

City of Desert Hot Springs

Desert Hot Springs, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2020



City of Desert Hot Springs
Basic Financial Statements
For the Year Ended June 30, 2020

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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, 2020, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2020, 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.

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 – Pensions on pages 5 through 14 and pages 89 through 97 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 Schedules 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 Schedules 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 24, 2020 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 Peris Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
November 24, 2020

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Management's Discussion and Analysis (Unaudited)

The City of Desert Hot Springs is offering a narrative, overview and analysis of the financial activities for the fiscal year end June 30, 2020.

Overview of the Financial Statements

The City Executive Team of the City of Desert Hot Springs (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, 2020. 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.

Fiscal Year 2019-2020 Highlights

- The City's total net position was \$55,036,076 as of June 30, 2020;
- Consolidated General Fund (including Public Safety Fund) Revenue totaled \$23,232,552
- Consolidated General Fund Expenses totaled \$21,724,395
- The fund balance in the Consolidated General Fund increased by \$392,058 for a total of \$11,825,704;
- The City's Consolidated General Fund has a fund balance that remained over \$11 million even due to the loss of revenues from measures taken to slow the spread of COVID-19.
- Due to reductions in revenues, 7 vacant positions (5 in the Police Department, 1 in Planning, and 1 in Finance) were frozen in order to reduce expenditures;
- The City has an Emergency Reserve in place for economic contingency that is set at 17% of the Consolidated General Fund annual appropriations which is funded by cannabis tax revenues 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 2019-2020 (not including cannabis related taxes) was down 3% over the prior fiscal year due to losses in Sales Tax and Transient Occupancy Tax;
- Marijuana related taxes increased by \$997,137 from FY 2018-2019 to FY 2019-2020 which is an increase of 31% over the prior year;
- The City completed construction of the new City Hall facility in May 2020 and was occupied by staff in July 2020;
- The City completed significant modifications to Palm Drive which include additions of sidewalks, traffic signals, buffered bicycle lanes, streetlights, ADA ramps, flashing beacons for pedestrian safety, and rehabilitation of pavement;
- The City replaced outdated heavy equipment such as a front loader, skip loader, boom lift truck, dump truck and water trailer;

- The obsolete agenda management system was replaced with iCompass to improve effectiveness and efficiency and implemented Netfile electronic filing system;
- Facilitated the successful business opening of the newly constructed 20,000 square foot Grocery Outlet and the renovation of the 90,000 square foot Kmart into the Royal Emerald Pharmaceuticals medical research facility;
- Implemented a new cloud-based permitting, licensing, and code enforcement system as well as replaced obsolete phone system with a modern VOIP system;
- The City updated and implemented its Citywide General Plan;
- The City performed and implemented a study to update its fees for services;
- The implemented the Working Scholars and LEAD programs to enhance the education and leadership developments of our employees;
- The City participated in successfully unwinding the New Market Tax Credit financing arrangement which was used to construct the Health & Wellness Center in 2012.

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 indicators used to assess whether the financial condition of the City is improving or deteriorating. It is also important to consider other non-financial factors, such as changes in the City's property tax values and sales tax outlets and the condition of the City's infrastructure (i.e. parks and streets) to accurately assess the overall health of the City.

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

Both 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 18-21 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 individual governmental funds; the General Fund (which is consolidated with the Health and Wellness Facility and the Marijuana Reserve Fund), Public Safety Fund, Capital Improvements Deposits Fund, Housing Authority 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 19 non-major governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report.

For fiscal years 2018-2019 and 2019-2020, the City adopted a two-year budget for its General Fund and other funds. Due to the uncertainty surrounding COVID-19, the City adopted a one-year budget for fiscal year 2020-2021.

The following funds are included to make up the non-major 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 the 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.

Debt Service Funds: City Debt Service Fund and City Hall Relocation Fund.

The basic governmental fund financial statements can be found on pages 26-32 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 35-37 of this report and the internal service funds can be found on pages 131-133 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for

proprietary funds. Currently the City has two separate Fiduciary Funds reporting financial inflows and outflows for the Successor Agency, which is a private purpose trust fund, and one Agency Fund. The Agency Fund includes various funding (Community Services Agency Funds and the Community Facilities District Skyborne Agency Funds) which is controlled primarily through legal agreements and applicable State and Federal laws.

The basic fiduciary fund financial statements can be found on pages 41-42 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 pages 47-86 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons for the general fund. Required supplementary information can be found on pages 89-97 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 101-128 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, cannabis projects and businesses and the passing of the Public Safety Tax Measure have stabilized the City's cash position.

In Fiscal Year 2018-2019, the City received cannabis taxes totaling \$3,248,905. In Fiscal Year 2019-2020 the City received marijuana taxes totaling \$4,246,042. which is an increase of 31% from the prior year. Within the upcoming years, staff expects such receipts to increase, respectively. The City is setting aside 25% cannabis tax revenues into an emergency reserve for economic uncertainties. The City will continue to set aside 25% of the cannabis tax revenues until the reserve balance reaches 17% of the Consolidated General Fund's annual appropriation. As of 6/30/2020, the balance of the emergency reserve was \$2,459,364.

Other major revenue changes occurred during fiscal year 2019-2020 in the following areas;

- Property Taxes decreased from \$1,878,375 in FY 2018-2019 to \$1,016,736 in FY 2019-2020 approximately a 46% decrease in tax revenue over the prior year. The decrease was due to the City receiving its portion of the proceeds of the sale of property from the former Redevelopment Agency.
- Transient Occupancy Taxes decreased from \$2,235,629 in FY 2018-2019 to \$1,855,521 in FY 2019-2020 approximately a 17% decrease from the prior year. This decrease is due to the State-wide shutdown to slow the spread of COVID-19.
- Franchise Fees increased from \$1,667,796 in FY 2018-2019 to \$1,768,939 in FY 2019-2020 approximately a 6% increase over the prior year.
- Utility User Taxes increased from \$1,902,639 in FY 2018-2019 to \$2,115,677 in FY 2019-2020 approximately an 11% increase from the prior year.

The County has 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 it fund, in the same manner as of the account due from the taxpayers have been collected.

Although the City's finances have continued to improve, there are still several unfunded needs for the community and the organization. In recent years, the City has been able to replace some equipment, increase service levels with the use of technology and complete large capital improvement projects. However, more investment in equipment, maintenance and capital improvement is still an issue. The City recognizes that as more revenue becomes available the City will allocate funds towards maintenance, capital projects and services levels and continues 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 \$55,036,076 as of June 30, 2020, in the Governmental activities and Business-type activities.

The largest portion of the City's net position, \$54,530,992 million, are reflected in its investment in capital assets (e.g., land, street infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining net position, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
City of Desert Hot Springs
Net Position
June 30, 2020

	Governmental activities		Business-Type activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 31,490,117	\$ 37,302,458	\$ -	\$ 15,282,071	\$ 31,490,117	\$ 52,584,529
Capital assets	69,933,702	46,108,348	-	12,768,133	69,933,702	58,876,481
Total assets	\$101,423,819	\$ 83,410,806	\$ -	\$ 28,050,204	\$101,423,819	\$111,461,010
Deferred outflow of resources	\$ 3,776,240	\$ 4,077,146	\$ -	\$ -	\$ 3,776,240	\$ 4,077,146
Total deferred outflow of resources	\$ 3,776,240	\$ 4,077,146	\$ -	\$ -	\$ 3,776,240	\$ 4,077,146
Current liabilities	\$ 8,652,238	\$ 5,411,787	\$ -	\$ 887,278	\$ 8,652,238	\$ 6,299,065
Long-term liabilities	40,507,477	40,019,314	-	19,861,722	40,507,477	59,881,036
Total liabilities	\$ 49,159,715	\$ 45,431,101	\$ -	\$ 20,749,000	\$ 49,159,715	\$ 66,180,101
Deferred inflow of resources	\$ 1,004,268	\$ 1,399,428	\$ -	\$ -	\$ 1,004,268	\$ 1,399,428
Total deferred inflow of resources	\$ 1,004,268	\$ 1,399,428	\$ -	\$ -	\$ 1,004,268	\$ 1,399,428
Net position						
Invested in capital assets	\$ 54,530,992	\$ 35,790,808	\$ -	\$ (7,093,589)	\$ 54,530,992	\$ 28,697,219
Restricted	14,071,769	15,137,323	-	-	14,071,769	15,137,323
Unrestricted	(13,566,685)	(10,270,708)	-	14,394,793	(13,566,685)	4,124,085
Total net position	\$ 55,036,076	\$ 40,657,423	\$ -	\$ 7,301,204	\$ 55,036,076	\$ 47,958,627

An additional portion of the City's net position, \$14,071,769 million, represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of the net position is negative \$13,566,685.

TABLE 2
City of Desert Hot Springs
Changes in Net Position
June 30, 2020

	Governmental activities		Business-Type activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 4,506,545	\$ 4,317,324	\$ 52,000	\$ 104,000	\$ 4,558,545	\$ 4,421,324
Operating grants and contributions	8,023,591	4,355,634	-	-	8,023,591	4,355,634
Capital grants and contributions	4,363,207	5,933,447	5,570,406	-	9,933,613	5,933,447
General revenues						
Property taxes	1,016,736	1,878,375	-	-	1,016,736	1,878,375
Sales taxes	4,069,069	4,043,988	-	-	4,069,069	4,043,988
Transient occupancy taxes	1,855,521	2,235,629	-	-	1,855,521	2,235,629
Other taxes	6,038,132	5,010,479	-	-	6,038,132	5,010,479
Investment income	441,897	207,242	3,715	75,637	445,612	282,879
Miscellaneous	930,780	793,313	-	-	930,780	793,313
Transfers	12,247,992	75,400	(12,247,992)	(75,400)	-	-
Total revenues	\$ 43,493,470	\$ 28,850,831	\$ (6,621,871)	\$ 104,237	\$ 36,871,599	\$ 28,955,068
Program expenses						
General government	\$ 8,605,994	\$ 7,391,029	\$ -	\$ -	\$ 8,605,994	\$ 7,391,029
Public safety	13,004,444	10,390,958	-	-	13,004,444	10,390,958
Public works	2,980,027	2,555,909	-	-	2,980,027	2,555,909
Economic development	2,209,565	2,025,941	-	-	2,209,565	2,025,941
Culture and leisure	1,159,686	1,035,644	-	-	1,159,686	1,035,644
Interest and fiscal charges	1,155,101	1,289,925	-	-	1,155,101	1,289,925
Health and wellness foundation	-	-	679,333	855,903	679,333	855,903
Total expenses	\$ 29,114,817	\$ 24,689,406	\$ 679,333	\$ 855,903	\$ 29,794,150	\$ 25,545,309
Change in net position	14,378,653	4,161,425	(7,301,204)	(751,666)	7,077,449	3,409,759
Net position – beginning of year	40,657,423	36,495,998	7,301,204	8,052,870	47,958,627	44,548,868
Net position – end of year	\$ 55,036,076	\$ 40,657,423	\$ -	\$ 7,301,204	\$ 55,036,076	\$ 47,958,627

The City's governmental activities total revenues were over \$43 million, while the total cost of all programs and services were approximately \$29 million. Transfers were the City's largest resource at \$12,247,992 million (28% of the total revenue of the governmental activities). Operating grants and contributions were the second largest revenue source at \$8,023,591 million (18% of the total revenue of the governmental activities). Charges for services were the third largest resource at \$4,506,545 million (10% of the total revenue of the governmental activities). Capital grants and contributions were the fourth largest revenue source at \$4,363,207 million (10% of the total revenue of the governmental activities).

Governmental Activities

Public Safety expenses of \$13,004,444 million comprise the largest component of government activities (45% of the total cost of governmental activities).

General Government expenses of \$8,605,994 million (includes City Council, City Manager, City Attorney, City Clerk, Finance, Information Systems and Non-Departmental) were the second largest governmental activities (30% of the total cost of governmental activities).

Public Works expenses of \$2,980,027 million were the third largest governmental activities (10% of the total cost of governmental activities).

Economic Development expenses of \$2,209,565 million was the fourth largest governmental activities (8% of the total cost of governmental activities).

Business-Type activities

Net position for Business-type activities of the City decreased to \$0 for the fiscal year ending June 30, 2020. Transactions for the City's business-type activity during the fiscal year focused on unwinding the New Market Tax Credit financing and the dissolution of the Health & Wellness Foundation. The unwinding process was completed in July 2019 while the dissolution of the Foundation was approved in June 2020. The dissolution documents were submitted to the Attorney General's Office and the City is awaiting approval from that office. During the unwinding process, ownership of the long-term debt for the financing of the construction of the Health & Wellness Center was given to the City when it exercised the Put Agreement. The City forgave the loan in exchange for a transfer of the Health & Wellness Center capital assets to City ownership. The programs and activities for the Health & Wellness Center will continued to be financed through 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 2019-2020, the fund balance assigned to operations was \$4,368,623 while total fund balance was \$11,701,347.

