Assets Note 5 on page 63.

Long-term Debt

As of June 30, 2018, the City had total long-term liabilities outstanding of \$44.2 million in certificates of participation debt, Lease revenue bonds 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 page 65. In comparison to last year the unfunded pension related debt has decreased by \$0.1 million.

Table 4
City of Desert Hot Springs
Long-Term Liabilities
As of June 30, 2018 and 2017

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
2012A certificates of participation	\$ 5,220,000	\$ 5,345,000	\$ -	\$ -	\$ 5,220,000	\$ 5,345,000
Lease revenue bond, series 2017A	13,805,000	13,895,000	-	-	13,805,000	13,895,000
Taxable lease revenue bonds, series 2017A-T	895,000	1,105,000	-	-	895,000	1,105,000
Bond discount - 2017A-T	(1,380)	(1,745)	-	-	(1,380)	(1,745)
Bond premium - 2012A COP	185,310	192,975	-	-	185,310	192,975
Bond premium - 2017A	173,742	179,947	-	-	173,742	179,947
Capital lease payment	385,000	-	-	-	385,000	-
Claims and judgments payable	333,550	418,181	-	-	333,550	418,181
Compensated absences	388,830	485,313	-	-	388,830	485,313
Pension-related debt	2,101,541	2,250,064	-	-	2,101,541	2,250,064
Promissory notes	-	-	20,697,000	20,697,000	20,697,000	20,697,000
Total	\$ 23,486,593	\$ 23,869,735	\$ 20,697,000	\$ 20,697,000	\$ 44,183,593	\$ 44,566,735

Marijuana Dispensary and Cultivation Revenues

The City collects taxes for the dispensary and cultivation of marijuana and marijuana products. In the past three years the City has seen a steady increase in dispensary tax revenues totaling \$903,015 for the fiscal years 2015 through 2018 and estimates that will continue for the next couple of years. The City also received cultivation tax revenues in 2017-2018 totaling \$0.9 million.

Table 5
City of Desert Hot springs
Marijuana Revenues
As of June 30, 2018

	Dispensary		Cultivation		Total	
	2018	Prior to 2018	2018	Prior to 2018	2018	Prior to 2018
Marijuana Dispensary Revenue	\$ 860,929	\$ 903,015	\$ -	\$ -	\$ 860,929	\$ 903,015
Marijuana Cultivation Revenue	-	-	863,823	-	863,823	-
Total	\$ 860,929	\$ 903,015	\$ 863,823	\$ -	\$ 1,724,752	\$ 903,015

Economic Factors

- Development activity is increasing due to marijuana cultivation projects and other development within the City;
- Assessed property values increased by 8.5% this year;
- Home prices continue to rebound – sales are up by 5.1%;
- Unemployment rate is down significantly from recession highs 6.6% as of July 2018;
- Transit Occupancy Tax increased by 23.0% this year;
- The City increased their reserves to 15% of annual general fund appropriations for natural and fiscal emergencies; 5% for future operational and capital uses. Additionally, there is a 25% reserve from the cannabis revenue sources also set up for financial and economic uncertainty.

Request for Information

This financial report is designed to provide a general overview of the City of Desert Hot Springs finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Desert Hot Springs, Linda Kelly, Finance Director, 65950 Pierson Blvd, Desert Hot Springs, CA 92240 or by telephone at 760-329-6411 Ext 289.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Desert Hot Springs
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 17,633,939	\$ 317,161	\$ 17,951,100
Receivables, net	6,792,385	15,145,502	21,937,887
Prepaid items	71,223	-	71,223
Property held for resale	195,590	-	195,590
Total current assets	<u>24,693,137</u>	<u>15,462,663</u>	<u>40,155,800</u>
Noncurrent assets:			
Cash and investments with fiscal agents	2,797,544	-	2,797,544
Capital assets:			
Not being depreciated	6,933,581	370,415	7,303,996
Being depreciated, net	<u>37,241,167</u>	<u>12,987,642</u>	<u>50,228,809</u>
Total noncurrent assets	<u>46,972,292</u>	<u>13,358,057</u>	<u>60,330,349</u>
Total assets	<u>71,665,429</u>	<u>28,820,720</u>	<u>100,486,149</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	157,274	-	157,274
Deferred outflows of resources related to pension	<u>3,267,668</u>	<u>-</u>	<u>3,267,668</u>
Total deferred outflows of resources	<u>3,424,942</u>	<u>-</u>	<u>3,424,942</u>

City of Desert Hot Springs
Statement of Net Position (Continued)
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 1,980,540	\$ 18,850	\$ 1,999,390
Accrued liabilities	1,009	-	1,009
Deposits	896,530	-	896,530
Interest payable	217,016	-	217,016
Unearned revenues	200,588	52,000	252,588
Long-term debt - due within one year	1,304,062	-	1,304,062
Total current liabilities	4,599,745	70,850	4,670,595
Noncurrent liabilities:			
Long-term debt - due in more than one year	22,182,531	20,697,000	42,879,531
Aggregate net pension liabilities	11,703,695	-	11,703,695
Total noncurrent liabilities	33,886,226	20,697,000	54,583,226
Total liabilities	38,485,971	20,767,850	59,253,821
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	108,402	-	108,402
Total deferred inflows of resources	108,402	-	108,402
NET POSITION			
Net investment in capital assets	38,562,083	(7,338,943)	31,223,140
Restricted for:			
Public safety	133,179	-	133,179
Street maintenance and capital improvement	4,194,767	-	4,194,767
Housing authority	3,654,824	-	3,654,824
Debt service	4,579,989	-	4,579,989
Lighting/Landscaping/Drainage	1,297,907	-	1,297,907
Assessment District 91-1	121,434	-	121,434
Assessment District 92-1	13,431	-	13,431
Assessment District 93-2	8,574	-	8,574
Other	114,605	-	114,605
Total restricted	14,118,710	-	14,118,710
Unrestricted (deficit)	(16,184,795)	15,391,813	(792,982)
Total net position	\$ 36,495,998	\$ 8,052,870	\$ 44,548,868

City of Desert Hot Springs
Statement of Activities
For the Year Ended June 30, 2018

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	\$ 6,084,434	260,063	\$ 860,929	\$ -	\$ 1,120,992
Public safety	9,969,636	839,885	2,449,417	2,194,020	5,483,322
Public works	3,228,778	965,272	813,719	2,602,809	4,381,800
Economic development	2,001,519	3,002,793	331,126	66,369	3,400,288
Culture and leisure	1,405,176	254,282	-	-	254,282
Interest and fiscal charges	872,857	-	-	-	-
Total governmental activities	23,562,400	5,322,295	4,455,191	4,863,198	14,640,684
Business-type activities:					
Health and Wellness Foundation	855,596	104,000	-	-	104,000
Total business-type activities	855,596	104,000	-	-	104,000
Total primary government	\$ 24,417,996	\$ 5,426,295	\$ 4,455,191	\$ 4,863,198	\$ 14,744,684

City of Desert Hot Springs
Statement of Activities (Continued)
For the Year Ended June 30, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (4,963,442)	\$ -	\$ (4,963,442)
Public safety	(4,486,314)	-	(4,486,314)
Public works	1,153,022	-	1,153,022
Economic development	1,398,769	-	1,398,769
Culture and leisure	(1,150,894)	-	(1,150,894)
Interest and fiscal charges	(872,857)	-	(872,857)
Total governmental activities	(8,921,716)	-	(8,921,716)
Business-type activities:			
Health and Wellness Foundation	-	(751,596)	(751,596)
Total business-type activities	-	(751,596)	(751,596)
Total primary government	(8,921,716)	(751,596)	(9,673,312)
General revenues:			
Taxes:			
Property taxes	1,299,147	-	1,299,147
Sales taxes	3,623,448	-	3,623,448
Vehicle in-lieu taxes	15,324	-	15,324
Utility users taxes	35,377	-	35,377
Franchise taxes	1,505,206	-	1,505,206
Transient occupancy taxes	2,169,988	-	2,169,988
Total taxes	8,648,490	-	8,648,490
Investment income	96,835	75,637	172,472
Miscellaneous	914,674	-	914,674
Transfers	75,400	(75,400)	-
Total general revenues and transfers	9,735,399	237	9,735,636
Change in net position	813,683	(751,359)	62,324
Net position - beginning of year, as restated (Note 15)	35,682,315	8,804,229	44,486,544
Net position - end of year	\$ 36,495,998	\$ 8,052,870	\$ 44,548,868

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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.

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.

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.

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

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

City of Desert Hot Springs
Balance Sheet
Governmental Funds
June 30, 2018

	Special Revenue Funds			
	General	Public Safety	Housing Authority	Capital Improvement Deposits
ASSETS				
Cash and investments	\$ 8,849,570	\$ 269,718	\$ 28,554	\$ 3,914,815
Cash and investments with fiscal agents	-	-	-	-
Receivables:				
Accounts	1,710,348	571,679	-	-
Interest	12,794	-	8	3,566
Notes	-	-	3,430,672	-
Abatements	374,185	-	-	-
Prepaid items	69,374	1,849	-	-
Due from other governments	-	-	-	-
Due from other funds	180,018	-	-	-
Property held for resale	-	-	195,590	-
Total assets	\$ 11,196,289	\$ 843,246	\$ 3,654,824	\$ 3,918,381
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 977,744	\$ 752,218	\$ -	\$ 22,503
Accrued liabilities	1,009	-	-	-
Due to other funds	-	-	-	223,600
Deposits	668,792	9,750	-	-
Unearned revenue	588	-	-	-
Total liabilities	1,648,133	761,968	-	246,103
Deferred Inflows of Resources:				
Unavailable revenues	580,103	81,251	-	-
Fund Balances:				
Nonspendable	69,374	-	-	-
Restricted	-	27	3,654,824	3,672,278
Committed	-	-	-	-
Assigned	8,898,679	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	8,968,053	27	3,654,824	3,672,278
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,196,289	\$ 843,246	\$ 3,654,824	\$ 3,918,381

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Balance Sheet (Continued)
Governmental Funds
June 30, 2018

	Capital Improvement Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 617,560	\$ 1,518,938	\$ 1,840,326	\$ 17,039,481
Cash and investments with fiscal agents	-	2,389,726	407,818	2,797,544
Receivables:				
Accounts	75,004	177,995	165,636	2,700,662
Interest	-	1,270	1,634	19,272
Notes	-	-	-	3,430,672
Abatements	-	-	-	374,185
Prepaid items	-	-	-	71,223
Due from other governments	-	-	257,594	257,594
Due from other funds	-	-	223,600	403,618
Property held for resale	-	-	-	195,590
Total assets	\$ 692,564	\$ 4,087,929	\$ 2,896,608	\$ 27,289,841
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 56,080	\$ -	\$ 147,944	\$ 1,956,489
Accrued liabilities	-	-	-	1,009
Due to other funds	-	-	180,018	403,618
Deposits	217,988	-	-	896,530
Unearned revenue	200,000	-	-	200,588
Total liabilities	474,068	-	327,962	3,458,234
Deferred Inflows of Resources:				
Unavailable revenues	75,004	-	120,344	856,702
Fund Balances:				
Nonspendable	-	-	-	69,374
Restricted	143,492	4,087,929	2,338,158	13,896,708
Committed	-	-	164,741	164,741
Assigned	-	-	-	8,898,679
Unassigned (deficit)	-	-	(54,597)	(54,597)
Total fund balances	143,492	4,087,929	2,448,302	22,974,905
Total liabilities, deferred inflows of resources, and fund balances	\$ 692,564	\$ 4,087,929	\$ 2,896,608	\$ 27,289,841

See accompanying Notes to the Basic Financial Statements.

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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, 2018

Total Fund Balances - Total Governmental Funds		\$ 22,974,905
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, excluding the \$575,882 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	6,933,581	
Capital assets, being depreciated	36,665,285	43,598,866
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.		
		856,702
Interest expenses are recognized when due, and therefore, interest payable is not recorded in the governmental funds.		
		(217,016)
Long-term liabilities, net of \$718,550 reported in Internal Service funds were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds' Balance Sheet.		
Deferred loss on refunding	157,274	
Long-term liabilities	(22,768,043)	(22,610,769)
Deferred outflows of resources and deferred inflows of resources related to pension are not reported in the governmental funds:		
Deferred outflows of resources	3,267,668	
Deferred inflows of resources	(108,402)	3,159,266
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.		
		(11,703,695)
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.		
		437,739
Net Position of Governmental Activities		\$ 36,495,998

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds			
	General	Public Safety	Housing Authority	Capital Improvement Deposits
REVENUES:				
Taxes	\$ 10,311,588	\$ 4,311,259	\$ -	\$ 49,998
Permits and fees	2,593,090	89,130	-	1,415,567
Intergovernmental	1,797	22,924	-	-
Licenses	209,167	4,660	-	-
Interest	31,452	-	23	9,932
Miscellaneous	853,101	336,811	13,136	-
Total revenues	14,000,195	4,764,784	13,159	1,475,497
EXPENDITURES:				
Current:				
General government	3,965,735	-	-	-
Public safety	65,364	9,115,367	-	-
Public works	891,638	-	-	-
Economic development	1,957,324	-	18,472	-
Culture and leisure	599,797	-	-	-
Capital outlay	1,322,761	278,979	-	236,797
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	8,802,619	9,394,346	18,472	236,797
REVENUES OVER (UNDER) EXPENDITURES	5,197,576	(4,629,562)	(5,313)	1,238,700
OTHER FINANCING SOURCES (USES):				
Transfers in	260,032	4,746,304	-	-
Transfers out	(5,000,249)	(115,000)	-	(328,350)
Total other financing sources (uses)	(4,740,217)	4,631,304	-	(328,350)
NET CHANGES IN FUND BALANCES	457,359	1,742	(5,313)	910,350
FUND BALANCES:				
Beginning of year, as restated (Note 15)	8,510,694	(1,715)	3,660,137	2,761,928
End of year	<u>\$ 8,968,053</u>	<u>\$ 27</u>	<u>\$ 3,654,824</u>	<u>\$ 3,672,278</u>

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2018

	Capital Improvement Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ -	\$ 1,100,675	\$ 1,043,910	\$ 16,817,430
Permits and fees	-	-	47,030	4,144,817
Intergovernmental	145,000	-	1,913,786	2,083,507
Licenses	-	-	-	213,827
Interest	-	44,058	11,371	96,836
Miscellaneous	-	-	1,274	1,204,322
Total revenues	<u>145,000</u>	<u>1,144,733</u>	<u>3,017,371</u>	<u>24,560,739</u>
EXPENDITURES:				
Current:				
General government	-	-	-	3,965,735
Public safety	-	-	-	9,180,731
Public works	-	-	2,119,217	3,010,855
Economic development	-	-	35,970	2,011,766
Culture and leisure	-	-	172,633	772,430
Capital outlay	1,533,010	-	1,226,755	4,598,302
Debt service:				
Principal retirement	-	300,000	125,000	425,000
Interest and fiscal charges	-	530,732	280,013	810,745
Total expenditures	<u>1,533,010</u>	<u>830,732</u>	<u>3,959,588</u>	<u>24,775,564</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,388,010)</u>	<u>314,001</u>	<u>(942,217)</u>	<u>(214,825)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,764,750	-	1,007,944	7,779,030
Transfers out	-	(1,600,000)	(560,398)	(7,603,997)
Total other financing sources (uses)	<u>1,764,750</u>	<u>(1,600,000)</u>	<u>447,546</u>	<u>175,033</u>
NET CHANGES IN FUND BALANCES	376,740	(1,285,999)	(494,671)	(39,792)
FUND BALANCES:				
Beginning of year, as restated (Note 15)	(233,248)	5,373,928	2,942,973	23,014,697
End of year	<u>\$ 143,492</u>	<u>\$ 4,087,929</u>	<u>\$ 2,448,302</u>	<u>\$ 22,974,905</u>

See accompanying Notes to the Basic Financial Statements.

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, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (39,792)

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 4,598,302

Depreciation expense on capital assets, net of internal service fund depreciation expense of \$241,132 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. (3,323,123)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (260,057)

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. (50,159)

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. 96,483

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	425,000	
Changes in pension-related debt	148,523	573,523

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	13,505	
Amortization of deferred charges on refunding	(8,348)	5,157

Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, net of \$1,193,006 pension contribution made after measurement date. (424,440)

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. (362,211)

Change in Net Position of Governmental Activities \$ 813,683

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.

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City of Desert Hot Springs
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-Type Activities Health & Wellness Foundation	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ 317,161	\$ 594,458
Accounts receivable	-	10,000
Interest receivable	18,908	-
Total current assets	336,069	604,458
Noncurrent assets:		
Notes receivable	15,126,594	-
Capital assets, not being depreciated	370,415	-
Capital assets, being depreciated, net	12,987,642	575,882
Total capital assets, net	13,358,057	575,882
Total noncurrent assets	28,484,651	575,882
Total assets	28,820,720	1,180,340
LIABILITIES		
Current liabilities:		
Accounts payable	18,850	24,051
Unearned revenue	52,000	-
Capital lease payable - due in one year	-	122,995
Claims payable - due in one year	-	333,550
Total current liabilities	70,850	480,596
Noncurrent liabilities:		
Notes payable - due in more than one year	20,697,000	-
Capital lease payable - due in more than one year	-	262,005
Total noncurrent liabilities	20,697,000	262,005
Total liabilities	20,767,850	742,601
NET POSITION		
Net investment in capital assets	(7,338,943)	190,882
Unrestricted	15,391,813	246,857
Total net position	\$ 8,052,870	\$ 437,739

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities <u>Health & Wellness Foundation</u>	Governmental Activities <u>Internal Service Funds</u>
OPERATING REVENUES:		
Charges for services	\$ 104,000	\$ -
Insurance recovery	-	213,070
Total operating revenues	<u>104,000</u>	<u>213,070</u>
OPERATING EXPENSES:		
Insurance claims	-	211,193
General and administrative	162,188	-
Vehicle expense	-	5,758
Depreciation	589,923	241,132
Total operating expenses	<u>752,111</u>	<u>458,083</u>
OPERATING (LOSS)	<u>(648,111)</u>	<u>(245,013)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	75,637	-
Loss on sale of capital assets	-	(456)
Interest expense	(103,485)	(17,110)
Total nonoperating revenues (expenses)	<u>(27,848)</u>	<u>(17,566)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(675,959)</u>	<u>(262,579)</u>
TRANSFERS:		
Transfers in	-	115,000
Transfers out	(75,400)	(214,632)
Total transfers	<u>(75,400)</u>	<u>(99,632)</u>
Changes in net position	(751,359)	(362,211)
NET POSITION:		
Beginning of year	<u>8,804,229</u>	<u>799,950</u>
End of year	<u>\$ 8,052,870</u>	<u>\$ 437,739</u>

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities Health & Wellness Foundation	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 104,000	\$ -
Receipts from claims and recoveries	-	243,597
Payments to suppliers for goods and services	(181,112)	(5,758)
Payments for insurance claims	-	(271,773)
Net cash provided by (used in) operating activities	(77,112)	(33,934)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in from other funds	-	115,000
Transfers out to other funds	(75,400)	(214,632)
Net cash (used in) noncapital financing activities	(75,400)	(99,632)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of assets	-	9,616
Acquisition of capital assets	-	(51,102)
Principal payments on capital lease	-	(119,705)
Interest paid	(103,485)	(17,110)
Net cash (used in) capital and related financing activities	(103,485)	(178,301)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	75,636	-
Net cash provided by investing activities	75,636	-
Net decrease in cash and cash equivalents	(180,361)	(311,867)
CASH AND CASH EQUIVALENTS:		
Beginning of year	497,522	906,325
End of year	<u>\$ 317,161</u>	<u>\$ 594,458</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating (loss)	\$ (648,111)	\$ (245,013)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation expense	589,923	241,132
(Increase) decrease in accounts receivables	-	30,527
Increase (decrease) in accounts payable	(18,925)	24,051
Increase (decrease) in claims payable	-	(84,631)
Total adjustments	570,998	211,079
Net cash provided by (used in) operating activities	\$ (77,113)	\$ (33,934)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Issuance of capital lease	\$ -	\$ 504,705

See accompanying Notes to the Basic Financial Statements.

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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, 2018

	Successor Agency Private - Purpose Trust Fund	Agency Funds
ASSETS		
Current assets:		
Cash and investments	\$ 5,262,824	\$ 1,110,761
Accounts receivable	1,378,815	10,912
Interest receivable	-	752
Total current assets	6,641,639	1,122,425
Noncurrent assets:		
Investments with fiscal agents	3,285,809	176,420
Notes receivable	16,294	-
Property held for resale	517,940	-
Total noncurrent assets	3,820,043	176,420
Total assets	10,461,682	\$ 1,298,845
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refundings	1,419,959	
Total deferred outflows of resources	1,419,959	
LIABILITIES		
Current liabilities:		
Accounts payable	190,690	\$ 35,537
Deposits payable	278,050	416,086
Interest payable	526,171	-
Bonds payable - due within one year	2,072,595	-
Due to bondholders	-	847,222
Total current liabilities	3,067,506	1,298,845
Noncurrent liabilities:		
Bonds payable - due in more than one year	30,131,809	-
Total noncurrent liabilities	30,131,809	-
Total liabilities	33,199,315	\$ 1,298,845
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refundings	3,351	
Total deferred outflows of resources	3,351	
NET POSITION (DEFICIT)		
Held in trust	(21,321,025)	
Total net position (deficit)	\$ (21,321,025)	

See accompanying Notes to the Basic Financial Statements.

City of Desert Hot Springs
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	Successor Agency Private - Purpose Trust Fund
ADDITIONS:	
Redevelopment Property Tax Trust Fund	\$ 4,363,905
Use of money and property	66,976
Other revenue	20,219
Total additions	4,451,100
DEDUCTIONS:	
Interest expenses	1,536,081
Administration	802,549
Pass through payments	160,528
Investment loss	35,074
Loss on sale of land held for resale	1,381,337
Total deductions	3,915,569
Change in net position	535,531
NET POSITION:	
Beginning of year	(21,856,556)
End of year	\$ (21,321,025)

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Desert Hot Springs
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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City of Desert Hot Springs
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City of Desert Hot Springs
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Blended Component Units:

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Units (Continued):

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

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

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

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

The City has no discretely presented component units.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements

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

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

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

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

The following interfund activities have been eliminated:

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

Governmental Fund Financial Statements

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

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

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements(Continued)

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.
- ***Capital Improvement Deposits Special Revenue Fund*** – This fund is 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.
- ***Capital Improvement Capital Projects Fund*** – This fund is to account for and report expenditures related to various capital projects identified in the City’s 5-Year CIP plan.
- ***Debt Service Fund*** – This fund was established to account for the debt service payments of the City.

Proprietary Fund Financial Statements

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

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements (Continued)

The City reports the following major proprietary fund:

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

Fiduciary Fund Financial Statements

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

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

C. Cash, Cash Equivalents and Investments

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

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

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

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

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

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Fair Value Measurement

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

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

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

F. Prepaid Items

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

G. Interfund Transactions

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

H. Property Held for Resale

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

I. Capital Assets

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

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

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 activities 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.

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. 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:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Deferred Outflows/Inflows of Resources

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

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

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

O. Long-Term Debt

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

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

P. Claims and Judgments

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

Q. Property Taxes

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

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

R. Net Position

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

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

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

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

S. Fund 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.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

T. Spending Policy

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

- Committed
- Assigned
- Unassigned

U. Use of Estimates

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

V. Accounting Changes

GASB Statement No. 85, Omnibus 2017 (GASB 85). This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

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, 2018:

	Government-Wide Statement of Net Position			Fiduciary Fund Statement of Net Position	
	Governmental Activities	Business-Type Activities	Total	Net Position	Total
Cash and investments	\$ 17,633,939	\$ 317,161	\$ 17,951,100	\$ 6,373,585	\$ 24,324,685
Cash and investments with fiscal agents	2,797,544	-	2,797,544	3,462,229	6,259,773
Total cash and investments	<u>\$ 20,431,483</u>	<u>\$ 317,161</u>	<u>\$ 20,748,644</u>	<u>\$ 9,835,814</u>	<u>\$ 30,584,458</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

Cash and investments consisted of the following at June 30, 2018:

Cash:		
Petty cash	\$	8,000
Demand deposits		18,331,155
Cash with fiscal agent:		879,665
Total cash and cash equivalents		19,218,820
Investments		5,985,530
Investments with fiscal agents		5,380,108
Total investments		11,365,638
Total cash and investments	\$	30,584,458

A. Demand Deposits

The carrying amounts of the City’s demand deposits were \$18,331,155 at June 30, 2018. Bank balances at that date were \$20,164,568, 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.