The General Fund balance increased by \$277,150 in 2019-2020. 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 relatively 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-needed basis during the year.
- During the onset of COVID-19, the City implemented cost cutting measures to offset reductions in revenues due to the economic shutdowns. The City was able to adhere to the cost cutting measures and the City received more in revenues that were affected by the economic shutdown than what was conservatively estimated.

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 2019-2020 fiscal year by over \$2,041,333. The increase was due to moving the Code Compliance division from the General Fund to the Public Safety Fund, increased personnel costs and increases in contract services such as dispatch and fire services. The additional expensed were covered by an increase in a transfer from the General Fund.

Capital Improvement Deposits 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 were \$1,492,505 which was an 2% decrease over the previous year. The fund balance decreased by 52% for an ending balance of \$1,710,572. This decrease was due to expenses related to major capital improvement projects from the Circulation Development Impact Fees for new traffic signals, street lights, and pedestrian and bicycle safety improvement along Palm Drive.

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 several capital improvement projects being worked on during FY 2019-2020. The most notable projects are the Palm Drive Traffic Light and Street Light Safety Improvement project with \$1,301,678 expended during the fiscal year and the Palm Drive Bicycle and Pedestrian improvement project with \$772,00 expended from this fund during the 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, furniture and fixtures, and the start of construction costs totaled \$10,131,192. The construction of City Hall was completed in May 2020 and City staff started occupancy in June 2020. It is anticipated that in FY 2020-2021 there will be very little in expenditures consisting of final supplies and other small details.

At June 30, 2020, the consolidated fund had an ending fund balance of over negative \$1.7 million. The expenditures for the projects are funded by grants which are reimbursed to the City. During FY 2019-2020, the City finished the two significant projects listed above near the end of the fiscal year. While the expenses were accrued to the correct fiscal year, the corresponding reimbursement would not be received until after 90 days from the end of the fiscal year. Using generally accepted accounting principles, the City could not accrue an accounts receivable balance for the future revenue, thereby creating a negative fund balance. As of October 31, 2020, the City received over \$1.154 million in reimbursements from granting agencies with another \$1.3 million in grant reimbursements to be received in the coming months.

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 and transfers from other funds. For this fiscal year, \$535,000 was paid for the required principal payment and \$1,165,806 was paid out in interest expense. This fund also includes the proceeds and related expenses for the Series 2018 Bonds that were issued in October 2018 for \$6,850,000 to be used for the construction of the new City Hall. The fund balance at June 30, 2020 was \$4,353,290.

Capital Assets

At the end of FY 2019-2020, the City had invested over \$70 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. The capital assets for business-type activities was reduced to \$0 due to the dissolution of the Health & Wellness Foundation and the transfer of its capital assets to the City in exchange for forgiveness of the loan on those assets.

Table 3
City of Desert Hot Springs
Capital Assets
As of June 30, 2020

	Governmental activities		Business-Type activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 3,096,625	\$ 2,726,210	\$ -	\$ 370,415	\$ 3,096,625	\$ 3,096,625
Construction in progress	6,244,956	5,819,823	-	-	6,244,956	5,819,823
Building and improvements, net of depreciation	33,134,088	12,648,765	-	12,365,027	33,134,088	25,013,792
Machinery and equipment, net of depreciation	2,210,708	1,017,701	-	32,691	2,210,708	1,050,392
Vehicles, net of depreciation	1,048,406	949,289	-	-	1,048,406	949,289
Infrastructure, net of depreciation	24,198,919	22,946,560	-	-	24,198,919	22,946,560
Total	\$ 69,933,702	\$ 46,108,348	\$ -	\$ 12,768,133	\$ 69,933,702	\$ 58,876,481

For more information on Capital Asset Activity, please see Capital Assets page 64 and page 65.

Long-Term Debt

As of June 30, 2020, the City had total long-term liabilities outstanding of \$29,813,413 million in Certificates of participation debt, Lease revenue bonds debt, Claims and judgments payable debt, Compensated absences and Pension-related debt for the CalPERS Side Fund. For more detailed information on each long-term debt liability, please see Note (6) on pages 66-73. In comparison to last year the unfunded pension related debt has decreased by \$191,478 due to increased personnel costs from implementing new salary schedules to make employee compensation more comparable to other cities in the Coachella Valley. Overall debt decreased by \$20,710,646 due to the forgiveness of the financing loans for the construction of the Health & Wellness Center which puts the debt service for business-type activities at \$0.

Table 4
City of Desert Hot Springs
Long-Term Liabilities
As of June 30, 2020

	Governmental activities		Business-Type activities		Total	
	2020	2019	2020	2019	2020	2019
2012A certificates of participation	4,955,000	5,090,000	-	-	4,955,000	5,090,000
Lease revenue bonds series 2017A	13,645,000	13,725,000	-	-	13,645,000	13,725,000
Taxable lease revenue bonds series 2017A-T	490,000	695,000	-	-	490,000	695,000
Lease Revenue Bonds Series 2018	6,695,000	6,810,000	-	-	6,695,000	6,810,000
Bond discount - 2017A-T	(650)	(1,015)	-	-	(650)	(1,015)
Bond premium - 2012A COP	169,979	177,645	-	-	169,979	177,645
Bond premium - 2017A	161,332	167,537	-	-	161,332	167,537
Bond premium - 2018	278,132	288,352	-	-	278,132	288,352
Capital lease payment	133,744	262,004	-	-	133,744	262,004
Claims and judgments payable	552,697	230,843	-	-	552,697	230,843
Compensated absences	996,757	453,793	-	-	996,757	453,793
Pension-related debt	1,736,422	1,927,900	-	-	1,736,422	1,927,900
Promissory notes	-	-	-	20,697,000	-	20,697,000
Total	\$ 29,813,413	\$ 29,827,059	\$ -	\$ 20,697,000	\$ 29,813,413	\$ 50,524,059

Cannabis Dispensary and Cultivation Revenues

The City collects taxes for the dispensary and cultivation of marijuana and marijuana products. In the past six years the City has seen a steady increase in dispensary and cultivation tax revenues for the fiscal years 2015 through 2020 and estimates that will continue for the next couple of years. For FY 2019-2020, the City received over \$900 thousand additional cannabis dispensary and cultivation tax revenues over 2018-2019.

Table 5
City of Desert Hot springs
Marijuana Revenues
As of June 30, 2020

	Dispensary	Cultivation	Dispensary	Cultivation	Total	Total
	2020	2020	2019	2019	2020	2019
Marijuana Dispensary Revenue	\$ 1,908,996		\$ 1,252,460		\$ 1,908,996	\$ 1,252,460
Marijuana Cultivation Revenue		\$ 2,337,046		\$ 1,996,445	\$ 2,337,046	\$ 1,996,445
Total	\$ 1,908,996	\$ 2,337,046	\$ 1,252,460	\$ 1,996,445	\$ 4,246,042	\$ 3,248,905

Economic Factors

- Development activity had some increases due to additional commercial projects and housing developments within the City;
- Due to measures related to COVID-19, travel and other activity have been reduced which as negatively affected the City's Transient Occupancy Tax and Sale Tax;
- Cannabis tax revenues have increased during the COVID-19 pandemic and additional cannabis cultivators will be starting operations in FY 2020-2021;
- Home prices have remained stable during the COVID-19 pandemic;
- Unemployment rate at June 30, 2020 has increased to 22.6% for Desert Hot Springs compared to 13.7% for Riverside County;
- The City has reserves of 15% of annual general fund appropriations for natural and fiscal emergencies and 5% for future operational and capital uses. Additionally, there is an emergency reserve set up for financial and economic uncertainty funded by 25% of the cannabis tax revenues.

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, Geoffrey Buchheim, Finance Director, 11999 Palm Drive, Desert Hot Springs, CA 92240 or by telephone at 760-329-6411 Ext 227.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Desert Hot Springs
Statement of Net Position
June 30, 2020

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 21,076,787	\$ -	\$ 21,076,787
Receivables, net	8,392,174	-	8,392,174
Prepaid items	42,549	-	42,549
Property held for resale	85,090	-	85,090
Total current assets	29,596,600	-	29,596,600
Noncurrent assets:			
Cash and investments with fiscal agents	1,893,517	-	1,893,517
Capital assets:			
Not being depreciated	9,341,581	-	9,341,581
Being depreciated, net	60,592,121	-	60,592,121
Total noncurrent assets	71,827,219	-	71,827,219
Total assets	101,423,819	-	101,423,819
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	140,578	-	140,578
Deferred outflows of resources related to pensions	3,635,662	-	3,635,662
Total deferred outflows of resources	3,776,240	-	3,776,240

City of Desert Hot Springs
Statement of Net Position (Continued)
June 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 5,046,449	\$ -	\$ 5,046,449
Deposits	1,464,800	-	1,464,800
Interest payable	309,661	-	309,661
Unearned revenues	200,000	-	200,000
Long-term debt - due within one year	1,631,328	-	1,631,328
Total current liabilities	8,652,238	-	8,652,238
Noncurrent liabilities:			
Long-term debt - due in more than one year	28,182,087	-	28,182,087
Net pension liabilities	12,325,390	-	12,325,390
Total noncurrent liabilities	40,507,477	-	40,507,477
Total liabilities	49,159,715	-	49,159,715
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	1,004,268	-	1,004,268
Total deferred inflows of resources	1,004,268	-	1,004,268
NET POSITION			
Net investment in capital assets	54,530,992	-	54,530,992
Restricted for:			
Public safety	919,418	-	919,418
Street maintenance and capital improvement	3,229,707	-	3,229,707
Housing authority	3,878,480	-	3,878,480
Debt service	4,353,290	-	4,353,290
Lighting/Landscaping/Drainage	1,359,778	-	1,359,778
Assessment District 91-1	122,955	-	122,955
Assessment District 92-1	14,767	-	14,767
Assessment District 93-2	10,453	-	10,453
Other	182,921	-	182,921
Total restricted	14,071,769	-	14,071,769
Unrestricted (deficit)	(13,566,685)	-	(13,566,685)
Total net position	\$ 55,036,076	\$ -	\$ 55,036,076

City of Desert Hot Springs
Statement of Activities
For the Year Ended June 30, 2020

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	\$ 8,605,994	383,514	\$ -	\$ -	\$ 383,514
Public safety	13,004,444	401,802	5,650,527	97	6,052,426
Public works	2,980,027	885,340	1,251,251	4,363,110	6,499,701
Economic development	2,209,565	2,193,800	522,414	-	2,716,214
Culture and leisure	1,159,686	642,089	599,399	-	1,241,488
Interest and fiscal charges	1,155,101	-	-	-	-
Total governmental activities	29,114,817	4,506,545	8,023,591	4,363,207	16,893,343
Business-type activities:					
Health and Wellness Foundation	679,333	52,000	-	5,570,406	5,622,406
Total business-type activities	679,333	52,000	-	5,570,406	5,622,406
Total primary government	\$ 29,794,150	\$ 4,558,545	\$ 8,023,591	\$ 9,933,613	\$ 22,515,749

City of Desert Hot Springs
Statement of Activities (Continued)
For the Year Ended June 30, 2020

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (8,222,480)	\$ -	\$ (8,222,480)
Public safety	(6,952,018)	-	(6,952,018)
Public works	3,519,674	-	3,519,674
Economic development	506,649	-	506,649
Culture and leisure	81,802	-	81,802
Interest and fiscal charges	(1,155,101)	-	(1,155,101)
Total governmental activities	(12,221,474)	-	(12,221,474)
Business-type activities:			
Health and Wellness Foundation	-	4,943,073	4,943,073
Total business-type activities	-	4,943,073	4,943,073
Total primary government	(12,221,474)	4,943,073	(7,278,401)
General revenues:			
Taxes:			
Property taxes	1,016,736	-	1,016,736
Sales taxes	4,069,069	-	4,069,069
Dispensary taxes	1,908,996	-	1,908,996
Cultivator taxes	2,337,046	-	2,337,046
Vehicle in-lieu taxes	23,151	-	23,151
Franchise taxes	1,768,939	-	1,768,939
Transient occupancy taxes	1,855,521	-	1,855,521
Total taxes	12,979,458	-	12,979,458
Investment income	441,897	3,715	445,612
Miscellaneous	930,780		930,780
Transfers	12,247,992	(12,247,992)	-
Total general revenues and transfers	26,600,127	(12,244,277)	14,355,850
Change in net position	14,378,653	(7,301,204)	7,077,449
Net position - beginning of year	40,657,423	7,301,204	47,958,627
Net position - end of year	\$ 55,036,076	\$ -	\$ 55,036,076

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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.