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 was consistent with the terms and provisions of California Government Code Section 53600 et seq.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

B. Investments (Continued)

Investments Authorized by the City's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity *	Percentage of Portfolio *	Investment in One Issuer *
United States Treasury Obligations	5 years	80%	Total amount invested
U.S. Sponsored Enterprise Securities	5 years	80%	Total amount invested
Bankers' Acceptances	180 days	40%	40%
Commercial paper	270 days	25%	10%
Negotiable Certificates of deposit	5 years	30%	N/A
Local Agency Investment Fund ("LAIF")	N/A	No Limit	\$50 million
Medium-term notes	5 years	30%	N/A
Money Market Mutual Funds	N/A	20%	10%

N/A - Not Applicable

* Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

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, 2018, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

Investment Type	Value	Fair Value Measurement		Uncategorized
		Observable Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	
Local Agency Investment Fund (LAIF)	\$ 3,726,685	\$ -	\$ -	\$ 3,726,685
Certificates of deposits	2,258,845	-	2,258,845	-
Investments held with fiscal agents:				
US Treasury noted	1,316,306	1,316,306	-	-
US government sponsored enterprise securities	170,490	-	170,490	-
Corporate bonds	312,811	-	312,811	-
Foreign government bonds	313,913	-	313,913	-
Commercial paper	2,120,074	-	2,120,074	-
Money market mutual funds	1,146,514	-	-	1,146,514
Total	<u>\$ 11,365,638</u>	<u>\$ 1,316,306</u>	<u>\$ 5,176,133</u>	<u>\$ 4,873,199</u>

Level 2 investments are valued based on institutional bond quotes or matrix pricing.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

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, 2018, the City's investments had the following maturities:

Investment Type	Amount	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund (LAIF)	\$ 3,726,685	\$ 3,726,685	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	2,258,845	938,741	493,221	587,648	195,346	43,889
Investments held with fiscal agents:						
US Treasury noted	1,316,306	-	-	660,211	656,095	-
US government sponsored enterprise securities	170,490	-	92,428	-	78,062	-
Corporate bonds	312,811	-	312,811	-	-	-
Foreign government bonds	313,913	-	-	-	313,913	-
Commercial paper	2,120,074	2,120,074	-	-	-	-
Money market mutual funds	1,146,514	1,146,514	-	-	-	-
Total	\$ 11,365,638	\$ 7,932,014	\$ 898,460	\$ 1,247,859	\$ 1,243,416	\$ 43,889

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:

Investment Type	Fair Value	Minimum Legal Credit Rating	Credit Rating	Percentage of Investments with Credit Rate Risk
Local Agency Investment Fund (LAIF)	\$ 3,726,685	N/A	Not Rated	62.26%
Certificates of deposits	2,258,845	A	A1	37.74%
Investments held with fiscal agents:				
US Treasury noted	1,316,306	Aaa	Aaa	N/A
US government sponsored enterprise securities	170,490	N/A	Aaa	N/A
Corporate bonds	312,811	N/A	Aaa	N/A
Foreign government bonds	313,913	N/A	Not Rated	N/A
Commercial paper	2,120,074	N/A	Aa3	N/A
Money market mutual funds	1,146,514	N/A	Aaa	N/A
Total	\$ 11,365,638			

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Custodial Credit Risk

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

E. Investments in Local Agency Investment Fund

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2018, 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, 2018, the City had \$3,726,685 invested in LAIF, which had invested 2.67% 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, 2018 at amortized cost, which approximates fair value.

Note 3 – Notes Receivable

A. Governmental Fund Financial Statements

Notes receivable, which amounted to \$3,430,672, are reported in the Housing Authority Special Revenue Fund as follows:

Housing Rehabilitation Loan Program	\$ 980,672
Owner Participation and Loan Agreement:	
Low and Moderate Income Housing Units	750,000
Multifamily Residential Housing	1,700,000
Total	\$ 3,430,672

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Notes Receivable (Continued)

A. Governmental Fund Financial Statements (Continued)

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

On October 6, 2009, the former Redevelopment Agency entered into an Owner Participation and Loan Agreement for \$750,000 with a developer to provide sixty low to moderate income housing units. The term of the loan is 55 years.

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.

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, 2018, 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, 2018, the City had the following short-term interfund receivable/payable:

	Due from Other Funds		Total
	General Fund	Nonmajor Governmental Funds	
Due to Other Funds	General Fund	Nonmajor Governmental Funds	Total
Capital Improvement Capital Project Fund	\$ -	\$ 223,600	\$ 223,600
Nonmajor Governmental Funds	180,018	-	180,018
Total	<u>\$ 180,018</u>	<u>\$ 223,600</u>	<u>\$ 403,618</u>

The interfund balances resulted from temporary reclassifications made at June 30, 2018 to cover cash shortfalls and repayment amount for Quimby Act Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 4 – Interfund Transactions (Continued)

B. Transfers In/Out

For the year ended June 30, 2018, 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	Capital Improvement Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfers Out						
General Fund	\$ -	\$ 4,615,100	\$ -	\$ 385,150	\$ -	\$ 5,000,250
Public Safety Special Revenue Fund	-	-	-	-	115,000	115,000
Capital Improvement Deposits						
Special Revenue Fund	-	-	104,750	223,600	-	328,350
Debt Service Fund	-	-	1,600,000	-	-	1,600,000
Nonmajor Governmental Funds	-	131,204	30,000	399,194	-	560,398
Health & Wellness						
Foundation Enterprise Fund	75,400	-	-	-	-	75,400
Internal Service Fund	184,632	-	30,000	-	-	214,632
Total	\$ 260,032	\$ 4,746,304	\$ 1,764,750	\$ 1,007,944	115,000	\$ 7,894,030

The transfer of \$4,615,100 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 \$385,150 from General Fund to the Nonmajor Governmental Funds were budgeted transfers to provide funding for the expenditures of Cabot’s Museum and Municipal Lighting and Maintenance District.

The transfer of \$115,000 from the Public Safety Special Revenue Fund to the Internal Service funds relates to the annual lease payment for Police Department vehicles.

The transfer of \$223,600 from the Capital Improvement Deposits Special Revenue Fund to Nonmajor Governmental Funds relates to the development fee under Quimby Act and to fund capital projects.

The transfers of \$1,600,000 from Debt Service Fund to Nonmajor Governmental Funds relates to the bond proceeds for construction of the City Hall.

The transfers of \$131,204 from the Nonmajor Governmental Funds to the Public Safety Special Revenue Fund relates to assistance in funding public safety expenditures. Transfers of \$399,194 within the Nonmajor Governmental Funds were to cover the debt service payments.

The transfers of \$184,632 from the Internal Service Fund to the General Fund relates to provide funding for vehicle purchases.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

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, 2018 is as follows:

	Governmental Activities				Balance June 30, 2018
	Balance July 1, 2017	Additions	Deletions	Transfers	
Nondepreciable assets:					
Land	\$ 2,319,028	\$ 384,640	\$ -	\$ -	\$ 2,703,668
Construction in progress	2,164,189	2,403,206	-	(337,482)	4,229,913
Total nondepreciable assets	<u>4,483,217</u>	<u>2,787,846</u>	<u>-</u>	<u>(337,482)</u>	<u>6,933,581</u>
Depreciable assets:					
Building and improvements	17,417,590	884,853	-	337,482	18,639,925
Machinery and equipment	8,149,252	97,836	-	-	8,247,088
Vehicles	1,928,228	733,968	(175,289)	-	2,486,907
Infrastructure	38,508,935	649,606	-	-	39,158,541
Total capital assets, being depreciated	<u>66,004,005</u>	<u>2,366,263</u>	<u>(175,289)</u>	<u>337,482</u>	<u>68,532,461</u>
Less accumulated depreciation:					
Building and improvements	(6,192,082)	(508,792)	-	-	(6,700,874)
Machinery and equipment	(6,800,861)	(673,946)	-	-	(7,474,807)
Vehicles	(1,221,456)	(456,070)	165,217	-	(1,512,309)
Infrastructure	(13,677,857)	(1,925,447)	-	-	(15,603,304)
Total accumulated depreciation	<u>(27,892,256)</u>	<u>(3,564,255)</u>	<u>165,217</u>	<u>-</u>	<u>(31,291,294)</u>
Total depreciable assets, net	<u>38,111,749</u>	<u>(1,197,992)</u>	<u>(10,072)</u>	<u>337,482</u>	<u>37,241,167</u>
Governmental activities capital assets, net	<u>\$ 42,594,966</u>	<u>\$ 1,589,854</u>	<u>\$ (10,072)</u>	<u>\$ -</u>	<u>\$ 44,174,748</u>

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2018 as follows:

General government	\$ 2,085,834
Public safety	648,133
Public works	193,607
Culture and leisure	636,681
Total depreciation expense	<u>\$ 3,564,255</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Capital Assets (Continued)

B. Business-Type Activities

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2018 is as follows:

	Business-Type Activities			June 30, 2018
	July 1, 2017	Additions	Deletions	
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	(2,335,970)	(540,041)	-	(2,876,011)
Furniture and fixtures	(216,719)	(49,882)	-	(266,601)
Total accumulated depreciation	(2,552,689)	(589,923)	-	(3,142,612)
Total depreciable assets, net	13,577,565	(589,923)	-	12,987,642
Business-type activities capital assets, net	\$ 13,947,980	\$ (589,923)	\$ -	\$ 13,358,057

Depreciation expense was charged to functions/programs of business-type activities for the fiscal year ended June 30, 2018 as follows:

Heath and Wellness Foundation	<u><u>\$ 589,923</u></u>
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City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

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, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in more than One Year
2012A Certificates of Participation	5,345,000	-	(125,000)	5,220,000	130,000	5,090,000
Lease Revenue Bonds Series 2017A	13,895,000	-	(90,000)	13,805,000	80,000	13,725,000
Taxable Lease Revenue Bonds Series 2017A-T	1,105,000	-	(210,000)	895,000	200,000	695,000
Subtotal	20,345,000	-	(425,000)	19,920,000	410,000	19,510,000
Add/(less) deferred amounts:						
Bond premium - 2012A COP	192,975	-	(7,665)	185,310	7,665	177,645
Bond discount - 2017A-T	(1,745)	-	365	(1,380)	(365)	(1,015)
Bond premium - 2017A	179,947	-	(6,205)	173,742	6,205	167,537
Total bonds payable	20,716,177	-	(438,505)	20,277,672	423,505	19,854,167
Capital lease payable	-	504,705	(119,705)	385,000	122,995	262,005
Claims and judgments payable	418,181	121,980	(206,611)	333,550	333,550	-
Compensated absences	485,313	345,003	(441,486)	388,830	116,649	272,181
Pension-related debt	2,250,064	-	(148,523)	2,101,541	307,363	1,794,178
Total	\$ 23,869,735	\$ 971,688	\$ (1,354,830)	\$ 23,486,593	\$ 1,304,062	\$ 22,182,531

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, 2018

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, 2018, the outstanding balance of the Certificates was \$5,220,000. The annual debt service requirements on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 130,000	\$ 270,444	\$ 400,444
2020	135,000	266,544	401,544
2021	135,000	262,494	397,494
2022	140,000	258,275	398,275
2023	145,000	253,375	398,375
2024-2028	815,000	1,178,900	1,993,900
2029-2033	1,010,000	989,500	1,999,500
2034-2038	1,330,000	663,000	1,993,000
2039-2042	1,380,000	213,000	1,593,000
Total	<u>\$ 5,220,000</u>	<u>\$ 4,355,532</u>	<u>\$ 9,575,532</u>

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

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

The Bonds accrue interest at rates between 2.000% and 3.750%, payable semiannually on March 1 and September 1, commencing September 1, 2017 and the principals are due annually on March 1.