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.

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 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.

City of Desert Hot Springs
Balance Sheet
Governmental Funds
June 30, 2020

	Special Revenue Funds			
	General	Public Safety	Capital Improvement Deposits	Housing Authority
ASSETS				
Cash and investments	\$ 11,207,111	\$ 553,826	\$ 3,296,685	\$ 404,124
Cash and investments with fiscal agents	-	-	-	-
Receivables:				
Accounts	1,879,900	987,077	-	-
Interest	12,128	-	2,861	417
Notes	-	-	-	3,389,172
Prepaid items	42,549	-	-	-
Due from other funds	578,241	-	-	-
Property held for resale	-	-	-	85,090
Total assets	\$ 13,719,929	\$ 1,540,903	\$ 3,299,546	\$ 3,878,803
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 641,409	\$ 689,388	\$ 1,423,874	\$ 323
Due to other funds	-	-	165,100	-
Deposits	1,196,062	50,750	-	-
Unearned revenue	-	-	-	-
Total liabilities	1,837,471	740,138	1,588,974	323
Deferred Inflows of Resources:				
Unavailable revenues	181,111	676,408	-	-
Fund Balances:				
Nonspendable	42,549	-	-	-
Restricted	-	124,357	1,710,572	3,878,480
Committed	7,290,175	-	-	-
Assigned	4,368,623	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	11,701,347	124,357	1,710,572	3,878,480
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,719,929	\$ 1,540,903	\$ 3,299,546	\$ 3,878,803

City of Desert Hot Springs
Balance Sheet (Continued)
Governmental Funds
June 30, 2020

	Capital Improvement Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 2,337	\$ 2,352,666	\$ 2,633,103	\$ 20,449,852
Cash and investments with fiscal agents	-	1,893,517	-	1,893,517
Receivables:				
Accounts	1,576,898	104,827	433,889	4,982,591
Interest	-	2,280	2,725	20,411
Notes	-	-	-	3,389,172
Prepaid items	-	-	-	42,549
Due from other funds	-	-	165,100	743,341
Property held for resale	-	-	-	85,090
Total assets	\$ 1,579,235	\$ 4,353,290	\$ 3,234,817	\$ 31,606,523
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,307,590	\$ -	\$ 978,546	\$ 5,041,130
Due to other funds	472,429	-	105,812	743,341
Deposits	217,988	-	-	1,464,800
Unearned revenue	200,000	-	-	200,000
Total liabilities	2,198,007	-	1,084,358	7,449,271
Deferred Inflows of Resources:				
Unavailable revenues	1,154,013	-	129,066	2,140,598
Fund Balances:				
Nonspendable	-	-	-	42,549
Restricted	-	4,353,290	2,014,135	12,080,834
Committed	-	-	55,044	7,345,219
Assigned	-	-	-	4,368,623
Unassigned (deficit)	(1,772,785)	-	(47,786)	(1,820,571)
Total fund balances	(1,772,785)	4,353,290	2,021,393	22,016,654
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,579,235	\$ 4,353,290	\$ 3,234,817	\$ 31,606,523

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, 2020

Total Fund Balances - Total Governmental Funds \$ 22,016,654

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

Capital assets, excluding the \$294,129 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	9,341,581	
Capital assets, being depreciated	<u>60,297,992</u>	69,639,573

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.		2,140,598
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Interest expenses are recognized when due, and therefore, interest payable is not recorded in the governmental funds.		(309,661)
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Long-term liabilities, net of \$686,439 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	140,578	
Long-term liabilities	<u>(29,126,974)</u>	(28,986,396)

Net pension liability is not due and payable in the current period; therefore, is not reported in the governmental funds. Deferred outflows of resources and deferred inflows of resources related to pensions are also not reported in the governmental funds.

Deferred outflows of resources	3,635,662	
Net pension liabilities	(12,325,390)	
Deferred inflows of resources	<u>(1,004,268)</u>	(9,693,996)

Internal service funds are used by management to charge the costs of general liability, workers' compensation and equipment replacement to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Government-Wide Statement of Net Position.		<u>229,304</u>
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Net Position of Governmental Activities		<u><u>\$ 55,036,076</u></u>
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City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020

	Special Revenue Funds			
	General	Public Safety	Capital Improvement Deposits	Housing Authority
REVENUES:				
Taxes	\$ 13,863,510	\$ 4,645,830	\$ -	\$ -
Permits and fees	2,208,112	300,088	1,492,505	-
Intergovernmental	-	47,621	-	380,158
Licenses	183,358	14,584	-	-
Interest	238,754	-	25,404	1,416
Miscellaneous	1,473,790	256,905	-	-
Total revenues	17,967,524	5,265,028	1,517,909	381,574
EXPENDITURES:				
Current:				
General government	6,154,511	-	-	-
Public safety	66,229	11,832,270	-	-
Public works	334,874	-	-	-
Economic development	2,108,262	-	-	51,834
Culture and leisure	702,260	-	-	-
Capital outlay	478,112	47,877	3,273,428	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	9,844,248	11,880,147	3,273,428	51,834
REVENUES OVER (UNDER) EXPENDITURES	8,123,276	(6,615,119)	(1,755,519)	329,740
OTHER FINANCING SOURCES (USES):				
Transfers in	159,486	6,730,027	-	-
Transfers out	(8,005,612)	-	(100,000)	-
Total other financing sources (uses)	(7,846,126)	6,730,027	(100,000)	-
NET CHANGES IN FUND BALANCES	277,150	114,908	(1,855,519)	329,740
FUND BALANCES:				
Beginning of year	11,424,197	9,449	3,566,091	3,548,740
End of year	<u>\$ 11,701,347</u>	<u>\$ 124,357</u>	<u>\$ 1,710,572</u>	<u>\$ 3,878,480</u>

City of Desert Hot Springs
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2020

	Capital Improvement Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ -	\$ 1,175,157	\$ 974,230	\$ 20,658,727
Permits and fees	-	-	259,206	4,259,911
Intergovernmental	756,442	-	2,150,709	3,334,930
Licenses	-	-	-	197,942
Interest	-	203,241	17,831	486,646
Miscellaneous	-	-	-	1,730,695
Total revenues	<u>756,442</u>	<u>1,378,398</u>	<u>3,401,976</u>	<u>30,668,851</u>
EXPENDITURES:				
Current:				
General government	-	-	-	6,154,511
Public safety	-	-	19,915	11,918,414
Public works	-	-	2,314,463	2,649,337
Economic development	-	-	-	2,160,096
Culture and leisure	-	-	124,026	826,286
Capital outlay	9,576,938	-	1,549,576	14,925,931
Debt service:				
Principal retirement	-	535,000	-	535,000
Interest and fiscal charges	-	1,165,806	-	1,165,806
Total expenditures	<u>9,576,938</u>	<u>1,700,806</u>	<u>4,007,980</u>	<u>40,335,381</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(8,820,496)</u>	<u>(322,408)</u>	<u>(606,004)</u>	<u>(9,666,530)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,746,866	816,501	744,952	14,197,832
Transfers out	-	(5,500,000)	(540,734)	(14,146,346)
Total other financing sources (uses)	<u>5,746,866</u>	<u>(4,683,499)</u>	<u>204,218</u>	<u>51,486</u>
NET CHANGES IN FUND BALANCES	<u>(3,073,630)</u>	<u>(5,005,907)</u>	<u>(401,786)</u>	<u>(9,615,044)</u>
FUND BALANCES:				
Beginning of year	1,300,845	9,359,197	2,423,179	31,631,698
End of year	<u>\$ (1,772,785)</u>	<u>\$ 4,353,290</u>	<u>\$ 2,021,393</u>	<u>\$ 22,016,654</u>

City of Desert Hot Springs
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$ (9,615,044)

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	14,925,931	
Transfer of capital assets	12,196,506	27,122,437

Depreciation expense on capital assets, net of internal service fund depreciation expense of \$125,990 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. (3,171,093)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 576,627

The fund financial statements record interest expenditures on the current financial resources measurement focus whereas the Government-Wide financial statements recognize interest expense on the accrual basis. The reconciling amount was the change in accrued interest from the prior year. 3,882

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. (542,964)

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	535,000	
Changes in pension-related debt	191,477	726,477

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	23,725	
Amortization of deferred charges on refunding	(8,348)	15,377

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 \$1,705,492 pension contribution made after measurement date. (660,992)

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. (76,054)

Change in Net Position of Governmental Activities \$ 14,378,653

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.

Health & Wellness Foundation Enterprise 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 - To 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, 2020

	Business-Type Activities	Governmental Activities
	Health & Wellness Foundation Enterprise Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 626,935
Total current assets	-	626,935
Noncurrent assets:		
Capital assets, being depreciated, net	-	294,129
Total noncurrent assets	-	294,129
Total assets	-	921,064
LIABILITIES		
Current liabilities:		
Accounts payable	-	5,319
Capital lease payable - due within one year	-	133,744
Claims payable - due within one year	-	303,313
Total current liabilities	-	442,376
Noncurrent liabilities:		
Claims payable - due in more than one year	-	249,384
Total noncurrent liabilities	-	249,384
Total liabilities	-	691,760
NET POSITION		
Net investment in capital assets	-	160,385
Unrestricted	-	68,919
Total net position	\$ -	\$ 229,304

City of Desert Hot Springs
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Business-Type Activities <u>Health & Wellness Foundation Enterprise Fund</u>	Governmental Activities <u>Internal Service Funds</u>
OPERATING REVENUES:		
Charges for services	\$ 52,000	\$ 455,480
Insurance recovery	-	84,340
Total operating revenues	<u>52,000</u>	<u>539,820</u>
OPERATING EXPENSES:		
Insurance claims	-	481,330
General and administrative	103,221	-
Depreciation	571,627	125,990
Total operating expenses	<u>674,848</u>	<u>607,320</u>
OPERATING (LOSS)	<u>(622,848)</u>	<u>(67,500)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	3,715	-
Interest expense	(4,485)	(8,554)
Capital contribution to the City	(12,196,506)	-
Total nonoperating revenues (expenses)	<u>(12,197,276)</u>	<u>(8,554)</u>
CAPITAL CONTRIBUTIONS:		
Capital contribution from USB Fund	<u>5,570,406</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(7,249,718)</u>	<u>(76,054)</u>
TRANSFERS:		
Transfers out	<u>(51,486)</u>	<u>-</u>
Total transfers	<u>(51,486)</u>	<u>-</u>
Changes in net position	(7,301,204)	(76,054)
NET POSITION:		
Beginning of year	<u>7,301,204</u>	<u>305,358</u>
End of year	<u>\$ -</u>	<u>\$ 229,304</u>

City of Desert Hot Springs
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Business-Type Activities	Governmental Activities
	Health & Wellness Foundation Enterprise Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from claims and recoveries	\$ -	\$ 414,346
Receipts from user departments	-	179,772
Payments to suppliers for goods and services	(103,221)	(45,734)
Payments for insurance claims	-	(166,607)
Net cash provided by (used in) operating activities	(103,221)	381,777
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers out to other funds	(51,486)	-
Net cash (used in) noncapital financing activities	(51,486)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	-	(128,260)
Interest paid	(4,485)	(8,554)
Net cash (used in) capital and related financing activities	(4,485)	(136,814)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	3,717	-
Net cash provided by investing activities	3,717	-
Net increase (decrease) in cash and cash equivalents	(155,475)	244,963
CASH AND CASH EQUIVALENTS:		
Beginning of year	155,475	381,972
End of year	\$ -	\$ 626,935
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (622,848)	\$ (67,500)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	571,627	125,990
(Increase) decrease in accounts receivables	-	54,298
Increase (decrease) in accounts payable	-	(52,865)
Increase (decrease) in claims payable	-	321,854
Increase (decrease) in unearned revenue	(52,000)	-
Total adjustments	519,627	449,277
Net cash used in operating activities	\$ (103,221)	\$ 381,777
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contribution to the City	\$ (12,196,506)	\$ -
Capital contribution from USB Fund	\$ 5,570,406	\$ -