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

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

At June 30, 2018, the outstanding balance of the Tax Exempt Bonds and the Taxable Bonds were \$13,805,000 and 895,000, respectively. The annual debt service requirements on the Bonds are as follows:

Year Ending June 30,	Tax Exempt Bonds		Taxable Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 80,000	\$ 558,906	\$ 200,000	\$ 24,530	\$ 280,000	\$ 583,436
2020	80,000	556,506	205,000	20,530	285,000	577,036
2021	80,000	552,906	215,000	15,098	295,000	568,004
2022	90,000	549,306	215,000	8,755	305,000	558,061
2023	255,000	545,256	60,000	1,875	315,000	547,131
2024-2028	1,805,000	2,513,656	-	-	1,805,000	2,513,656
2029-2033	2,265,000	2,053,369	-	-	2,265,000	2,053,369
2034-2038	2,725,000	1,605,744	-	-	2,725,000	1,605,744
2039-2043	3,290,000	1,032,000	-	-	3,290,000	1,032,000
2044-2047	3,135,000	319,800	-	-	3,135,000	319,800
Total	\$ 13,805,000	\$ 10,287,450	\$ 895,000	\$ 70,788	\$ 14,700,000	\$ 10,358,238

Capital Lease Payable

The City entered into a capital lease agreement during the year ended June 30, 2018 for the acquisition of 10 police vehicles in the amount of \$504,160. The lease repayments are due on monthly basis and bears interest at 4.2% annum. The accumulated depreciation for the leased vehicles at June 30, 2018 was \$75,706. The future minimum lease payment is as follow:

	Year Ending June 30,	
	2019	136,815
	2020	136,815
	2021	136,816
	Subtotal	410,446
	Less: Interest	(25,446)
Present value of future minimum lease payments		<u>385,000</u>

Claims and Judgments Payable

The amount of claims and judgments payable at June 30, 2018 was \$333,550. The Risk Management Internal Service Fund has been used to liquidate the liability for claims and judgments payable. See Note 7 for details.

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) in the governmental activities has been accrued and amounted to \$388,830. The General Fund has been used to liquidate the majority of the liability for compensated absences.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

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, 2018 totaled \$2,101,541, including \$462,783 for the Miscellaneous Plan and \$1,638,758 for the Safety Plan. The future payment requirements are as follows:

Year Ending June 30,	Miscellaneous	Safety	Total
2019	\$ 104,049	\$ 203,314	\$ 307,363
2020	106,797	208,776	315,573
2021	125,968	204,445	330,413
2022	125,969	204,445	330,414
2023	-	204,445	204,445
2024-2026	-	613,333	613,333
	<u>\$ 462,783</u>	<u>\$ 1,638,758</u>	<u>\$ 2,101,541</u>

B. Business-Type Activities

A summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	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	<u>\$20,697,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,697,000</u>	<u>\$ -</u>	<u>\$20,697,000</u>

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, 2018

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, 2018, 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
2019	\$ -	\$ 46,040	\$ 46,040
2020	487,888	45,132	533,020
2021	146,676	43,324	190,000
2022	147,412	42,588	190,000
2023	148,149	41,851	190,000
2024-2028	903,683	196,817	1,100,500
2029-2033	1,144,117	171,383	1,315,500
2034-2038	1,390,632	139,868	1,530,500
2039-2043	1,643,387	102,113	1,745,500
2044-2048	1,902,538	57,962	1,960,500
2049-2052	1,293,139	10,941	1,304,080
Total	<u>\$ 9,207,621</u>	<u>\$ 898,019</u>	<u>\$ 10,105,640</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, 2018, 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, 2018

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
2019	\$ -	\$ 19,800	\$ 19,800
2020	299,684	19,216	318,900
2021	53,799	18,201	72,000
2022	54,070	17,930	72,000
2023	54,338	17,662	72,000
2024-2028	349,910	83,590	433,500
2029-2033	465,018	73,482	538,500
2034-2038	583,036	60,464	643,500
2039-2043	704,046	44,454	748,500
2044-2048	828,111	25,389	853,500
2049-2052	567,988	4,815	572,803
Total	<u>\$ 3,960,000</u>	<u>\$ 385,003</u>	<u>\$ 4,345,003</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, 2018, the outstanding balance of the LCD – Promissory Note B-1 was \$3,272,379.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ -	\$ 16,360	\$ 16,360
2020	24,335	16,345	40,680
2021	48,852	16,149	65,001
2022	49,096	15,904	65,000
2023	49,342	15,658	65,000
2024-2028	313,957	74,043	388,000
2029-2033	412,977	65,023	478,000
2034-2038	514,499	53,501	568,000
2039-2043	618,593	39,407	658,000
2044-2048	725,322	22,678	748,000
2049-2052	515,406	4,491	519,897
Total	<u>\$ 3,272,379</u>	<u>\$ 339,559</u>	<u>\$ 3,611,938</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

NMCC – Promissory Note B-2

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2018, the outstanding balance of the NMCC – Promissory Note B-2 was \$1,958,973.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ -	\$ 9,796	\$ 9,796
2020	10,609	9,789	20,398
2021	21,298	9,702	31,000
2022	21,405	9,595	31,000
2023	21,512	9,488	31,000
2024-2028	158,588	45,412	204,000
2029-2033	233,439	40,561	274,000
2034-2038	310,181	33,819	344,000
2039-2043	388,868	25,132	414,000
2044-2048	469,544	14,456	484,000
2049-2052	323,529	2,728	326,257
Total	<u>\$ 1,958,973</u>	<u>\$ 210,478</u>	<u>\$ 2,169,451</u>

NMCC – Promissory Note C-2

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2018, 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
2019	\$ -	\$ 11,492	\$ 11,492
2020	12,762	11,484	24,246
2021	25,620	11,380	37,000
2022	25,750	11,250	37,000
2023	25,880	11,120	37,000
2024-2028	187,809	53,191	241,000
2029-2033	273,518	47,482	321,000
2034-2038	361,394	39,606	401,000
2039-2043	451,497	29,503	481,000
2044-2048	543,877	17,123	561,000
2049-2052	389,920	3,389	393,309
Total	<u>\$ 2,298,027</u>	<u>\$ 247,020</u>	<u>\$ 2,545,047</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Activities

A summary of changes in long-term liabilities for the fiduciary fund for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in more than One Year
2008 Tax Allocation Bonds A-1	\$11,815,000	\$ -	\$ (1,365,000)	\$10,450,000	\$ 1,460,000	\$ 8,990,000
2017 Tax Allocation Refunding Bonds	20,020,000	-	-	20,020,000	575,000	19,445,000
Subtotal	31,835,000	-	(1,365,000)	30,470,000	2,035,000	28,435,000
Add/(less) deferred amounts:						
Bond discount - 2008 TAB A-1	(363,753)	-	58,765	(304,988)	(58,765)	(246,223)
Bond premium - 2017 Tax Allocation Refunding Bonds	2,135,752	-	(96,360)	2,039,392	96,360	1,943,032
Total bonds payable	\$33,606,999	\$ -	\$ (1,402,595)	\$32,204,404	\$ 2,072,595	\$30,131,809

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 \$2,144,275 and total net revenue reported by the Successor Agency was \$4,363,905. The ratio of net revenues to the debt service payments due during the year ended June 30, 2018 was 2.04 (204%).

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Activities (Continued)

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

The amount of Series 2008A-1 Bonds outstanding at June 30, 2018 totaled \$10,450,000 in the Successor Agency Private-Purpose Trust Fund.

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,460,000	\$ 680,400	\$ 2,140,400
2020	1,565,000	574,525	2,139,525
2021	1,670,000	461,300	2,131,300
2022	1,790,000	340,200	2,130,200
2023	1,915,000	210,525	2,125,525
2024	2,050,000	71,750	2,121,750
Total	<u>\$ 10,450,000</u>	<u>\$ 2,338,700</u>	<u>\$ 12,788,700</u>

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

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

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

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 575,000	\$ 841,263	\$ 1,416,263
2020	590,000	556,506	1,146,506
2021	740,000	552,906	1,292,906
2022	800,000	549,306	1,349,306
2023	840,000	545,256	1,385,256
2024-2028	4,825,000	2,513,656	7,338,656
2029-2033	6,110,000	2,053,369	8,163,369
2034-2038	4,460,000	1,605,744	6,065,744
2039-2040	1,080,000	878,200	1,958,200
Total	<u>\$ 20,020,000</u>	<u>\$ 10,096,205</u>	<u>\$ 30,116,205</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Non-City Obligation Debt

The City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) issued Improvement Area 1 Special Tax Bonds, Series 2008A on October 16, 2008 in the amount of \$2,600,000. The bond proceeds, in conjunction with special tax collections, will be used to finance certain public facilities and fees within the City necessary for the development of property within Improvement Area 1 of the District. The bonds do not constitute a debt or liability of the City as they are secured by the special tax revenues levied by the District on real property within the boundaries of the Improvement Area 1. In August 2010, the District issued \$2,285,000 Improvement Area 1 Special Tax Refunding Bonds, Series 2010 and redeemed the Improvement Area 1 Special Tax Bonds, Series 2008A. The outstanding balance for the Improvement Area 1 Special Tax Refunding Bonds, Series 2010, at June 30, 2018 was \$2,005,000.

Note 8 – Risk Management

A. Coverage

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

General Liability

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

Workers’ Compensation and Employers’ Liability

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

Other Coverage

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Risk Management (Continued)

B. Claims Activity

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2018, the amount of these liabilities was \$333,550 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
2016	\$ 702,990	\$ 355,300	\$ (342,528)	\$ 715,762
2017	715,762	73,555	(371,136)	418,181
2018	418,181	-	(84,631)	333,550

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 9 – Defined Benefit Pension Plan

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 website at <https://www.calpers.ca.gov/page/forms-publications>.

Employees Covered by Benefit Terms

At valuation date of June 30, 2016, the following employees were covered by the benefit terms:

	Miscellaneous Plans			Safety Police Plans		
	1st Tier	2nd Tier	PEPRA	1st Tier	2nd Tier	PEPRA
Active employees	17	3	9	6	5	14
Transferred and terminated employees	31	2	1	30	2	2
Separated	42	1	4	10	1	1
Retired Employees and Beneficiaries	44	-	1	56	-	-
Total	134	6	15	102	8	17

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

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

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%.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

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, 2017, the contribution rates were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Miscellaneous First Tier	8.000%	11.634%
Miscellaneous Second Tier	7.000%	7.159%
Miscellaneous PEPRA	6.250%	6.555%
Safety Police First Tier	9.000%	22.506%
Safety Police Second Tier	9.000%	19.755%
Safety Police PEPRA	13.500%	13.499%

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, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
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

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, 2016 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

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

Change of Assumption

In 2017, the accounting discount rate was reduced from 7.65% to 7.15%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 7.15 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 7.15 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.

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

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

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

Discount Rate (Continued)

Asset Class	Current Target Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

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 7.15%, 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 (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate	Current Discount	Discount Rate
	- 1% (6.15%)	Rate (7.15%)	+ 1% (8.15%)
Miscellaneous Plan	\$ 5,301,797	\$ 3,401,088	\$ 1,826,886
Safety Plan	\$ 12,413,498	\$ 8,302,607	\$ 4,942,159

Pension Plan Fiduciary Net Position

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

Proportionate Share of Net Pension Liability and Pension Expense

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

	Plan Total Pension Liability	Increase (Decrease)	
		Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Miscellaneous Plan			
Balance at: 6/30/16 (Valuation date)	\$ 10,200,525	\$ 7,174,539	\$ 3,025,986
Balance at: 6/30/17 (Measurement date)	11,294,068	7,892,980	3,401,088
Net Changes during 2016-2017	1,093,543	718,441	375,102

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

	Increase (Decrease)		
	Plan Total	Plan Fiduciary	
	Pension Liability	Net Position	Net Pension Liability/(Asset)
Safety Plan			
Balance at: 6/30/16 (Valuation date)	\$ 24,137,702	\$ 16,792,057	\$ 7,345,645
Balance at: 6/30/17 (Measurement date)	27,289,480	18,986,873	8,302,607
Net Changes during 2016-2017	3,151,778	2,194,816	956,962

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, 2016). 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, 2017). 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, 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2016-2017).
- (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, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

	Plans	
	<u>Miscellaneous</u>	<u>Safety</u>
June 30, 2016	0.034970%	0.084890%
June 30, 2017	0.034295%	0.083719%
Change - (Decrease)	<u>-0.000675%</u>	<u>-0.001172%</u>

For the year ended June 30, 2018, the City recognized pension expense in the amounts of \$621,856 and \$995,590 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 2016-2017 measurement period is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired).

At June 30, 2018, 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	\$ 423,598	\$ -	\$ 769,408	\$ -	\$ 1,193,006	\$ -
Changes of assumptions	435,341	-	1,067,116	-	1,502,457	-
Difference between expected and actual experience	-	(50,619)	58,918	-	58,918	(50,619)
Difference between projected and actual earning on pension plan investments	106,584	-	252,010	-	358,594	-
Adjustment due to differences in proportions	92,110	-	-	(57,783)	92,110	(57,783)
Difference between City contributions and proportionate share of contributions	55,750	-	6,833	-	62,583	-
Total	<u>\$ 1,113,383</u>	<u>\$ (50,619)</u>	<u>\$ 2,154,285</u>	<u>\$ (57,783)</u>	<u>\$ 3,267,668</u>	<u>\$ (108,402)</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

Deferred outflows of resources related to pensions resulting from the City’s contributions made subsequent to the measurement date will be recognized as a reduction of the collective net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of	
	Miscellaneous	Safety
2019	\$ 190,070	\$ 269,240
2020	315,533	748,147
2021	196,842	457,166
2022	(63,279)	(147,459)
	\$ 639,166	\$ 1,327,094

Note 10 – Jointly Governed Organization

Eastern Riverside County Interoperable Communications Authority

The City is a member of the Eastern Riverside County Interoperable Communications Authority (“ERICA”), a Joint Powers Authority, created to establish and operate a consolidated communications system which provides emergency call receiving and dispatching services. Other members of ERICA include the Cities of Beaumont, Cathedral City, Indio, and Palm Springs. The members, including the City, are responsible for funding the operations of ERICA through annual assessments. The annual assessments are based on percentages calculated for each member. The City contributed \$210,440 during the year ended June 30, 2018. The 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,	Motorola Lease Reimbursement	Master Logging Recorder Reimbursement	Lease Reimbursement
2019	\$ 134,334	\$ 4,059	\$ 138,393
2020	134,334	4,059	138,393
2021	134,334	4,059	138,393
2022	134,334	4,059	138,393
2023	134,334	4,059	138,393
2024	134,334	4,059	138,393
	\$ 806,004	\$ 24,354	\$ 830,358

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Classification of Fund Balances

At June 30, 2018, fund balances are classified as follows:

	Major Funds							Total	
	General Fund	Special Revenue Funds			Capital Improvement Projects Fund		Debt Service Fund		Nonmajor Governmental Funds
		Public Safety	Housing Authority	Capital Improvement Deposits	Capital Projects	Improvement			
Nonspendable:									
Prepaid items	\$ 69,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,374	
Total nonspendable	69,374	-	-	-	-	-	-	69,374	
Restricted:									
Housing and economic development	-	-	3,654,824	-	-	-	-	3,654,824	
Public safety	-	27	-	-	-	-	49,580	49,607	
Public works/projects	-	-	-	3,672,278	143,492	-	744,763	4,560,533	
Culture and leisure	-	-	-	-	-	-	110,230	110,230	
Debt service	-	-	-	-	-	4,087,929	-	4,087,929	
Air quality	-	-	-	-	-	-	25,773	25,773	
Lighting/Landscaping/Drainage	-	-	-	-	-	-	1,264,373	1,264,373	
Assessment District 91-1	-	-	-	-	-	-	121,434	121,434	
Assessment District 92-1	-	-	-	-	-	-	13,431	13,431	
Assessment District 93-2	-	-	-	-	-	-	8,574	8,574	
Total restricted	-	27	3,654,824	3,672,278	143,492	4,087,929	2,338,158	13,896,708	
Committed:									
Art in public places	-	-	-	-	-	-	164,741	164,741	
Total assigned	-	-	-	-	-	-	164,741	164,741	
Assigned:									
Operations	8,898,679	-	-	-	-	-	-	8,898,679	
Unassigned:	-	-	-	-	-	-	(54,597)	(54,597)	
Total	\$8,968,053	\$ 27	\$3,654,824	\$3,672,278	\$ 143,492	\$4,087,929	\$2,448,302	\$ 22,974,905	

The assigned fund balance totaling \$8,898,679 is being held in the General Fund to fund the operations of the City for the fiscal year ending 2018-2019. 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.

Note 12 – 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Related Party Transactions (Continued)

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 13 – 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.

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 Uniform Guidance and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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

The City is involved in a dispute with the State of California regarding the State Gas Tax Compliance Audit (“audit”) that was performed during the year ended June 30, 2014. The audit was conducted by the State Controller’s Office for the City’s Gas Tax activities for the years ended June 30, 2009 through June 30, 2013. There was an audit finding that the City used gas tax monies for an ineligible expenditure for the debt service payment of \$119,000 for the 2012A Certificates (refer to Note 6A). Per the State’s draft audit report dated September 2014, the debt service payment is not an eligible use of gas tax monies under the Street and Highway Code Section 2107.4, as the bonds were not voter-approved and the term of the bond exceeds 25 years. The \$119,000 used for the debt service payment in the year ended June 30, 2013 was requested to be reimbursed to the Gas Tax Special Revenue Fund.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – Contingencies and Commitments (Continued)

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

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.

D. *Expiration of the New Market Tax Credit Financing*

Funding of the Foundation came from the New Market Tax Credit Financing (the “NMTC Financing”) under Internal Revenue Code Section 45D, which closed on July 13, 2012, when the City entered into an Investment Fund Put and Call Agreement (the “Agreement”) with USB NMTC Fund 2012-1 LLC (“USB Fund”). USB Fund is the sole member of the Investment Fund (See Note 6B). As part of the agreement, the USB Fund has an option to put USB Fund’s interest in Investment Fund (“USB Fund’s Interest”) to the City, and the City has an option to call for the sale to the City of USB Fund’s Interest.

The Investment Fund Put option requires the City to purchase all of USB Fund’s Interest upon the occurrence of put availability event: 1) the first day following the end of the tax credit investment period on July 13, 2019, the seventh anniversary of the issue of NMCC and LCD loans or 2) a NMTC Recapture Event. The USB Fund has 120 days following receipt of City’s written notice of the put availability event to exercise the Investment Fund Put. The purchase price for USB Fund’s interest is sum of 1) \$1,000; 2) transfer taxes and closing costs, 3) amounts due and owing from the City, the Foundation or any of its affiliates to the Investment Fund, NMCC or LCD, and 4) amounts due and owing from the Foundation or any of its affiliates to U.S. Bancorp Community Development Corporation (“USBCDC”) or USB Fund in connection with certain executed tax credit indemnity.

In the event that USB Fund has not exercised the Investment Fund Put, the Investment Fund Call option gives the City right to purchase all of USB Fund’s Interest for 240 days following the expiration of the put exercise period provided that 1) the Foundation has paid in full all principal and interest due to NMCC and LCD, 2) no amounts are then due and owing from the City, the Foundation or any of its affiliates to the Investment Fund, NMCC and LCD, and 3) no amounts are due and owing from the City, the Foundation or any of its affiliates to USBCDC or USB Fund in connection with the tax credit indemnity. The purchase price for USB Fund’s Interest is the fair market value of USB Fund’s Interest.

The City expects to exit the NMTC Financing sometime after July 13, 2019. Upon exit of the NMTC Financing, the City expects that the amount of debt associated with the NMTC Financing may be reduced. Notwithstanding the City’s expectation, the legal documents relating to the NMTC Financing do not contemplate or force debt forgiveness, and there can be no guarantee that any debt will be forgiven and, if so, how much indebtedness may be forgiven.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 14 – Subsequent Event

In October 2018, the Authority issued \$6,850,000 Desert Hot Springs Public Financing Authority Lease Revenue Bonds, Series. The purpose of the bonds is (1) to finance a portion of the new City Hall being constructed by the City, (2) to fund the reserve account, and (3) to pay for cost of issuing the bonds. The Bonds accrue interest at rates between 3.000% and 5.000%, payable semiannually on March 1 and September 1, commencing March 1, 2019 and the principals are due annually on March 1, with final payment due on March 1, 2039.

Note 15 – Prior Period Adjustment

The governmental activities beginning net position was restated from \$35,265,052 to \$35,682,315. The Capital Improvement Deposits Fund beginning fund balance was restated from \$2,344,665 to \$2,761,928. The adjustment in the amount of \$417,263 was to account for prior year development impact fee revenues.

**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, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 7,794,459	\$ 8,560,268	\$ 10,311,588	\$ 1,751,320
Permits and fees	1,220,700	2,426,700	2,593,090	166,390
Intergovernmental	-	10,000	1,797	(8,203)
Licenses	198,000	208,000	209,167	1,167
Interest	100,110	25,110	31,452	6,342
Miscellaneous	683,813	633,813	853,101	219,288
Total revenues	<u>9,997,082</u>	<u>11,863,891</u>	<u>14,000,195</u>	<u>2,136,304</u>
EXPENDITURES:				
Current:				
General government	2,936,622	4,529,240	3,965,735	563,505
Public safety	51,080	79,816	65,364	14,452
Public works	346,615	997,969	891,638	106,331
Economic development	1,164,904	2,056,294	1,957,324	98,970
Culture and leisure	594,664	487,134	599,797	(112,663)
Capital outlay	121,950	1,672,978	1,322,761	350,217
Total expenditures	<u>5,215,835</u>	<u>9,823,431</u>	<u>8,802,619</u>	<u>1,020,812</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>4,781,247</u>	<u>2,040,460</u>	<u>5,197,576</u>	<u>3,157,116</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	519,264	840,961	260,032	(580,929)
Transfers out	(506,764)	(1,174,494)	(5,000,249)	(3,825,755)
Total other financing sources (uses)	<u>12,500</u>	<u>(333,533)</u>	<u>(4,740,217)</u>	<u>(4,406,684)</u>
Net change in fund balance	<u>\$ 4,793,747</u>	<u>\$ 1,706,927</u>	457,359	<u>\$ (1,249,568)</u>
FUND BALANCE:				
Beginning of year			<u>8,510,694</u>	
End of year			<u>\$ 8,968,053</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
Public Safety Special Revenue Fund
For the Year Ended June 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 4,140,387	\$ 4,140,387	\$ 4,311,259	\$ 170,872
Permits and fees	99,500	86,500	89,130	2,630
Intergovernmental	30,000	51,176	22,924	(28,252)
Licenses	-	2,000	4,660	2,660
Miscellaneous	405,000	388,000	336,811	(51,189)
Total revenues	<u>4,674,887</u>	<u>4,668,063</u>	<u>4,764,784</u>	<u>96,721</u>
EXPENDITURES:				
Current:				
Public safety	9,181,478	10,014,150	9,115,367	898,783
Capital outlay	10,000	276,025	278,979	(2,954)
Total expenditures	<u>9,191,478</u>	<u>10,290,175</u>	<u>9,394,346</u>	<u>895,829</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,516,591)</u>	<u>(5,622,112)</u>	<u>(4,629,562)</u>	<u>992,550</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	135,000	135,000	4,746,304	4,611,304
Transfers out	(115,000)	(282,000)	(115,000)	167,000
Total other financing sources (uses)	<u>20,000</u>	<u>(147,000)</u>	<u>4,631,304</u>	<u>4,778,304</u>
Net change in fund balance	<u>\$ (4,496,591)</u>	<u>\$ (5,769,112)</u>	1,742	<u>\$ 5,770,854</u>
FUND BALANCE:				
Beginning of year			(1,715)	
End of year			<u>\$ 27</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
Housing Authority Special Revenue Fund
For the Year Ended June 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ -	\$ -	\$ 23	\$ 23
Miscellaneous	-	-	13,136	13,136
Total revenues	-	-	13,159	13,159
EXPENDITURES:				
Current:				
Economic development	-	-	18,472	(18,472)
Total expenditures	-	-	18,472	(18,472)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(5,313)	(5,313)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(7,000)	-	7,000
Net change in fund balance	<u>\$ -</u>	<u>\$ (7,000)</u>	(5,313)	<u>\$ 1,687</u>
FUND BALANCE:				
Beginning of year			3,660,137	
End of year			<u>\$ 3,654,824</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
Capital Improvement Deposits Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 49,998	\$ 49,998
Permits and fees	1,586,626	1,586,626	1,415,567	(171,059)
Interest	1,775	1,775	9,932	8,157
Total revenues	<u>1,588,401</u>	<u>1,588,401</u>	<u>1,475,497</u>	<u>(112,904)</u>
EXPENDITURES:				
Capital Outlay	570,808	731,044	236,797	494,247
Total expenditures	<u>570,808</u>	<u>731,044</u>	<u>236,797</u>	<u>494,247</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,017,593</u>	<u>857,357</u>	<u>1,238,700</u>	<u>381,343</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(40,000)	(243,750)	(328,350)	(84,600)
Total other financing sources (uses)	<u>(40,000)</u>	<u>(243,750)</u>	<u>(328,350)</u>	<u>(84,600)</u>
NET CHANGES IN FUND BALANCE	<u>\$ 977,593</u>	<u>\$ 613,607</u>	<u>910,350</u>	<u>\$ 296,743</u>
FUND BALANCE:				
Beginning of year, as restated (Note 15)			<u>2,761,928</u>	
End of year			<u>\$ 3,672,278</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Notes to the Required Supplementary Information
For the Year Ended June 30, 2018

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. There is no adopted budget for SBI Road Maintenance and Rehabilitation Special Revenue Fund and SCAMQD Grant Special Revenue Fund.