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, 2020

	Successor Agency Private - Purpose Trust Fund	Agency Funds
ASSETS		
Current assets:		
Cash and investments	\$ 4,806,988	\$ 2,923,816
Accounts receivable	-	6,733
Interest receivable	-	969
Total current assets	4,806,988	2,931,518
Noncurrent assets:		
Investments with fiscal agents	2,243,149	112,888
Notes receivable	16,294	-
Property held for resale	100,680	-
Total noncurrent assets	2,360,123	112,888
Total assets	7,167,111	\$ 3,044,406
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refundings	1,282,212	
Total deferred outflows of resources	1,282,212	
LIABILITIES		
Current liabilities:		
Accounts payable	3,610	\$ 218,327
Deposits payable	88,648	1,858,713
Interest payable	447,821	-
Bonds payable - due within one year	2,447,595	-
Due to bondholders	-	967,366
Total current liabilities	2,987,674	3,044,406
Noncurrent liabilities:		
Bonds payable - due in more than one year	25,491,619	-
Total noncurrent liabilities	25,491,619	-
Total liabilities	28,479,293	\$ 3,044,406
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refundings	1,293	
Total deferred outflows of resources	1,293	
NET POSITION (DEFICIT)		
Held in trust	\$ (20,031,263)	

City of Desert Hot Springs
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020

	Successor Agency Private - Purpose Trust Fund
ADDITIONS:	
Redevelopment Property Tax Trust Fund	\$ 4,823,472
Use of money and property	131,653
Total additions	4,955,125
 DEDUCTIONS:	
Interest expenses	1,401,602
Administration	267,353
Investment loss	34,287
Loss on sale of land held for resale	218,562
Transfer out to City of Desert Hot Springs	380,158
Total deductions	2,301,962
Change in net position	2,653,163
 NET POSITION:	
Beginning of year	(22,684,426)
End of year	\$ (20,031,263)

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, 2020

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City of Desert Hot Springs
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For the Year Ended June 30, 2020

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City of Desert Hot Springs
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

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, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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. On June 8, 2020, the Foundation Board of Directors approved the winddown and dissolution of the Foundation. Upon dissolution after payment of Foundation debts, the assets of the Foundation are transferred to the City. 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, 2020

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
- 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 60 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, 2020

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, other taxes and abatement receivables. 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.
- ***Capital Improvement Deposits Special Revenue Fund*** – This fund was established 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.
- ***Housing Authority Special Revenue Fund*** – This fund was established to account for, and report, funds set aside for development and improvements of the City’s housing activity and operations.
- ***Capital Improvement Capital Projects Fund*** – This fund was established 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements (Continued)

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

The City reports the following major proprietary fund:

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

Fiduciary Fund Financial Statements

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

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments (Continued)

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.

E. Fair Value Measurement

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

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

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

F. Prepaid Items

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

G. Interfund Transactions

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

H. Property Held for Resale

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Capital Assets

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

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.

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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. 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, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

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

N. Deferred Outflows/Inflows of Resources

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

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

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

O. Long-Term Debt

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Claims and Judgments

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

Q. Property Taxes

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

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

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 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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, 2020:

	Government- Wide Statement of Net Position Governmental Activities	Fiduciary Fund Statement of Net Position	Total
Cash and investments	\$ 21,076,787	\$ 7,730,804	\$ 28,807,591
Cash and investments with fiscal agents	1,893,517	2,356,037	4,249,554
Total cash and investments	\$ 22,970,304	\$ 10,086,841	\$ 33,057,145

Cash and investments consisted of the following at June 30, 2020:

Cash:	
Petty cash	\$ 8,000
Demand deposits	18,948,772
Cash with fiscal agent:	873,468
Total cash and cash equivalents	19,830,240
Investments	9,850,819
Investments with fiscal agents	3,376,086
Total investments	13,226,905
Total cash and investments	\$ 33,057,145

A. Demand Deposits

The carrying amounts of the City's demand deposits were \$19,822,240 at June 30, 2020. Bank balances at that date were \$19,796,410, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the carrying amount and bank balances represents outstanding checks, deposits in transit, and other reconciling items.

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

A. Demand Deposits (Continued)

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

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

B. Investments

Investments Authorized by the City's Investment Policy

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

Authorized Investment Type	Maximum Maturity *	Percentage of Portfolio *	Investment in One Issuer *
United States Treasury Notes	5 years	80%	N/A
U.S. Sponsored Enterprise Securities	5 years	80%	N/A
Bankers' Acceptances	180 days	40%	30%
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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

C. Fair Value Measurement

At June 30, 2020, 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, 2020:

Investment Type	Value	Fair Value Measurement		Cash Equivalent
		Observable Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	
Local Agency Investment Fund (LAIF)	\$ 5,859,241	\$ -	\$ -	\$ 5,859,241
Certificates of deposits	1,884,462	-	1,884,462	-
Money market funds	30,274	-	-	30,274
US Treasury notes	557,855	557,855	-	-
US government sponsored enterprise securities	1,018,972	-	1,018,972	-
Corporate bonds	500,015	-	500,015	-
Investments held with fiscal agents:				
US Treasury notes	789,434	789,434	-	-
Commercial paper	1,817,961	-	1,817,961	-
Foreign government bonds	331,833	-	331,833	-
Money market mutual funds	436,858	-	-	436,858
Total	\$ 13,226,905	\$ 1,347,289	\$5,553,243	\$ 6,326,373

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

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, 2020, 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)	\$ 5,859,241	\$ 5,859,241	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	1,884,462	841,712	205,435	47,840	789,475	-
Money market funds	30,274	30,274	-	-	-	-
US Treasury notes	557,855	100,248	102,557	313,142	41,908	-
US government sponsored enterprise securities	1,018,972	176,932	401,697	440,343	-	-
Corporate bonds	500,015	152,162	62,263	196,596	63,492	25,502
Investments held with fiscal agents:						
US Treasury notes	789,434	112,888	676,546	-	-	-
Commercial paper	1,817,961	-	1,817,961	-	-	-
Foreign government bonds	331,833	-	-	331,833	-	-
Money market mutual funds	436,858	436,858	-	-	-	-
Total	\$ 13,226,905	\$ 7,710,315	\$3,266,459	\$ 1,329,754	\$ 894,875	\$ 25,502

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

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)	\$ 5,859,241	N/A	Not Rated	59.48%
Certificates of deposits	1,884,462	A	A1	19.13%
Money market funds	30,274	N/A	Aaa	0.31%
US Treasury notes	557,855	N/A	Aaa	5.66%
US government sponsored enterprise securities	1,018,972	N/A	Aaa	10.34%
Corporate bonds	500,015	N/A	Aaa/Aa/A	5.08%
Investments held with fiscal agents:				
US Treasury notes	789,434	N/A	Aaa	N/A
Commercial paper	1,817,961	N/A	Aaa	N/A
Foreign government bonds	331,833	N/A	Not Rated	N/A
Money market mutual funds	436,858	N/A	Aaa	N/A
Total	\$ 13,226,905			

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, 2020, 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

E. Investments in Local Agency Investment Fund (Continued)

As of June 30, 2020, the City had \$5,859,241.21 invested in LAIF, which had invested 3.37% 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, 2020 at amortized cost, which approximates fair value.

Note 3 – Notes Receivable

A. Governmental Fund Financial Statements

Notes receivable, which amounted to \$3,389,172, is reported in the Housing Authority Special Revenue Fund as follows:

Housing Rehabilitation Loan Program	\$ 439,172
Owner Participation and Loan Agreement:	
Low Income Housing Project	500,000
Low and Moderate Income Housing Units	750,000
Multifamily Residential Housing	1,700,000
Total	\$ 3,389,172

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 June 7, 2006, the former Redevelopment Agency entered into an Owner Participation and Loan Agreement in the amount of \$500,000 with a developer to provide funding for development of 34 low income housing units. On October 6, 2009, the former Redevelopment Agency entered into another Owner Participation and Loan Agreement for \$750,000 with a developer to provide funding for development of 60 low to moderate income housing units. On March 16, 2010, the former Redevelopment Agency entered into the third Owner Participation and Grant Agreement in the amount of \$1,700,000 with a developer to provide funding for development of a 62-unit multifamily residential housing project. The term of these agreements 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 “Leveraged Loan”). 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. On July 16, 2019, the City exercised the put and call agreement with the Investment Fund and effectively acquired the Investment Fund. On March 3, 2020, the City approved the forgiveness of the Leveraged Loan in the amount of \$15,126,594 and the related interest receivables. See Note 6B and 12 for additional disclosure.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 4 – Interfund Transactions

A. Due From/To Other Funds

At June 30, 2020, the City had the following short-term interfund receivable/payable:

Due to Other Funds	Due from Other Funds		Total
	General Fund	Nonmajor Governmental Funds	
Capital Improvement Deposits Special Revenue Fund	\$ -	\$ 165,100	\$ 165,100
Capital Improvement Capital Project Fund	472,429	-	472,429
Nonmajor Governmental Funds	105,812	-	105,812
Total	\$ 578,241	\$ 165,100	\$ 743,341

The interfund balances resulted from temporary reclassifications made at June 30, 2020 to cover cash shortfalls.

B. Transfers In/Out

For the year ended June 30, 2020, the City had the following transfers in/out which arise in the normal course of operations:

Transfers Out	Transfers In					Total
	General Fund	Public Safety Special Revenue Fund	Capital Improvement Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 6,598,837	\$ 246,866	\$ 414,957	\$ 744,952	\$ 8,005,612
Capital Improvement Deposits Special Revenue Fund	100,000	-	-	-	-	100,000
Debt Service Fund	-	-	5,500,000	-	-	5,500,000
Nonmajor Governmental Funds	8,000	131,190	-	401,544	-	540,734
Health & Wellness Foundation Enterprise Fund	51,486	-	-	-	-	51,486
Total	\$ 159,486	\$ 6,730,027	\$ 5,746,866	\$ 816,501	\$ 744,952	\$ 14,197,832

The transfer of \$6,598,837 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 \$246,866 from General Fund to Capital Improvement Fund was transferred for use in capital improvement projects. The transfers of \$414,957 to the Debt Service Fund was to fund debt service payments. The transfers of \$744,952 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 \$100,000 from the Capital Improvement Deposits Special Revenue Fund to the General Fund was a payment for the City Council adopted interfund loan agreement with the General Fund for the reimbursement of expenses related to the construction of the new City Hall.

The transfers of \$5,500,000 from Debt Service Fund to the Capital Improvement Capital Projects Fund relates to the bond proceeds for construction of the City Hall from the 2017A Lease Revenue Bonds and the 2018 Lease Revenue Bonds.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 4 – Interfund Transactions (Continued)

B. Transfers In/Out (Continued)

Transfers of \$8,000 from the Nonmajor Governmental Fund to the General Fund was related to public art expenditures. The transfers of \$131,190 from the Nonmajor Governmental Funds to the Public Safety Special Revenue Fund relates to assistance in funding public safety expenditures. Transfers of \$401,544 from the Nonmajor Governmental Fund to the Debt Service Fund were to cover the debt service payments.

The transfers of \$51,486 from the Health and Wellness Foundation Enterprise Fund to the General Fund relates to the winddown of the Foundation and transfer of the remaining cash to the General Fund.