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, 2018

Last Ten Fiscal Years

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

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.034925%	0.034970%	0.037816%	0.035817%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,401,088	\$ 3,025,986	\$ 2,595,635	\$ 2,228,699
City's Covered Payroll	\$ 2,120,646	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>160.38%</u>	<u>196.59%</u>	<u>188.41%</u>	<u>137.81%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.89%</u>	<u>70.33%</u>	<u>73.82%</u>	<u>76.24%</u>

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

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.083719%	0.084890%	0.090361%	0.090082%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 8,302,607	\$ 7,345,645	\$ 6,202,312	\$ 5,642,660
City's Covered Payroll	\$ 1,834,204	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>452.65%</u>	<u>419.84%</u>	<u>407.00%</u>	<u>318.29%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.58%</u>	<u>69.57%</u>	<u>73.79%</u>	<u>73.76%</u>

¹ Historical information is presented 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, 2018

Last Ten Fiscal Years

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

Fiscal year	2017-18	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 209,634	\$ 164,278	\$ 132,233	\$ 217,165	\$ 310,127
Contribution in Relation to the Actuarially	(423,598)	(355,494)	(313,565)	(217,165)	(310,127)
Contribution Deficiency (Excess)	\$ (213,964)	\$ (191,216)	\$ (181,332)	\$ -	\$ -
Covered Payroll	\$ 2,184,265	\$ 2,120,646	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
Contributions as a Percentage of Covered Payroll	9.60%	7.75%	8.59%	15.76%	19.18%

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

Fiscal year	2017-18	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 329,122	\$ 303,253	\$ 285,318	\$ 380,758	\$ 765,202
Contribution in Relation to the Actuarially	(769,408)	(688,645)	(639,246)	(380,758)	(765,202)
Contribution Deficiency (Excess)	\$ (440,286)	\$ (385,392)	\$ (353,928)	\$ -	\$ -
Covered Payroll	\$ 1,889,230	\$ 1,834,204	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
Contributions as a Percentage of Covered Payroll	17.42%	16.53%	16.31%	24.99%	43.16%

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

² Includes one year's payroll growth using 3.00 percent payroll assumption from fiscal year 2016-17.

Notes to Schedule

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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SUPPLEMENTARY INFORMATION

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City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Improvement Capital Projects Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,109,600	\$ 2,109,600	\$ 145,000	\$ (1,964,600)
EXPENDITURES:				
Capital outlay	2,109,600	3,935,480	1,533,010	2,402,470
REVENUES OVER (UNDER) EXPENDITURES	-	(1,825,880)	(1,388,010)	437,870
OTHER FINANCING SOURCES (USES):				
Transfers in	40,000	3,204,750	1,764,750	(1,440,000)
NET CHANGE IN FUND BALANCE	<u>\$ 40,000</u>	<u>\$ 1,378,870</u>	376,740	<u>\$ (1,002,130)</u>
FUND BALANCE:				
Beginning of year			(233,248)	
End of year			<u>\$ 143,492</u>	

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 1,042,912	\$ 1,042,912	\$ 1,100,675	\$ 57,763
Interest	250	250	44,058	43,808
Total revenues	<u>1,043,162</u>	<u>1,043,162</u>	<u>1,144,733</u>	<u>101,571</u>
EXPENDITURES:				
Debt service:				
Principal retirement	200,000	200,000	300,000	(100,000)
Interest and fiscal charges	308,675	308,675	530,732	(222,057)
Total expenditures	<u>508,675</u>	<u>508,675</u>	<u>830,732</u>	<u>(322,057)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>534,487</u>	<u>534,487</u>	<u>314,001</u>	<u>(220,486)</u>
OTHER FINANCING USES:				
Transfers out	-	(3,000,000)	(1,600,000)	1,400,000
Net changes in fund balance	<u>\$ 534,487</u>	<u>\$ (2,465,513)</u>	(1,285,999)	<u>\$ 1,179,514</u>
FUND BALANCE:				
Beginning of year			<u>5,373,928</u>	
End of year			<u>\$ 4,087,929</u>	

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.

SBI Road Maintenance and Rehab Special Revenue Fund - To account for revenue received from the State under the Road Repair and Accountability Act of 2017. The funding is used for street maintenance and rehabilitation needs.

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 Grant Special Revenue 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.

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.

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

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

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

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

CAPITAL PROJECTS FUNDS:

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

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

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

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

**City of Desert Hot Springs
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue			
	Special Gas Tax	SB1 Road Maintenance and Rehabilitation	Municipal Lighting / Landscaping Assessment District	Measure A
ASSETS				
Cash and investments	\$ 13,664	\$ 108,884	\$ 665,494	\$ -
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	3,304	25,314	-	-
Interest	1	60	564	-
Due from other governments	51,277	-	71,455	112,681
Due from other funds	-	-	-	-
Total assets	\$ 68,246	\$ 134,258	\$ 737,513	\$ 112,681
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 28,280	\$ -	\$ 63,777	\$ -
Due to other funds	-	-	-	34,294
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	28,280	-	63,777	34,294
Deferred Inflows of Resources				
Unavailable revenue	-	-	33,534	-
Fund Balances:				
Restricted	39,966	134,258	640,202	78,387
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	39,966	134,258	640,202	78,387
Total liabilities, deferred inflows of resources, and fund balances	\$ 68,246	\$ 134,258	\$ 737,513	\$ 112,681

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue			
	SCAQMD Grant	Air Quality Control	Art in Public Places	Quimby Act
ASSETS				
Cash and investments	\$ 83	\$ 23,976	\$ 164,593	\$ -
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Interest	9	24	148	-
Due from other governments	-	9,584	-	-
Due from other funds	-	-	-	223,600
Total assets	<u>\$ 92</u>	<u>\$ 33,584</u>	<u>\$ 164,741</u>	<u>\$ 223,600</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 7,811	\$ -	\$ -
Due to other funds	-	-	-	113,370
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>7,811</u>	<u>-</u>	<u>113,370</u>
Deferred Inflows of Resources				
Unavailable revenue	-	-	-	-
Fund Balances:				
Restricted	92	25,773	-	110,230
Committed	-	-	164,741	-
Unassigned (deficit)	-	-	-	-
Total fund balances	<u>92</u>	<u>25,773</u>	<u>164,741</u>	<u>110,230</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 92</u>	<u>\$ 33,584</u>	<u>\$ 164,741</u>	<u>\$ 223,600</u>

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue			
	Drainage Assessment District	County Service Area 152	Cabot's Museum	SLESF
ASSETS				
Cash and investments	\$ 614,493	\$ 1	\$ 4,519	\$ -
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	15,000	72,620	-	25,000
Interest	565	-	-	110
Due from other governments	7,438	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 637,496	\$ 72,621	\$ 4,519	\$ 25,110
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,325	\$ 19,816	\$ 4,519	\$ -
Due to other funds	-	27,288	-	-
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	13,325	47,104	4,519	-
Deferred Inflows of Resources				
Unavailable revenue	-	64,632	-	-
Fund Balances:				
Restricted	624,171	-	-	25,110
Committed	-	-	-	-
Unassigned (deficit)	-	(39,115)	-	-
Total fund balances	624,171	(39,115)	-	25,110
Total liabilities, deferred inflows of resources, and fund balances	\$ 637,496	\$ 72,621	\$ 4,519	\$ 25,110

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue		Capital Projects	
	Abandoned Vehicle Abatement	Community Development Block Grant	2012 Street Bond	Assessment District 91-1
ASSETS				
Cash and investments	\$ 22,643	\$ -	\$ 84,195	\$ 116,169
Cash and investments with fiscal agent	-	-	407,818	-
Receivables:				
Accounts	4,148	19,857	-	-
Interest	-	-	47	106
Due from other governments	-	-	-	5,159
Due from other funds	-	-	-	-
Total assets	<u>\$ 26,791</u>	<u>\$ 19,857</u>	<u>\$ 492,060</u>	<u>\$ 121,434</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 10,416	\$ -	\$ -
Due to other funds	-	5,066	-	-
Deposits payable	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>15,482</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue	2,321	19,857	-	-
Fund Balances:				
Restricted	24,470	-	492,060	121,434
Committed	-	-	-	-
Unassigned (deficit)	-	(15,482)	-	-
Total fund balances	<u>24,470</u>	<u>(15,482)</u>	<u>492,060</u>	<u>121,434</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 26,791</u>	<u>\$ 19,857</u>	<u>\$ 492,060</u>	<u>\$ 121,434</u>

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Capital Projects		Total Nonmajor Governmental Funds
	Assessment District 92-1	Assessment District 93-2	
ASSETS			
Cash and investments	\$ 13,342	\$ 8,270	\$ 1,840,326
Cash and investments with fiscal agent	-	-	407,818
Receivables:			
Accounts	89	304	165,636
Interest	-	-	1,634
Due from other governments	-	-	257,594
Due from other funds	-	-	223,600
Total assets	\$ 13,431	\$ 8,574	\$ 2,896,608
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 147,944
Due to other funds	-	-	180,018
Deposits payable	-	-	-
Unearned revenue	-	-	-
Total liabilities	-	-	327,962
Deferred Inflows of Resources			
Unavailable revenue	-	-	120,344
Fund Balances:			
Restricted	13,431	8,574	2,338,158
Committed	-	-	164,741
Unassigned (deficit)	-	-	(54,597)
Total fund balances	13,431	8,574	2,448,302
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,431	\$ 8,574	\$ 2,896,608

(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, 2018

	Special Revenue			
	Special Gas Tax	SB1 Road Maintenance and Rehabilitation	Municipal Lighting / Landscaping Assessment District	Measure A
REVENUES:				
Taxes	\$ 33,096	\$ -	\$ 758,198	\$ -
Permits and fees	-	-	-	-
Intergovernmental	583,414	134,190	-	454,537
Interest	179	68	1,956	-
Miscellaneous	-	-	1,274	-
Total revenues	<u>616,689</u>	<u>134,258</u>	<u>761,428</u>	<u>454,537</u>
EXPENDITURES:				
Current:				
Public works	537,828	-	1,042,303	-
Economic development	-	-	-	-
Culture and leisure	-	-	-	-
Capital outlay	39,360	-	179,457	221,722
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>577,188</u>	<u>-</u>	<u>1,221,760</u>	<u>221,722</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>39,501</u>	<u>134,258</u>	<u>(460,332)</u>	<u>232,815</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	292,100	-
Transfers out	(199,194)	-	-	(200,000)
Total other financing sources (uses)	<u>(199,194)</u>	<u>-</u>	<u>292,100</u>	<u>(200,000)</u>
NET CHANGES IN FUND BALANCES	(159,693)	134,258	(168,232)	32,815
FUND BALANCES:				
Beginning of year	199,659	-	808,434	45,572
End of year	<u>\$ 39,966</u>	<u>\$ 134,258</u>	<u>\$ 640,202</u>	<u>\$ 78,387</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, 2018