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, 2020 is as follows:

	Governmental Activities				Balance June 30, 2020
	Balance June 30, 2019	Additions	Deletions	Transfers	
Nondepreciable assets:					
Land	\$ 2,726,210	\$ -	\$ -	\$ 370,415	\$ 3,096,625
Construction in progress	5,819,823	2,803,010	-	(2,377,877)	6,244,956
Total nondepreciable assets	8,546,033	2,803,010	-	(2,007,462)	9,341,581
Depreciable assets:					
Building and improvements	19,906,794	6,871,976	-	18,158,959	44,937,729
Machinery and equipment	8,788,363	1,522,663	-	349,172	10,660,198
Vehicles	2,771,703	450,533	-	-	3,222,236
Infrastructure	40,507,791	3,277,749	-	-	43,785,540
Total capital assets, being depreciated	71,974,651	12,122,921	-	18,508,131	102,605,703
Less accumulated depreciation:					
Building and improvements	(7,258,029)	(589,515)	-	(3,956,097)	(11,803,641)
Machinery and equipment	(7,770,662)	(330,762)	-	(348,066)	(8,449,490)
Vehicles	(1,822,414)	(351,416)	-	-	(2,173,830)
Infrastructure	(17,561,231)	(2,025,390)	-	-	(19,586,621)
Total accumulated depreciation	(34,412,336)	(3,297,083)	-	(4,304,163)	(42,013,582)
Total depreciable assets, net	37,562,315	8,825,838	-	14,203,968	60,592,121
Governmental activities capital assets, net	\$ 46,108,348	\$ 11,628,848	\$ -	\$ 12,196,506	\$ 69,933,702

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 5 – Capital Assets (Continued)

A. Governmental Activities (Continued)

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2020 as follows:

General government	\$ 2,289,557
Public safety	429,518
Public works	263,531
Culture and leisure	<u>314,477</u>
Total depreciation expense	<u>\$ 3,297,083</u>

B. Business-Type Activities

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2020 is as follows:

	Business-Type Activities				June 30, 2020
	June 30, 2019	Additions	Deletions	Transfers	
Nondepreciable assets:					
Land	\$ 370,415	\$ -	\$ -	\$ (370,415)	\$ -
Total nondepreciable assets	<u>370,415</u>	<u>-</u>	<u>-</u>	<u>(370,415)</u>	<u>-</u>
Depreciable assets:					
Building and improvements	15,781,082	-	-	(15,781,082)	-
Furniture and fixtures	349,172	-	-	(349,172)	-
Total depreciable assets	<u>16,130,254</u>	<u>-</u>	<u>-</u>	<u>(16,130,254)</u>	<u>-</u>
Less accumulated depreciation:					
Building and improvements	(3,416,055)	(540,042)	-	3,956,097	-
Furniture and fixtures	(316,481)	(31,585)	-	348,066	-
Total accumulated depreciation	<u>(3,732,536)</u>	<u>(571,627)</u>	<u>-</u>	<u>4,304,163</u>	<u>-</u>
Total depreciable assets, net	<u>12,397,718</u>	<u>(571,627)</u>	<u>-</u>	<u>(11,826,091)</u>	<u>-</u>
Business-type activities capital assets, net	<u>\$ 12,768,133</u>	<u>\$ (571,627)</u>	<u>\$ -</u>	<u>\$ (12,196,506)</u>	<u>\$ -</u>

The \$0 balance of capital assets is from the dissolution of the Health & Wellness Foundation and transferring the assets to the City. See Note 6B for more information. Depreciation expense was charged to functions/programs of business-type activities for the fiscal year ended June 30, 2020 as follows:

Heath and Wellness Foundation	<u>\$ 571,627</u>
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City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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, 2020 is as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in more than One Year
2012A Certificates of Participation	\$ 5,090,000	\$ -	\$ (135,000)	\$ 4,955,000	\$ 135,000	\$ 4,820,000
Lease Revenue Bonds Series 2017A	13,725,000	-	(80,000)	13,645,000	80,000	13,565,000
Taxable Lease Revenue Bonds						
Series 2017A-T	695,000	-	(205,000)	490,000	215,000	275,000
Lease Revenue Bonds Series 2018	6,810,000	-	(115,000)	6,695,000	120,000	6,575,000
Subtotal	<u>26,320,000</u>	<u>-</u>	<u>(535,000)</u>	<u>25,785,000</u>	<u>550,000</u>	<u>25,235,000</u>
Add/(less) deferred amounts:						
Bond premium - 2012A COP	177,645	-	(7,664)	169,981	7,665	162,316
Bond discount - 2017A-T	(1,015)	-	365	(650)	(365)	(285)
Bond premium - 2017A	167,537	-	(6,205)	161,332	6,205	155,127
Bond premium - 2018	288,352	-	(10,220)	278,132	10,220	267,912
Total bonds payable	<u>26,952,519</u>	<u>-</u>	<u>(558,724)</u>	<u>26,393,795</u>	<u>573,725</u>	<u>25,820,070</u>
Capital lease payable	262,004	-	(128,260)	133,744	133,744	-
Claims and judgments payable	230,843	436,106	(114,252)	552,697	303,313	249,384
Compensated absences	453,793	1,186,711	(643,747)	996,757	299,027	697,730
Pension-related debt	1,927,900	-	(191,478)	1,736,422	321,519	1,414,903
Total	<u>\$ 29,827,059</u>	<u>\$ 1,622,817</u>	<u>\$ (1,636,461)</u>	<u>\$ 29,813,415</u>	<u>\$ 1,631,328</u>	<u>\$ 28,182,087</u>

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

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

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

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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, 2020, the outstanding balance of the Certificates was \$4,955,000. The annual debt service requirements on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 135,000	\$ 262,494	\$ 397,494
2022	140,000	258,275	398,275
2023	145,000	253,375	398,375
2024	150,000	248,300	398,300
2025	155,000	242,300	397,300
2026-2030	885,000	1,112,300	1,997,300
2031-2035	1,120,000	876,600	1,996,600
2036-2040	1,495,000	498,600	1,993,600
2041-2042	730,000	66,300	796,300
Total	<u>\$ 4,955,000</u>	<u>\$ 3,818,544</u>	<u>\$ 8,773,544</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, 2020

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, 2020, the outstanding balance of the Tax Exempt Bonds and the Taxable Bonds were \$13,645,000 and \$490,000, 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
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	330,000	533,781	-	-	330,000	533,781
2025	345,000	518,931	-	-	345,000	518,931
2026-2030	1,985,000	2,333,256	-	-	1,985,000	2,333,256
2031-2035	2,440,000	1,882,788	-	-	2,440,000	1,882,788
2036-2040	2,935,000	1,393,613	-	-	2,935,000	1,393,613
2041-2045	3,555,000	763,800	-	-	3,555,000	763,800
2046-2047	1,630,000	98,400	-	-	1,630,000	98,400
Total	\$ 13,645,000	\$ 9,172,037	\$ 490,000	\$ 25,728	\$ 14,135,000	\$ 9,197,765

Lease Revenue Bonds, Series 2018

In October 2018 the Authority issued the Lease Revenue Bonds, Series 2018 (the “2018 bonds”) in the amount of \$6,850,000. The purpose of the bonds is to (i) finance a portion of the New City Hall being constructed by the City (ii) make a deposit into a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the bonds.

The bonds accrue interest at rates between 3.0% and 5.0%, payable semiannually on March 1 and September 1, commencing March 1, 2019 and principals are due annually on March 1.

At June 30, 2020, the outstanding balance of the 2018 bonds were \$6,695,000. The annual debt service requirements on the 2018 bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 120,000	\$ 295,356	\$ 415,356
2022	125,000	289,356	414,356
2023	130,000	283,106	413,106
2024	140,000	276,606	416,606
2025	145,000	269,606	414,606
2026-2030	835,000	1,232,530	2,067,530
2031-2035	1,070,000	1,003,624	2,073,624
2036-2040	1,340,000	730,950	2,070,950
2041-2045	1,635,000	432,600	2,067,600
2046-2047	1,155,000	93,600	1,248,600
	\$ 6,695,000	\$ 4,907,334	\$ 11,602,334

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

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, 2020 was \$277,588. The future minimum lease payment is as follow:

Year Ending June 30,		
2021	\$	136,817
Less: Interest		(3,073)
Present value of future minimum lease payments	\$	<u>133,744</u>

Claims and Judgments Payable

The claims and judgments payable at June 30, 2020 was in the amount of \$552,697. The Risk Management Internal Service Fund has been used to liquidate the liability for claims and judgments payable. See Note 8 for details.

Compensated Absences

The City’s liability for vested and unpaid compensated absences (accrued vacation and sick pay) in the governmental activities was in the amount of \$996,757 at June 30, 2020. The General Fund has been used to liquidate the majority of the liability for compensated absences.

Pension-Related Debt

As of June 30, 2003, the California Public Employees’ Retirement System (“CalPERS”) implemented a risk pool for the City’s multiple-employer public employee defined benefit pension plan. The City’s Miscellaneous and Safety Plans converted from agent multiple-employer plans to cost-sharing multiple employer plans. In addition to the actuarially determined contributions (see Note 9), 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.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

Pension-Related Debt (Continued)

The amount of pension-related debt outstanding at June 30, 2020 totaled \$1,736,422, including \$303,519 for the Miscellaneous Plan and \$1,432,903 for the Safety Plan. The future payment requirements are as follows:

Year Ending June 30,	Miscellaneous	Safety	Total
2021	\$ 108,923	\$ 212,596	\$ 321,519
2022	111,918	218,442	330,360
2023	82,678	224,450	307,128
2024	-	230,622	230,622
2025	-	236,964	236,964
2026	-	309,829	309,829
	<u>\$ 303,519</u>	<u>\$ 1,432,903</u>	<u>\$ 1,736,422</u>

B. Business-Type Activities

A summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2020 is as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
LCD - Promissory Note A-1	\$ 9,207,621	\$ -	\$ (9,207,621)	\$ -
NMCC - Promissory Note A-2	3,960,000	-	(3,960,000)	-
LCD - Promissory Note B-1	3,272,379	-	(3,272,379)	-
NMCC - Promissory Note B-2	1,958,973	-	(1,958,973)	-
NMCC - Promissory Note C-2	2,298,027	-	(2,298,027)	-
Total long-term debt	<u>\$20,697,000</u>	<u>\$ -</u>	<u>\$(20,697,000)</u>	<u>\$ -</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.

On July 16, 2019, the City exercised the put and call agreement with the Investment Fund and effectively acquired the NMCC and LCD through ownership of Investment Fund and became the owner of the five promissory notes. On March 3, 2020, the City approved the forgiveness of the Leveraged Loan with Investment Fund. As part of the winddown of new market tax credit financing and dissolution of the Foundation, the five promissory notes were effectively forgiven on June 8, 2020.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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 was due on January 1, 2020, and thereafter, principal payments are payable quarterly with the interest payments. During the year ended June 30, 2020, the LCD – Promissory Note A-1 was forgiven.

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. A one-time principal payment of \$271,350 was due on January 1, 2020. Thereafter, principal payments are payable quarterly with the interest payments. During the year ended June 30, 2020, the NMCC – Promissory Note A-2 was forgiven.

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. During the year ended June 30, 2020, the LCD – Promissory Note B-1 was forgiven.

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. During the year ended June 30, 2020, the NMCC – Promissory Note B-2 was forgiven.

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. During the year ended June 30, 2020, the NMCC – Promissory Note C-2 was forgiven.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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, 2020 is as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in more than One Year
2008 Tax Allocation Bonds A-1	\$ 8,990,000	\$ -	\$ (1,565,000)	\$ 7,425,000	\$ 1,670,000	\$ 5,755,000
2017 Tax Allocation Refunding Bonds	19,445,000	-	(590,000)	18,855,000	740,000	18,115,000
Subtotal	28,435,000	-	(2,155,000)	26,280,000	2,410,000	23,870,000
Add/(less) deferred amounts:						
Bond discount - 2008 TAB A-1	(246,223)	-	58,765	(187,458)	(58,765)	(128,693)
Bond premium - 2017 Tax Allocation Refunding Bonds	1,943,032	-	(96,360)	1,846,672	96,360	1,750,312
Total bonds payable	<u>\$30,131,809</u>	<u>\$ -</u>	<u>\$ (2,192,595)</u>	<u>\$27,939,214</u>	<u>\$ 2,447,595</u>	<u>\$25,491,619</u>

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

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

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

The Series 2008A-1 Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 135% of the annual debt service requirement each fiscal year, through final maturity of the Series 2008A-1 Bonds on September 1, 2023 or early retirement of the Series 2008A-1 Bonds, whichever occurs first. Revenues received by the Successor Agency from the RPTTF have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$2,139,525 and total net revenue reported by the Successor Agency was \$4,823,472. The ratio of net revenues to the debt service payments due during the year ended June 30, 2020 was 2.25 (225%).

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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, 2020 totaled \$7,425,000 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
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>\$ 7,425,000</u>	<u>\$ 1,083,775</u>	<u>\$ 8,508,775</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
2021	\$ 740,000	\$ 808,913	\$ 1,548,913
2022	800,000	774,113	1,574,113
2023	840,000	733,113	1,573,113
2024	880,000	690,113	1,570,113
2025	925,000	644,988	1,569,988
2026-2030	5,290,000	2,560,113	7,850,113
2031-2035	5,750,000	1,158,488	6,908,488
2036-2040	3,630,000	267,869	3,897,869
Total	<u>\$ 18,855,000</u>	<u>\$ 7,637,710</u>	<u>\$ 26,492,710</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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. In February 2020 the District issued the Area 1 Special Tax Refunding Bonds, Series 2020 and redeemed the Series 2010 bonds. The outstanding balance for the Improvement Area 1 Special Tax Refunding Bonds, Series 2020, at June 30, 2020 was \$1,995,206.

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, 2020

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, 2020, the amount of these liabilities was \$552,697 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 Ended June 30,	Claims Payable July 1	Claims Incurred during the Fiscal Year	Claims Payments	Year Ended June 30
2018	\$ 418,181	\$ 121,980	\$ (206,611)	\$ 333,550
2019	333,550	147,179	(249,886)	230,843
2020	230,843	436,106	(114,252)	552,697

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, 2018, 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	16	3	27	6	3	19
Transferred and terminated employees	26	3	7	24	3	2
Separated	39	1	9	11	-	5
Retired Employees and Beneficiaries	48	-	1	62	1	2
Total	129	7	44	103	7	28

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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 36 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 36 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, 2020

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, 2019, the contribution rates were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Miscellaneous First Tier	8.000%	12.212%
Miscellaneous Second Tier	7.000%	7.634%
Miscellaneous PEPRA	6.750%	6.842%
Safety Police First Tier	9.000%	23.670%
Safety Police Second Tier	9.000%	20.862%
Safety Police PEPRA	14.250%	14.213%

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2019 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. The June 30, 2019 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS’ Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

¹The mortality table used was developed based on CalPERS’ specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this tables please refer to the CalPERS experience study and Review of Actuarial Assumption report from December 2017 that can be found on the CalPERS website.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 9 – Defined Benefit Pension Plan (Continued)

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

Change of Assumption

In 2019, there were no changes in assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 fund. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as followed:

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

1 In the CalPERS's CAFR, Fixed Income is included in Global Debt Securities;
 Liquidity is included in Short-term Investments;

Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

2 An expected inflation of 2.00% used for this period.

3 An expected inflation of 2.92% used for this period.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

The following presents the City’s proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, 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	\$ 5,578,812	\$ 3,477,949	\$ 1,743,835
Safety Plan	\$ 13,400,614	\$ 8,847,441	\$ 5,114,553

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:

	Increase (Decrease)		
	Plan Total	Plan Fiduciary	Net Pension
	Pension	Net	Net Pension
	Liability	Position	Liability/(Asset)
Miscellaneous Plan			
Balance at: 6/30/18 (Valuation date)	\$ 12,258,586	\$ 8,988,871	\$ 3,269,715
Balance at: 6/30/19 (Measurement date)	13,597,845	10,119,896	3,477,949
Net Changes during 2018-2019	1,339,259	1,131,025	208,234
Safety Plan			
Balance at: 6/30/18 (Valuation date)	\$ 29,611,506	\$ 21,319,425	\$ 8,292,081
Balance at: 6/30/19 (Measurement date)	31,900,235	23,052,794	8,847,441
Net Changes during 2018-2019	2,288,729	1,733,369	555,360

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2018). 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, 2019). 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, 2019 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2018-2019).
- (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 net pension liability at the measurement date.

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

	Plans	
	<u>Miscellaneous</u>	<u>Safety</u>
June 30, 2018	0.03393%	0.08605%
June 30, 2019	0.03394%	0.08634%
Change - (Decrease)	<u>0.00001%</u>	<u>0.000290%</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

For the year ended June 30, 2020, the City recognized pension expense in the amounts of \$686,171 and \$1,680,313 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 2018-2019 measurement period is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (the total number of participants: active, inactive, and retired).

At June 30, 2020, 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	\$ 611,957	\$ -	\$ 1,093,535	\$ -	\$ 1,705,492	\$ -
Changes of assumptions	165,844	(58,791)	362,640	(70,769)	528,484	(129,560)
Difference between expected and actual experience	241,559	(18,715)	577,656	-	819,215	(18,715)
Difference between projected and actual earning on pension plan investments	-	(60,806)	-	(121,710)	-	(182,516)
Adjustment due to differences in proportions	452,307	(517,018)	15,917	(21,431)	468,224	(538,449)
Difference between City contributions and proportionate share of contributions	107,213	-	7,034	(135,028)	114,247	(135,028)
Total	<u>\$ 1,578,880</u>	<u>\$ (655,330)</u>	<u>\$ 2,056,782</u>	<u>\$ (348,938)</u>	<u>\$ 3,635,662</u>	<u>\$ (1,004,268)</u>

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 9 – Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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 ending June 30, 2020. 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 Ending June 30,	Deferred Outflows/ (Inflows) of	
	Miscellaneous	Safety
2021	\$ 196,498	\$ 581,360
2022	(65,813)	(75,792)
2023	168,621	85,058
2024	12,287	23,683
	\$ 311,593	\$ 614,309

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 \$226,989 during the year ended June 30, 2020. 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 City made lease payments of \$134,334 and \$4,059 for the Motorola and Master Logging Recorder respectively during the year ended June 30, 2020.

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

Year Ending June 30,	Motorola Lease	Master Logging	Lease
	Reimbursement	Recorder Reimbursement	Reimbursement
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
	\$ 537,336	\$ 16,236	\$ 553,572

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 11 – Classification of Fund Balances

At June 30, 2020, fund balances are classified as follows:

	Major Funds							Total
	General Fund	Special Revenue Funds			Capital Improvement	Debt Service	Nonmajor Governmental	
		Public Safety	Capital Improvement Deposits	Housing Authority	Capital Projects Fund	Fund	Funds	
Nonspendable:								
Prepaid items	\$ 42,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,549
Total nonspendable	<u>42,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,549</u>
Restricted:								
Housing and economic development	-	-	-	3,878,480	-	-	-	3,878,480
Public safety	-	124,357	-	-	-	-	67,681	192,038
Public works/projects	-	-	1,710,572	-	-	-	322,584	2,033,156
Culture and leisure	-	-	-	-	-	-	175,177	175,177
Debt service	-	-	-	-	-	4,353,290	-	4,353,290
Air quality	-	-	-	-	-	-	26,538	26,538
Lighting/Landscaping/Drainage	-	-	-	-	-	-	1,273,980	1,273,980
Assessment District 91-1	-	-	-	-	-	-	122,955	122,955
Assessment District 92-1	-	-	-	-	-	-	14,767	14,767
Assessment District 93-2	-	-	-	-	-	-	10,453	10,453
Total restricted	<u>-</u>	<u>124,357</u>	<u>1,710,572</u>	<u>3,878,480</u>	<u>-</u>	<u>4,353,290</u>	<u>2,014,135</u>	<u>12,080,834</u>
Committed:								
Emergency Reserve	2,459,364	-	-	-	-	-	-	2,459,364
Reserve for capital use	1,207,703	-	-	-	-	-	-	1,207,703
Natural or Fiscal								
Emergency Reserve	3,623,108	-	-	-	-	-	-	3,623,108
Art in public places	-	-	-	-	-	-	55,044	55,044
Total committed	<u>7,290,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,044</u>	<u>7,345,219</u>
Assigned:								
Operations	4,368,623	-	-	-	-	-	-	4,368,623
Unassigned:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,772,785)</u>	<u>-</u>	<u>(47,786)</u>	<u>(1,820,571)</u>
Total	<u>\$11,701,347</u>	<u>\$ 124,357</u>	<u>\$1,710,572</u>	<u>\$3,878,480</u>	<u>\$ (1,772,785)</u>	<u>\$4,353,290</u>	<u>\$2,021,393</u>	<u>\$ 22,016,654</u>

The City Council adopted resolution No. 2015-050 to commit 25% of cannabis tax revenue for emergency reserve. The funds can only be used when the City is unable to pay for its general obligations within the next 60 days and that such condition jeopardizes the health, safety, or well-being of the residents of the City.

On August 21, 2018 the City Council approved the Comprehensive Financial Management Policies which included a Reserve for Natural or Fiscal Emergencies. The designated reserve is 15% of General Fund budgeted operational appropriations with the purpose of providing funding for natural or fiscal emergencies.

The assigned fund balance totaling \$4,368,623 is being held in the General Fund to fund the operations of the City for the fiscal year ending 2020-2021. Assigned fund balances encompass the portion of the net fund resources reflecting the government’s intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for the purpose. The City Council has authorized the City Manager or designee for that purpose.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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.

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.

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. On June 18, 2019, the City Council approved the exit of the NMTC Financing arrangement and the Membership Interest Purchase Agreement with USB Fund.

On July 16, 2019, the City completed the purchase of USB Fund’s membership interest in the Investment Fund for \$1,000, paid by the Foundation. As part of the purchase agreement, NMCC and LCD assigned their rights to the promissory notes (See Note 6) to the Investment Fund, resulting in the City, through its ownership of the Investment Fund, controlling the outstanding promissory notes in the amount of \$20,697,000 and assumed the Leveraged Loan payable in the amount of \$15,126,594 (See Note 3B). The exercise of put option resulted in capital contribution of \$5,570,406 from USB Fund for the year ended June 30, 2020.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 12 – Related Party Transaction (Continued)

On October 22, 2019, the City filed Notice of Winding Up for Limited Liability Company with the State of Missouri for the Investment Fund. On March 30, 2020 the Council forgave the Leveraged Loan to the Investment Fund (See Note 3B). On June 8, 2020 the Board of Directors of the Foundation unanimously consented to the winddown and dissolution of the Foundation. Upon dissolution of the Foundation, the capital assets of the Foundation in the amount of \$12,196,506 were transferred to the City's governmental activities (Note 5A and 5B).

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.

The City disputes the finding and responded within the requested time period that the monies were properly used, as the 2012A Certificates are certificates of participation with installment payments and are not bonds. Therefore, the City determined that this debt service payment does not fall under the requirement to meet the voter-approved and 25-year term limit requirements per the State's audit report. In addition, the City responded that the time limit for the State to dispute the use of gas tax monies has passed as determined by the original judgment when the 2012A Certificates were originally approved. There has been no further progress on this dispute that the City is aware of.

City of Desert Hot Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 13 – Contingencies and Commitments (Continued)

D. Dissolution of the Desert Hot Springs Health and Wellness Foundation

The dissolution of the Foundation is contingent upon the approval from the California Attorney General. The Foundation must provide to the Office of the California Attorney General informing it of the Foundation's intention to dissolve. This notice requires the Foundation to inform the Attorney General that the Foundation has no assets and to provide the last three tax forms filed. After receipt of the letter of approval from the Attorney General, the Foundation will then proceed to formally dissolve the Foundation with the California Secretary of State.

Note 14 – Subsequent Events

A. Refunding

On July 7, 2020, the City started the process to refinance refund the 2012A TRIPS Certificates of Participation debt instruments. The refinance will allow the City to save an estimated \$78,000 in Gas Tax and Measure A funds annually in interest expense and the refinance will not extend the duration of the bonds. As a part of the refinancing process, the City received a letter from the State Controller's Office stating that the use of Gas Tax funds to make debt service payments for the Series 2012A Certificates of Obligations is considered lawful and outstanding for the State Controller's Office. Any later refunding for debt service savings will not be considered a new issue and those debt service payments on the refunding obligations will be treated as eligible expenditures.

B. Development Impact Fee

In the Spring of 2020, Watermarke Homes, the developer for the Rolling Hills residential development in the City, applied for bond issuance to cover development impact fees due to the City in the amount of \$155,000 under the CSCDA SCIP Program. The funding closed on October 14, 2020.