	Special Revenue			
	SCAQMD Grant	Air Quality Control	Art in Public Places	Quimby Act
REVENUES:				
Taxes	\$ -	\$ 35,803	\$ -	\$ -
Permits and fees	-	-	-	47,030
Intergovernmental	40,867	-	116,719	-
Interest	37	80	374	9
Miscellaneous	-	-	-	-
Total revenues	<u>40,904</u>	<u>35,883</u>	<u>117,093</u>	<u>47,039</u>
EXPENDITURES:				
Current:				
Public works	-	36,052	-	-
Economic development	-	-	-	-
Culture and leisure	-	-	-	79,583
Capital outlay	56,184	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>56,184</u>	<u>36,052</u>	<u>-</u>	<u>79,583</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(15,280)</u>	<u>(169)</u>	<u>117,093</u>	<u>(32,544)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	223,600
Transfers out	-	-	(30,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>223,600</u>
NET CHANGES IN FUND BALANCES	<u>(15,280)</u>	<u>(169)</u>	<u>87,093</u>	<u>191,056</u>
FUND BALANCES:				
Beginning of year, as restated (Note 16)	<u>15,372</u>	<u>25,942</u>	<u>77,648</u>	<u>(80,826)</u>
End of year	<u>\$ 92</u>	<u>\$ 25,773</u>	<u>\$ 164,741</u>	<u>\$ 110,230</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, 2018

	Special Revenue			
	Drainage Assessment District	County Service Area 152	Cabot's Museum	SLESF
REVENUES:				
Taxes	\$ 211,261	\$ -	\$ -	\$ -
Permits and fees	-	-	-	-
Intergovernmental	-	110,988	-	116,667
Interest	1,989	6	-	232
Miscellaneous	-	-	-	-
Total revenues	<u>213,250</u>	<u>110,994</u>	<u>-</u>	<u>116,899</u>
EXPENDITURES:				
Current:				
Public works	325,867	167,167	-	-
Economic development	-	-	-	-
Culture and leisure	-	-	93,050	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>325,867</u>	<u>167,167</u>	<u>93,050</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(112,617)</u>	<u>(56,173)</u>	<u>(93,050)</u>	<u>116,899</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	93,050	-
Transfers out	-	-	-	(131,204)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>93,050</u>	<u>(131,204)</u>
NET CHANGES IN FUND BALANCES	<u>(112,617)</u>	<u>(56,173)</u>	<u>-</u>	<u>(14,305)</u>
FUND BALANCES:				
Beginning of year	<u>736,788</u>	<u>17,058</u>	<u>-</u>	<u>39,415</u>
End of year	<u>\$ 624,171</u>	<u>\$ (39,115)</u>	<u>\$ -</u>	<u>\$ 25,110</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, 2018

	Special Revenue		Capital Projects	
	Abandoned Vehicle Abatement	Community Development Block Grant	2012 Street Bond	Assessment District 91-1
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 5,159
Permits and fees	-	-	-	-
Intergovernmental	8,750	347,654	-	-
Interest	-	-	6,099	342
Miscellaneous	-	-	-	-
Total revenues	<u>8,750</u>	<u>347,654</u>	<u>6,099</u>	<u>5,501</u>
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Economic development	-	-	-	-
Culture and leisure	-	-	-	-
Capital outlay	-	337,254	392,778	-
Debt service:				
Principal retirement	-	-	125,000	-
Interest and fiscal charges	-	-	280,013	-
Total expenditures	<u>-</u>	<u>337,254</u>	<u>797,791</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>8,750</u>	<u>10,400</u>	<u>(791,692)</u>	<u>5,501</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	399,194	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>399,194</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	8,750	10,400	(392,498)	5,501
FUND BALANCES:				
Beginning of year	<u>15,720</u>	<u>(25,882)</u>	<u>884,558</u>	<u>115,933</u>
End of year	<u>\$ 24,470</u>	<u>\$ (15,482)</u>	<u>\$ 492,060</u>	<u>\$ 121,434</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, 2018

	Capital Projects		Total Nonmajor Governmental Funds
	Assessment District 92-1	Assessment District 93-2	
REVENUES:			
Taxes	\$ 89	\$ 304	\$ 1,043,910
Permits and fees	-	-	47,030
Intergovernmental	-	-	1,913,786
Interest	-	-	11,371
Miscellaneous	-	-	1,274
Total revenues	89	304	3,017,371
EXPENDITURES:			
Current:			
Public works	5,000	5,000	2,119,217
Economic development	20,157	15,813	35,970
Culture and leisure	-	-	172,633
Capital outlay	-	-	1,226,755
Debt service:			
Principal retirement	-	-	125,000
Interest and fiscal charges	-	-	280,013
Total expenditures	25,157	20,813	3,959,588
REVENUES OVER (UNDER) EXPENDITURES	(25,068)	(20,509)	(942,217)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	1,007,944
Transfers out	-	-	(560,398)
Total other financing sources (uses)	-	-	447,546
NET CHANGES IN FUND BALANCES	(25,068)	(20,509)	(494,671)
FUND BALANCES:			
Beginning of year	38,499	29,083	2,942,973
End of year	<u>\$ 13,431</u>	<u>\$ 8,574</u>	<u>\$ 2,448,302</u>

(Concluded)

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Gas Tax Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 33,096	\$ 33,096
Intergovernmental	584,523	584,523	583,414	(1,109)
Interest	100	100	179	79
Total revenues	<u>584,623</u>	<u>584,623</u>	<u>616,689</u>	<u>32,066</u>
EXPENDITURES:				
Current:				
Public works	451,208	593,438	537,828	55,610
Capital outlay	-	5,266	39,360	(34,094)
Total expenditures	<u>451,208</u>	<u>598,704</u>	<u>577,188</u>	<u>21,516</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>133,415</u>	<u>(14,081)</u>	<u>39,501</u>	<u>53,582</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	33,000	-	(33,000)
Transfers out	(199,194)	(199,194)	(199,194)	-
Total other financing sources (uses)	<u>(199,194)</u>	<u>(166,194)</u>	<u>(199,194)</u>	<u>(33,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (65,779)</u>	<u>\$ (180,275)</u>	<u>(159,693)</u>	<u>\$ 20,582</u>
FUND BALANCE:				
Beginning of year			<u>199,659</u>	
End of year			<u>\$ 39,966</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 801,915	\$ 801,915	\$ 758,198	\$ (43,717)
Interest	244	244	1,956	1,712
Miscellaneous	250	250	1,274	1,024
Total revenues	<u>802,409</u>	<u>802,409</u>	<u>761,428</u>	<u>(40,981)</u>
EXPENDITURES:				
Current:				
Public Works	758,175	895,963	1,042,303	(146,340)
Capital Outlay	395,772	884,582	179,457	705,125
Total expenditures	<u>1,153,947</u>	<u>1,780,545</u>	<u>1,221,760</u>	<u>558,785</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(351,538)</u>	<u>(978,136)</u>	<u>(460,332)</u>	<u>517,804</u>
OTHER FINANCING SOURCES:				
Transfers in	-	292,100	292,100	-
NET CHANGE IN FUND BALANCE	<u>\$ (351,538)</u>	<u>\$ (686,036)</u>	<u>(168,232)</u>	<u>\$ 517,804</u>
FUND BALANCE:				
Beginning of year			<u>808,434</u>	
End of year			<u>\$ 640,202</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 540,000	\$ 540,000	\$ 454,537	\$ (85,463)
Interest	50	50	-	(50)
Total revenues	<u>540,050</u>	<u>540,050</u>	<u>454,537</u>	<u>(85,513)</u>
EXPENDITURES:				
Capital outlay	<u>346,000</u>	<u>346,000</u>	<u>221,722</u>	<u>124,278</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>194,050</u>	<u>194,050</u>	<u>232,815</u>	<u>38,765</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (5,950)</u>	<u>\$ (5,950)</u>	<u>32,815</u>	<u>\$ 38,765</u>
FUND BALANCE:				
Beginning of year			<u>45,572</u>	
End of year			<u>\$ 78,387</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 35,000	\$ 35,000	\$ 35,803	\$ 803
Interest	10	10	80	70
Total revenues	<u>35,010</u>	<u>35,010</u>	<u>35,883</u>	<u>873</u>
EXPENDITURES:				
Current:				
Public works	<u>35,010</u>	<u>35,010</u>	<u>36,052</u>	<u>(1,042)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(169)</u>	<u>(169)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(169)</u>	<u>\$ (169)</u>
FUND BALANCE:				
Beginning of year			<u>25,942</u>	
End of year			<u>\$ 25,773</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 20,000	\$ 20,000	\$ 116,719	\$ 96,719
Interest	25	25	374	349
Total revenues	<u>20,025</u>	<u>20,025</u>	<u>117,093</u>	<u>97,068</u>
OTHER FINANCING USES:				
Transfers out	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 20,025</u>	<u>\$ 20,025</u>	87,093	<u>\$ 67,068</u>
FUND BALANCE:				
Beginning of year			<u>77,648</u>	
End of year			<u>\$ 164,741</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Licenses	\$ 50,000	\$ 80,000	\$ 47,030	\$ (32,970)
Interest	25	25	9	(16)
Total revenues	<u>50,025</u>	<u>80,025</u>	<u>47,039</u>	<u>(32,986)</u>
EXPENDITURES:				
Capital outlay	<u>54,000</u>	<u>84,000</u>	<u>79,583</u>	<u>4,417</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,975)</u>	<u>(3,975)</u>	<u>(32,544)</u>	<u>(28,569)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>-</u>	<u>-</u>	<u>223,600</u>	<u>223,600</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,975)</u>	<u>\$ (3,975)</u>	<u>191,056</u>	<u>\$ 195,031</u>
FUND BALANCE:				
Beginning of year			<u>(80,826)</u>	
End of year			<u>\$ 110,230</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 200,571	\$ 203,778	\$ 211,261	\$ 7,483
Interest	122	122	1,989	1,867
Total revenues	<u>200,693</u>	<u>203,900</u>	<u>213,250</u>	<u>9,350</u>
EXPENDITURES:				
Current:				
Public works	<u>454,964</u>	<u>662,376</u>	<u>325,867</u>	<u>336,509</u>
NET CHANGE IN FUND BALANCE	<u>\$ (254,271)</u>	<u>\$ (458,476)</u>	(112,617)	<u>\$ 345,859</u>
FUND BALANCE:				
Beginning of year			<u>736,788</u>	
End of year			<u>\$ 624,171</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 131,710	\$ 131,710	\$ 110,988	\$ (20,722)
Interest	25	25	6	(19)
Total revenues	<u>131,735</u>	<u>131,735</u>	<u>110,994</u>	<u>(20,741)</u>
EXPENDITURES:				
Current:				
Public works	<u>130,573</u>	<u>170,569</u>	<u>167,167</u>	<u>3,402</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,162</u>	<u>(38,834)</u>	<u>(56,173)</u>	<u>(17,339)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>-</u>	<u>39,996</u>	<u>-</u>	<u>(39,996)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,162</u>	<u>\$ 1,162</u>	<u>(56,173)</u>	<u>\$ (57,335)</u>
FUND BALANCE:				
Beginning of year			<u>17,058</u>	
End of year			<u>\$ (39,115)</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Cabot's Museum Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current:				
Culture and leisure	\$ 63,000	\$ 115,695	\$ 93,050	\$ 22,645
OTHER FINANCING SOURCES:				
Transfers in	63,000	100,695	93,050	(7,645)
NET CHANGE IN FUND BALANCE	\$ -	\$ (15,000)	-	\$ 15,000
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
SLESF Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 116,667	\$ 16,667
Interest	5	5	232	227
Total revenues	<u>100,005</u>	<u>100,005</u>	116,899	16,894
OTHER FINANCING USES:				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	(131,204)	(31,204)
NET CHANGE IN FUND BALANCE	<u>\$ 5</u>	<u>\$ 5</u>	(14,305)	<u>\$ (14,310)</u>
FUND BALANCE:				
Beginning of year			<u>39,415</u>	
End of year			<u>\$ 25,110</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Abandoned Vehicle Abatement Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 35,000	\$ 35,000	\$ 8,750	\$ (26,250)
NET CHANGE IN FUND BALANCE	<u>\$ 35,000</u>	<u>\$ 35,000</u>	8,750	<u>\$ (26,250)</u>
FUND BALANCE:				
Beginning of year			15,720	
End of year			<u>\$ 24,470</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Community Development Block Grant Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 215,000	\$ 215,000	\$ 347,654	\$ 132,654
EXPENDITURES:				
Capital outlay	215,000	215,000	337,254	(122,254)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	10,400	<u>\$ 10,400</u>
FUND BALANCE:				
Beginning of year			(25,882)	
End of year			<u>\$ (15,482)</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ 2,500	\$ 2,500	\$ 6,099	\$ 3,599
EXPENDITURES:				
Current:				
Capital outlay	750	750	392,778	(392,028)
Debt service:				
Principal retirement	125,000	125,000	125,000	-
Interest and fiscal charges	277,194	277,194	280,013	(2,819)
Total expenditures	<u>402,944</u>	<u>402,944</u>	<u>797,791</u>	<u>(394,847)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(400,444)</u>	<u>(400,444)</u>	<u>(791,692)</u>	<u>(391,248)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	399,194	399,194	399,194	-
NET CHANGE IN FUND BALANCE	<u>\$ (1,250)</u>	<u>\$ (1,250)</u>	<u>(392,498)</u>	<u>\$ (391,248)</u>
FUND BALANCE:				
Beginning of year			<u>884,558</u>	
End of year			<u>\$ 492,060</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 5,159	\$ 5,159
Interest	25	25	342	317
Total revenues	<u>25</u>	<u>25</u>	<u>5,501</u>	<u>5,476</u>
EXPENDITURES:				
Public Works	<u>55,000</u>	<u>55,000</u>	<u>-</u>	<u>55,000</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(54,975)</u>	<u>(54,975)</u>	<u>5,501</u>	<u>60,476</u>
NET CHANGE IN FUND BALANCE	<u>\$ 25</u>	<u>\$ 25</u>	<u>5,501</u>	<u>\$ 5,476</u>
FUND BALANCE:				
Beginning of year			<u>115,933</u>	
End of year			<u>\$ 121,434</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 89	\$ 89
Interest	10	10	-	(10)
Total revenues	<u>10</u>	<u>10</u>	<u>89</u>	<u>79</u>
EXPENDITURES:				
Current:				
Public works	15,000	20,000	5,000	15,000
Economic development	-	33,500	20,157	13,343
Total expenditures	<u>15,000</u>	<u>53,500</u>	<u>25,157</u>	<u>28,343</u>
NET CHANGE IN FUND BALANCE	<u>\$ (14,990)</u>	<u>\$ (53,490)</u>	<u>(25,068)</u>	<u>\$ 28,422</u>
FUND BALANCE:				
Beginning of year			<u>38,499</u>	
End of year			<u>\$ 13,431</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 304	\$ 304
Interest	10	10	-	(10)
Total revenues	<u>10</u>	<u>10</u>	<u>304</u>	<u>294</u>
EXPENDITURES:				
Current:				
Public works	10,000	15,000	5,000	10,000
Economic development	-	24,085	15,813	8,272
Total expenditures	<u>10,000</u>	<u>39,085</u>	<u>20,813</u>	<u>18,272</u>
NET CHANGE IN FUND BALANCE	<u>\$ (9,990)</u>	<u>\$ (39,075)</u>	<u>(20,509)</u>	<u>\$ 18,566</u>
FUND BALANCE:				
Beginning of year			<u>29,083</u>	
End of year			<u>\$ 8,574</u>	