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**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

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City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedules
General Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 11,359,308	\$ 13,207,790	\$ 13,863,510	\$ 655,720
Permits and fees	2,281,461	2,385,461	2,208,112	(177,349)
Intergovernmental	-	-	-	-
Licenses	214,282	227,000	183,358	(43,642)
Interest	15,010	135,010	238,754	103,744
Miscellaneous	661,279	1,643,816	1,473,790	(170,026)
Total revenues	<u>14,531,340</u>	<u>17,599,077</u>	<u>17,967,524</u>	<u>368,447</u>
EXPENDITURES:				
Current:				
General government	5,655,492	7,229,014	6,154,511	1,074,503
Public safety	68,695	97,806	66,229	31,577
Public works	524,033	340,273	334,874	5,399
Economic development	1,581,708	2,434,508	2,108,262	326,246
Culture and leisure	539,695	739,013	702,260	36,753
Capital outlay	-	545,335	478,112	67,223
Total expenditures	<u>8,369,623</u>	<u>11,385,949</u>	<u>9,844,248</u>	<u>1,541,701</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>6,161,717</u>	<u>6,213,128</u>	<u>8,123,276</u>	<u>1,910,148</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	515,421	126,850	159,486	32,636
Transfers out	(639,921)	(1,159,909)	(8,005,612)	(6,845,703)
Total other financing sources (uses)	<u>(124,500)</u>	<u>(1,033,059)</u>	<u>(7,846,126)</u>	<u>(6,813,067)</u>
Net changes in fund balance	<u>\$ 6,037,217</u>	<u>\$ 5,180,069</u>	277,150	<u>\$ (4,902,919)</u>
FUND BALANCE:				
Beginning of year			11,424,197	
End of year			<u>\$ 11,701,347</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedules (Continued)
Public Safety Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 4,465,932	\$ 4,572,467	\$ 4,645,830	\$ 73,363
Permits and fees	76,500	403,500	300,088	(103,412)
Intergovernmental	30,000	108,104	47,621	(60,483)
Licenses	2,000	17,000	14,584	(2,416)
Miscellaneous	356,889	408,000	256,905	(151,095)
Total revenues	<u>4,931,321</u>	<u>5,509,071</u>	<u>5,265,028</u>	<u>(244,043)</u>
EXPENDITURES:				
Current:				
Public safety	10,774,616	12,162,537	11,832,270	330,267
Capital outlay	-	50,000	47,877	2,123
Total expenditures	<u>10,774,616</u>	<u>12,212,537</u>	<u>11,880,147</u>	<u>332,390</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,843,295)</u>	<u>(6,703,466)</u>	<u>(6,615,119)</u>	<u>88,347</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	110,000	100,000	6,730,027	6,630,027
Transfers out	(136,816)	(136,816)	-	136,816
Total other financing sources (uses)	<u>(26,816)</u>	<u>(36,816)</u>	<u>6,730,027</u>	<u>6,766,843</u>
Net changes in fund balance	<u>\$ (5,870,111)</u>	<u>\$ (6,740,282)</u>	114,908	<u>\$ 6,855,190</u>
FUND BALANCE:				
Beginning of year			9,449	
End of year			<u>\$ 124,357</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedules (Continued)
Capital Improvement Deposits Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Permits and fees	\$ 1,360,499	\$ 1,360,499	\$ 1,492,505	\$ 132,006
Interest	2,400	2,400	25,404	23,004
Total revenues	<u>1,362,899</u>	<u>1,362,899</u>	<u>1,517,909</u>	<u>155,010</u>
EXPENDITURES:				
Capital outlay	1,372,400	3,494,095	3,273,428	220,667
Total expenditures	<u>1,372,400</u>	<u>3,494,095</u>	<u>3,273,428</u>	<u>220,667</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(9,501)</u>	<u>(2,131,196)</u>	<u>(1,755,519)</u>	<u>375,677</u>
OTHER FINANCING (USES):				
Transfers out	-	(100,000)	(100,000)	-
Net changes in fund balance	<u>\$ (9,501)</u>	<u>\$ (2,231,196)</u>	<u>(1,855,519)</u>	<u>\$ 375,677</u>
FUND BALANCE:				
Beginning of year			<u>3,566,091</u>	
End of year			<u>\$ 1,710,572</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedules (Continued)
Housing Authority Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ 380,158	\$ 380,158	\$ -
Interest	-	-	1,416	1,416
Total revenues	<u>-</u>	<u>380,158</u>	<u>381,574</u>	<u>1,416</u>
EXPENDITURES:				
Current:				
Economic development	-	39,539	51,834	(12,295)
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>340,619</u>	<u>329,740</u>	<u>(10,879)</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ 340,619</u>	<u>329,740</u>	<u>\$ (10,879)</u>
FUND BALANCE:				
Beginning of year			<u>3,548,740</u>	
End of year			<u>\$ 3,878,480</u>	

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Notes to the Budgetary Comparison Schedules
For the Year Ended June 30, 2020

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. The City did not adopt a budget for the Assessment District 92-1 and 93-2 funds for fiscal year 2019-20.

On June 5, 2018, the City Council approved and adopted a two-year budget for fiscal years 2018-19 and 2019-20.

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, 2020

Last Ten Fiscal Years

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

	June 30, 2019
City's Proportion of the Net Pension Liability	0.033941%
City's Proportionate Share of the Net Pension Liability	\$ 3,477,949
City's Covered Payroll	\$ 2,959,267
City's Proportionate Share of the Net Pension Liability as a Percentage of the Covered Payroll	117.53%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	74.42%

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

	June 30, 2019
City's Proportion of the Net Pension Liability	0.086341%
City's Proportionate Share of the Net Pension Liability	\$ 8,847,411
City's Covered Payroll	\$ 2,336,427
City's Proportionate Share of the Net Pension Liability as a Percentage of the Covered Payroll	378.67%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	72.27%

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

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Schedule of the City's Proportionate Share of the Net Pension Liabilities and Related Ratios (Continued)
For the Year Ended June 30, 2020

Last Ten Fiscal Years

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

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability	0.033931%	0.034925%	0.034970%	0.037816%	0.035817%
City's Proportionate Share of the Net Pension Liability	\$ 3,269,715	\$ 3,401,088	\$ 3,025,986	\$ 2,595,635	\$ 2,228,699
City's Covered Payroll	\$ 2,388,548	\$ 2,120,646	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
City's Proportionate Share of the Net Pension Liability as a Percentage of the Covered Payroll	<u>136.89%</u>	<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>73.33%</u>	<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, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability	0.086051%	0.083719%	0.084890%	0.090361%	0.090082%
City's Proportionate Share of the Net Pension Liability	\$ 8,292,081	\$ 8,302,607	\$ 7,345,645	\$ 6,202,312	\$ 5,642,660
City's Covered Payroll	\$ 2,107,816	\$ 1,834,204	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
City's Proportionate Share of the Net Pension Liability as a Percentage of the Covered Payroll	<u>393.40%</u>	<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>72.00%</u>	<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 implemented.

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Schedule of the City's Contributions - Pensions
For the Year Ended June 30, 2020

Last Ten Fiscal Years

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

Fiscal year	2019-20 ¹	2018-19
Actuarially Determined Contribution	\$ 611,957	\$ 496,387
Contribution in Relation to the Actuarially Determined Contribution	(611,957)	(496,387)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll ²	\$ 3,048,045	\$ 2,959,267
Contributions as a Percentage of Covered Payroll	20.08%	16.77%

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

Fiscal year	2019-20 ¹	2018-19
Actuarially Determined Contribution	\$ 1,093,535	\$ 911,294
Contribution in Relation to the Actuarially Determined Contribution	(1,093,535)	(911,294)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll ²	\$ 2,406,520	\$ 2,336,427
Contributions as a Percentage of Covered Payroll	45.44%	39.00%

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

² Includes one year's payroll growth using 3.00 percent payroll assumption for fiscal year 2019-20.

Notes to Schedule

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. 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.

City of Desert Hot Springs
Required Supplementary Information (Unaudited)
Schedule of the City's Contributions - Pensions (Continued)
For the Year Ended June 30, 2020

Last Ten Fiscal Years

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

Fiscal year	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially Determined Contribution	\$ 423,598	\$ 355,494	\$ 313,565	\$ 217,165	\$ 310,127
Contribution in Relation to the Actuarially Determined Contribution	(423,598)	(355,494)	(313,565)	(217,165)	(310,127)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,388,548	\$ 2,120,646	\$ 1,539,232	\$ 1,377,634	\$ 1,617,185
Contributions as a Percentage of Covered Payroll	17.73%	16.76%	20.37%	15.76%	19.18%

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

Fiscal year	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially Determined Contribution	\$ 769,408	\$ 688,645	\$ 639,246	\$ 380,758	\$ 765,202
Contribution in Relation to the Actuarially Determined Contribution	(769,408)	(688,645)	(639,246)	(380,758)	(765,202)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,107,816	\$ 1,834,204	\$ 1,749,649	\$ 1,523,928	\$ 1,772,829
Contributions as a Percentage of Covered Payroll	36.50%	37.54%	36.54%	24.99%	43.16%

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

² Includes one year's payroll growth using 3.00 percent payroll assumption for fiscal year 2019-20.

Notes to Schedule

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. 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, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,837,888	\$ 2,837,888	\$ 756,442	\$ (2,081,446)
Interest	350	350	-	(350)
Total revenues	<u>2,838,238</u>	<u>2,838,238</u>	<u>756,442</u>	<u>(2,081,796)</u>
EXPENDITURES:				
Capital outlay	3,837,888	8,337,888	9,576,938	(1,239,050)
Total expenditures	<u>3,837,888</u>	<u>8,337,888</u>	<u>9,576,938</u>	<u>(1,239,050)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(999,650)</u>	<u>(5,499,650)</u>	<u>(8,820,496)</u>	<u>(3,320,846)</u>
OTHER FINANCING SOURCES:				
Transfers in	-	5,500,000	5,746,866	246,866
NET CHANGES IN FUND BALANCE	<u>\$ (999,650)</u>	<u>\$ 350</u>	<u>(3,073,630)</u>	<u>\$ (3,073,980)</u>
FUND BALANCE:				
Beginning of year			<u>1,300,845</u>	
End of year			<u>\$ (1,772,785)</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
City Debt Service Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 1,082,970	\$ 1,082,970	\$ 1,175,157	\$ 92,187
Interest	27,500	27,500	203,241	175,741
Total revenues	<u>1,110,470</u>	<u>1,110,470</u>	<u>1,378,398</u>	<u>267,928</u>
EXPENDITURES:				
Debt service:				
Principal retirement	420,000	535,000	535,000	-
Interest and fiscal charges	873,381	1,179,838	1,165,806	14,032
Total expenditures	<u>1,293,381</u>	<u>1,714,838</u>	<u>1,700,806</u>	<u>14,032</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(182,911)</u>	<u>(604,368)</u>	<u>(322,408)</u>	<u>281,960</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	401,544	816,501	816,501	-
Transfers out	-	(5,500,000)	(5,500,000)	-
Total other financing sources (uses)	<u>401,544</u>	<u>(4,683,499)</u>	<u>(4,683,499)</u>	<u>-</u>
NET CHANGES IN FUND BALANCE	<u>\$ 218,633</u>	<u>\$ (5,287,867)</u>	<u>(5,005,907)</u>	<u>\$ 281,960</u>
FUND BALANCE:				
Beginning of year			<u>9,359,197</u>	
End of year			<u>\$ 4,353,290</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 Rehabilitation 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.

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:

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, 2020

	Special Revenue			
	Special Gas Tax	SB1 Road Maintenance and Rehabilitation	Municipal Lighting / Landscaping Assessment District	Measure A
ASSETS				
Cash and investments	\$ -	\$ 770,950	\$ 771,346	\$ 40,075
Receivables:				
Accounts	61,719	36,477	109,497	97,247
Interest	-	747	754	10
Due from other funds	-	-	-	-
Total assets	\$ 61,719	\$ 808,174	\$ 881,597	\$ 137,332
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 23,995	\$ 546,332	\$ 122,602	\$ 86,136
Due to other funds	83,430	-	-	-
Total liabilities	107,425	546,332	122,602	86,136
Deferred Inflows of Resources:				
Unavailable revenue	-	-	85,798	-
Fund Balances:				
Restricted	-	261,842	673,197	51,196
Committed	-	-	-	-
Unassigned (deficit)	(45,706)	-	-	-
Total fund balances	(45,706)	261,842	673,197	51,196
Total liabilities, deferred inflows of resources, and fund balances	\$ 61,719	\$ 808,174	\$ 881,597	\$ 137,332

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2020

	Special Revenue			
	Air Quality Control	Art in Public Places	Quimby Act	Drainage Assessment District
ASSETS				
Cash and investments	\$ 24,817	\$ 54,946	\$ 144,277	\$ 611,235
Receivables:				
Accounts	9,155	-	-	10,283
Interest	25	98	336	631
Due from other funds	-	-	165,100	-
Total assets	\$ 33,997	\$ 55,044	\$ 309,713	\$ 622,149
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,459	\$ -	\$ 145,465	\$ 21,366
Due to other funds	-	-	-	-
Total liabilities	7,459	-	145,465	21,366
Deferred Inflows of Resources:				
Unavailable revenue	-	-	-	-
Fund Balances:				
Restricted	26,538	-	164,248	600,783
Committed	-	55,044	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	26,538	55,044	164,248	600,783
Total liabilities, deferred inflows of resources, and fund balances	\$ 33,997	\$ 55,044	\$ 309,713	\$ 622,149

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2020

	Special Revenue			
	County Service Area 152	Cabot's Museum	SLESF	Abandoned Vehicle Abatement
ASSETS				
Cash and investments	\$ -	\$ 15,493	\$ -	\$ 44,473
Receivables:				
Accounts	56,938	-	25,000	17,444
Interest	1	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 56,939</u>	<u>\$ 15,493</u>	<u>\$ 25,000</u>	<u>\$ 61,917</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,011	\$ 4,564	\$ -	\$ 1,792
Due to other funds	22,382	-	-	-
Total liabilities	<u>31,393</u>	<u>4,564</u>	<u>-</u>	<u>1,792</u>
Deferred Inflows of Resources:				
Unavailable revenue	16,000	-	-	17,444
Fund Balances:				
Restricted	9,546	10,929	25,000	42,681
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	<u>9,546</u>	<u>10,929</u>	<u>25,000</u>	<u>42,681</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 56,939</u>	<u>\$ 15,493</u>	<u>\$ 25,000</u>	<u>\$ 61,917</u>