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.

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City of Desert Hot Springs
Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	Risk Management	Equipment Replacement	Total
ASSETS			
Current assets:			
Cash and investments	\$ 570,925	\$ 23,533	\$ 594,458
Accounts receivable	10,000	-	10,000
Total current assets	580,925	23,533	604,458
Capital assets:			
Depreciable, net	-	575,882	575,882
Total capital assets	-	575,882	575,882
Total assets	580,925	599,415	1,180,340
LIABILITIES			
Current liabilities:			
Accounts payable	24,051	-	24,051
Capital lease payable - due within one year	-	122,995	122,995
Claims payable - due within one year	333,550	-	333,550
Total current liabilities	357,601	122,995	480,596
Noncurrent liabilities:			
Capital lease payable - due in more than one year	-	262,005	262,005
Total noncurrent liabilities	-	262,005	262,005
Total liabilities	357,601	385,000	742,601
NET POSITION			
Investment in capital assets	-	190,882	190,882
Unrestricted	223,324	23,533	246,857
Total net position	\$ 223,324	\$ 214,415	\$ 437,739

City of Desert Hot Springs
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2018

	Risk Management	Equipment Replacement	Total
OPERATING REVENUES:			
Insurance recovery	\$ 213,070	\$ -	\$ 213,070
Total operating revenues	213,070	-	213,070
OPERATING EXPENSES:			
Insurance and claims	211,193	-	211,193
Vehicle Expense	-	5,758	5,758
Depreciation	-	241,132	241,132
Total operating expenses	211,193	246,890	458,083
OPERATING INCOME (LOSS)	1,877	(246,890)	(245,013)
NONOPERATING REVENUES (EXPENSES):			
Loss on sale of capital assets	-	(456)	(456)
Interest expenses	-	(17,110)	(17,110)
Total nonoperating revenues (expenses)	-	(17,566)	(17,566)
INCOME (LOSS) BEFORE TRANSFERS	1,877	(264,456)	(262,579)
TRANSFERS:			
Transfers in	-	115,000	115,000
Transfers out	(184,632)	(30,000)	(214,632)
Total transfers	(184,632)	85,000	(99,632)
Changes in net position	(182,755)	(179,456)	(362,211)
NET POSITION:			
Beginning of year	406,079	393,871	799,950
End of year	\$ 223,324	\$ 214,415	\$ 437,739

City of Desert Hot Springs
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Risk Management	Equipment Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from claims recoveries	\$ 243,597	\$ -	\$ 243,597
Payments for vendor for goods and services	-	(5,758)	(5,758)
Payments for insurance claims	(271,773)	-	(271,773)
Net cash used in operating activities	(28,176)	(5,758)	(33,934)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in from other funds	-	115,000	115,000
Transfers out to other funds	(184,632)	(30,000)	(214,632)
Net cash provided by (used in) noncapital financing activities	(184,632)	85,000	(99,632)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of capital assets	-	9,616	9,616
Acquisition of capital assets	-	(51,102)	(51,102)
Principal paid on capital leases	-	(119,705)	(119,705)
Interest paid on capital leases	-	(17,110)	(17,110)
Net cash used in capital and related financing activities	-	(178,301)	(178,301)
Net decrease in cash and cash equivalents	(212,808)	(99,059)	(311,867)
CASH AND CASH EQUIVALENTS:			
Beginning of year	783,733	122,592	906,325
End of year	<u>\$ 570,925</u>	<u>\$ 23,533</u>	<u>\$ 594,458</u>
RECONCILIATION OF OPERATING (LOSS) TO NET			
CASH USED IN OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,877	\$ (246,890)	\$ (245,013)
Depreciation	-	241,132	241,132
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in accounts receivable	30,527	-	30,527
Increase (decrease) in accounts payable	24,051	-	24,051
Increase (decrease) in claims payable	(84,631)	-	(84,631)
Total adjustments	(30,053)	-	(30,053)
Net cash used in operating activities	\$ (28,176)	\$ (5,758)	\$ (33,934)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Issuance of capital lease	\$ -	\$ 504,705	\$ 504,705

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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 related to the Skyborne area of the City.

Community Facilities District Fund - these funds are established to account for special tax funding that allows for the financing of the installation, operation and maintenance of public improvements. There are a total of 31 zones.

Gang Task Force Fund - this fund was established to account for all revenues and expenses received from various agencies supporting the Gang Task Force. The City is only working with the task force to manage their funding for a period of time.

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City of Desert Hot Springs
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2018

	Agency Funds				Total
	Community Services Fund	Community Facilities District Skyborne Fund	Community Facilities District Fund	Gang Task Force Fund	
ASSETS					
Cash and investments	\$ 226,572	\$ 622,851	\$ 77,243	\$ 184,095	\$ 1,110,761
Cash with fiscal agent	-	176,420	-	-	176,420
Accounts receivable	7,531	3,381	-	-	10,912
Interest receivable	-	515	69	168	752
Total assets	\$ 234,103	\$ 803,167	\$ 77,312	\$ 184,263	\$ 1,298,845
LIABILITIES					
Accounts payable	\$ 12,280	\$ 2,251	\$ 21,006	\$ -	\$ 35,537
Deposits payable	221,823	-	10,000	184,263	416,086
Due to bondholders	-	800,916	46,306	-	847,222
Total liabilities	\$ 234,103	\$ 803,167	\$ 77,312	\$ 184,263	\$ 1,298,845

City of Desert Hot Springs
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<u>Community Services Fund</u>				
Assets:				
Cash and investments	\$ 280,421	\$ 1,620,809	\$ (1,674,658)	\$ 226,572
Accounts receivable	7,565	7,531	(7,565)	7,531
Total assets	\$ 287,986	\$ 1,628,340	\$ (1,682,223)	\$ 234,103
Liabilities:				
Accounts payable	\$ 160,265	\$ 1,375,501	\$ (1,523,486)	\$ 12,280
Deposits payable	127,721	252,839	(158,737)	221,823
Total liabilities	\$ 287,986	\$ 1,628,340	\$ (1,682,223)	\$ 234,103
<u>Community Facilities District Skyborne Fund</u>				
Assets:				
Cash and investments	\$ 585,791	\$ 222,336	\$ (185,276)	\$ 622,851
Cash with fiscal agent	181,248	177,928	(182,756)	176,420
Accounts receivable	2,425	3,381	(2,425)	3,381
Interest receivable	137	515	(137)	515
Total assets	\$ 769,601	\$ 404,160	\$ (370,594)	\$ 803,167
Liabilities:				
Accounts payable	\$ 2,251	\$ 185,277	\$ (185,277)	\$ 2,251
Due to bondholders	767,350	227,547	(193,981)	800,916
Total liabilities	\$ 769,601	\$ 412,824	\$ (379,258)	\$ 803,167
<u>Community Facilities District Fund</u>				
Assets:				
Cash and investments	\$ 99,352	\$ 77,389	\$ (99,498)	\$ 77,243
Accounts receivable	1,246	-	(1,246)	-
Interest receivable	19	69	(19)	69
Total assets	\$ 100,617	\$ 77,458	\$ (100,763)	\$ 77,312
Liabilities:				
Accounts payable	\$ 55,691	64,813	\$ (99,498)	\$ 21,006
Deposits payable	5,000	65,000	(60,000)	10,000
Due to bondholders	39,926	12,052	(5,672)	46,306
Total liabilities	\$ 100,617	\$ 141,865	\$ (165,170)	\$ 77,312

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City of Desert Hot Springs
Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)
Agency Funds
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<u>Gang Task Force Fund</u>				
Assets:				
Cash and investments	\$ -	\$ 191,639	\$ (7,544)	\$ 184,095
Interest receivable	-	1,310	(1,142)	168
Total assets	\$ -	\$ 192,949	\$ (8,686)	\$ 184,263
Liabilities:				
Deposits payable	-	192,949	\$ (8,686)	184,263
Total liabilities	\$ -	\$ 192,949	\$ (8,686)	\$ 184,263
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 965,564	\$ 2,112,173	\$ (1,966,976)	\$ 1,110,761
Cash with fiscal agent	181,248	177,928	(182,756)	176,420
Accounts receivable	11,236	10,912	(11,236)	10,912
Interest receivable	156	1,894	(1,298)	752
Total assets	\$ 1,158,204	\$ 2,302,907	\$ (2,162,266)	\$ 1,298,845
Liabilities:				
Accounts payable	\$ 218,207	\$ 1,625,591	\$ (1,808,261)	\$ 35,537
Deposits payable	132,721	510,788	(227,423)	416,086
Due to bondholders	807,276	239,599	(199,653)	847,222
Total liabilities	\$ 1,158,204	\$ 2,375,978	\$ (2,235,337)	\$ 1,298,845

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