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2020

	<u>Special Revenue</u>	<u>Capital Projects</u>		
	<u>Community Development Block Grant</u>	<u>Assessment District 91-1</u>	<u>Assessment District 92-1</u>	<u>Assessment District 93-2</u>
ASSETS				
Cash and investments	\$ 7,744	\$ 122,832	\$ 14,698	\$ 10,217
Receivables:				
Accounts	9,824	-	69	236
Interest	-	123	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 17,568</u>	<u>\$ 122,955</u>	<u>\$ 14,767</u>	<u>\$ 10,453</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,824	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	<u>9,824</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:				
Unavailable revenue	9,824	-	-	-
Fund Balances:				
Restricted	-	122,955	14,767	10,453
Committed	-	-	-	-
Unassigned (deficit)	(2,080)	-	-	-
Total fund balances	<u>(2,080)</u>	<u>122,955</u>	<u>14,767</u>	<u>10,453</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,568</u>	<u>\$ 122,955</u>	<u>\$ 14,767</u>	<u>\$ 10,453</u>

(Continued)

City of Desert Hot Springs
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2020

	<u>Total Nonmajor Governmental Funds</u>
ASSETS	
Cash and investments	\$ 2,633,103
Receivables:	
Accounts	433,889
Interest	2,725
Due from other funds	<u>165,100</u>
Total assets	<u><u>\$ 3,234,817</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 978,546
Due to other funds	<u>105,812</u>
Total liabilities	<u>1,084,358</u>
Deferred Inflows of Resources:	
Unavailable revenue	<u>129,066</u>
Fund Balances:	
Restricted	2,014,135
Committed	55,044
Unassigned (deficit)	<u>(47,786)</u>
Total fund balances	<u>2,021,393</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,234,817</u></u>

(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, 2020

	Special Revenue			
	Special Gas Tax	SB1 Road Maintenance and Rehabilitation	Municipal Lighting / Landscaping Assessment District	Measure A
REVENUES:				
Taxes	\$ -	\$ -	\$ 744,460	\$ -
Permits and fees	-	-	-	-
Intergovernmental	684,784	511,945	-	504,782
Interest	-	4,907	4,843	384
Total revenues	<u>684,784</u>	<u>516,852</u>	<u>749,303</u>	<u>505,166</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Public works	502,571	-	1,351,720	81,835
Culture and leisure	-	-	-	-
Capital outlay	-	837,351	-	287,402
Total expenditures	<u>502,571</u>	<u>837,351</u>	<u>1,351,720</u>	<u>369,237</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>182,213</u>	<u>(320,499)</u>	<u>(602,417)</u>	<u>135,929</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	610,000	-
Transfers out	(201,544)	-	-	(200,000)
Total other financing sources (uses)	<u>(201,544)</u>	<u>-</u>	<u>610,000</u>	<u>(200,000)</u>
NET CHANGES IN FUND BALANCES	(19,331)	(320,499)	7,583	(64,071)
FUND BALANCES:				
Beginning of year	(26,375)	582,341	665,614	115,267
End of year	<u>\$ (45,706)</u>	<u>\$ 261,842</u>	<u>\$ 673,197</u>	<u>\$ 51,196</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, 2020

	Special Revenue			
	Air Quality Control	Art in Public Places	Quimby Act	Drainage Assessment District
REVENUES:				
Taxes	\$ 36,815	\$ -	\$ -	\$ 192,651
Permits and fees	-	36,661	222,545	-
Intergovernmental	-	-	-	-
Interest	180	873	1,123	4,455
Total revenues	<u>36,995</u>	<u>37,534</u>	<u>223,668</u>	<u>197,106</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Public works	36,970	-	-	219,787
Culture and leisure	-	-	-	-
Capital outlay	-	100,358	183,625	-
Total expenditures	<u>36,970</u>	<u>100,358</u>	<u>183,625</u>	<u>219,787</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>25</u>	<u>(62,824)</u>	<u>40,043</u>	<u>(22,681)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	(8,000)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(8,000)</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	25	(70,824)	40,043	(22,681)
FUND BALANCES:				
Beginning of year	26,513	125,868	124,205	623,464
End of year	<u>\$ 26,538</u>	<u>\$ 55,044</u>	<u>\$ 164,248</u>	<u>\$ 600,783</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, 2020

	Special Revenue			
	County Service Area 152	Cabot's Museum	SLESF	Abandoned Vehicle Abatement
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	-	-	-
Intergovernmental	120,580	-	155,947	30,985
Interest	20	-	168	-
Total revenues	<u>120,600</u>	<u>-</u>	<u>156,115</u>	<u>30,985</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	19,915
Public works	121,580	-	-	-
Culture and leisure	-	124,026	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>121,580</u>	<u>124,026</u>	<u>-</u>	<u>19,915</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(980)</u>	<u>(124,026)</u>	<u>156,115</u>	<u>11,070</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	134,952	-	-
Transfers out	-	-	(131,190)	-
Total other financing sources (uses)	<u>-</u>	<u>134,952</u>	<u>(131,190)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(980)	10,926	24,925	11,070
FUND BALANCES:				
Beginning of year	10,526	3	75	31,611
End of year	<u>\$ 9,546</u>	<u>\$ 10,929</u>	<u>\$ 25,000</u>	<u>\$ 42,681</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, 2020

	<u>Special Revenue</u>	<u>Capital Projects</u>		
	Community Development Block Grant	Assessment District 91-1	Assessment District 92-1	Assessment District 93-2
REVENUES:				
Taxes	\$ -	\$ -	\$ 68	\$ 236
Permits and fees	-	-	-	-
Intergovernmental	141,686	-	-	-
Interest	-	878	-	-
Total revenues	<u>141,686</u>	<u>878</u>	<u>68</u>	<u>236</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and leisure	-	-	-	-
Capital outlay	140,840	-	-	-
Total expenditures	<u>140,840</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>846</u>	<u>878</u>	<u>68</u>	<u>236</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	846	878	68	236
FUND BALANCES:				
Beginning of year	(2,926)	122,077	14,699	10,217
End of year	<u>\$ (2,080)</u>	<u>\$ 122,955</u>	<u>\$ 14,767</u>	<u>\$ 10,453</u>

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, 2020

	<u>Total Nonmajor Governmental Funds</u>
REVENUES:	
Taxes	\$ 974,230
Permits and fees	259,206
Intergovernmental	2,150,709
Interest	17,831
Total revenues	<u>3,401,976</u>
EXPENDITURES:	
Current:	
Public safety	19,915
Public works	2,314,463
Culture and leisure	124,026
Capital outlay	1,549,576
Total expenditures	<u>4,007,980</u>
REVENUES OVER (UNDER)	
EXPENDITURES	<u>(606,004)</u>
OTHER FINANCING SOURCES (USES):	
Transfers in	744,952
Transfers out	(540,734)
Total other financing sources (uses)	<u>204,218</u>
NET CHANGES IN FUND BALANCES	(401,786)
FUND BALANCES:	
Beginning of year	<u>2,423,179</u>
End of year	<u>\$ 2,021,393</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, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 742,661	\$ 742,661	\$ 684,784	\$ (57,877)
Interest	100	100	-	(100)
Total revenues	<u>742,761</u>	<u>742,761</u>	<u>684,784</u>	<u>(57,977)</u>
EXPENDITURES:				
Current:				
Public works	<u>541,217</u>	<u>524,931</u>	<u>502,571</u>	<u>22,360</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>201,544</u>	<u>217,830</u>	<u>182,213</u>	<u>(35,617)</u>
OTHER FINANCING (USES):				
Transfers out	<u>(201,544)</u>	<u>(201,544)</u>	<u>(201,544)</u>	<u>-</u>
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ 16,286</u>	<u>(19,331)</u>	<u>\$ (35,617)</u>
FUND BALANCE:				
Beginning of year			<u>(26,375)</u>	
End of year			<u>\$ (45,706)</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
SB1 Road Maintenance and Rehabilitation Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	483,419	483,419	\$ 511,945	\$ 28,526
Interest	100	100	4,907	4,807
Total revenues	<u>483,519</u>	<u>483,519</u>	<u>516,852</u>	<u>33,333</u>
EXPENDITURES:				
Capital outlay	480,000	1,050,000	837,351	212,649
NET CHANGES IN FUND BALANCE	<u>\$ 3,519</u>	<u>\$ (566,481)</u>	(320,499)	<u>\$ 245,982</u>
FUND BALANCE:				
Beginning of year			<u>582,341</u>	
End of year			<u>\$ 261,842</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Municipal Lighting / Landscaping Assessment District Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 785,941	\$ 803,657	\$ 744,460	\$ (59,197)
Interest	344	344	4,843	4,499
Miscellaneous	1,500	1,500	-	(1,500)
Total revenues	<u>787,785</u>	<u>805,501</u>	<u>749,303</u>	<u>(56,198)</u>
EXPENDITURES:				
Current:				
Public Works	<u>1,120,363</u>	<u>1,568,221</u>	<u>1,351,720</u>	<u>216,501</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(332,578)</u>	<u>(762,720)</u>	<u>(602,417)</u>	<u>160,303</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>100,000</u>	<u>610,000</u>	610,000	<u>-</u>
NET CHANGES IN FUND BALANCE	<u>\$ (232,578)</u>	<u>\$ (152,720)</u>	7,583	<u>\$ 160,303</u>
FUND BALANCE:				
Beginning of year			<u>665,614</u>	
End of year			<u>\$ 673,197</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Measure A Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 487,000	\$ 507,000	\$ 504,782	\$ (2,218)
Interest	25	25	384	359
Total revenues	<u>487,025</u>	<u>507,025</u>	<u>505,166</u>	<u>(1,859)</u>
EXPENDITURES:				
Current:				
Public works	-	60,000	81,835	(21,835)
Capital outlay	275,400	361,800	287,402	74,398
Total expenditures	<u>275,400</u>	<u>421,800</u>	<u>369,237</u>	<u>52,563</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>211,625</u>	<u>85,225</u>	<u>135,929</u>	<u>50,704</u>
OTHER FINANCING (USES):				
Transfers out	(200,000)	(200,000)	(200,000)	-
NET CHANGES IN FUND BALANCE	<u>\$ 11,625</u>	<u>\$ (114,775)</u>	<u>(64,071)</u>	<u>\$ 50,704</u>
FUND BALANCE:				
Beginning of year			<u>115,267</u>	
End of year			<u>\$ 51,196</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Air Quality Control Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 37,400	\$ 37,400	\$ 36,815	\$ (585)
Interest	10	10	180	170
Total revenues	<u>37,410</u>	<u>37,410</u>	<u>36,995</u>	<u>(415)</u>
EXPENDITURES:				
Current:				
Public works	<u>37,410</u>	<u>37,410</u>	<u>36,970</u>	<u>440</u>
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	25	<u>\$ 25</u>
FUND BALANCE:				
Beginning of year			<u>26,513</u>	
End of year			<u>\$ 26,538</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Art in Public Places Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Permits and fees	\$ 70,000	\$ 70,000	\$ 36,661	\$ (33,339)
Interest	40	40	873	833
Total revenues	<u>70,040</u>	<u>70,040</u>	<u>37,534</u>	<u>(32,506)</u>
EXPENDITURES:				
Capital Outlay	25,000	86,400	100,358	(13,958)
REVENUES OVER (UNDER) EXPENDITURES	<u>45,040</u>	<u>(16,360)</u>	<u>(62,824)</u>	<u>(46,464)</u>
OTHER FINANCING USES:				
Transfers out	-	(8,000)	(8,000)	-
NET CHANGES IN FUND BALANCE	<u>\$ 45,040</u>	<u>\$ (24,360)</u>	<u>(70,824)</u>	<u>\$ (46,464)</u>
FUND BALANCE:				
Beginning of year			125,868	
End of year			<u>\$ 55,044</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Quimby Act Special Revenue Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Permits and fees	\$ -	\$ -	\$ 222,545	\$ 222,545
Interest	-	-	1,123	1,123
Total revenues	<u>-</u>	<u>-</u>	<u>223,668</u>	<u>223,668</u>
EXPENDITURES:				
Capital outlay	-	253,800	183,625	70,175
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ (253,800)</u>	40,043	<u>\$ 293,843</u>
FUND BALANCE:				
Beginning of year			<u>124,205</u>	
End of year			<u>\$ 164,248</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Drainage Assessment District Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 205,617	\$ 209,740	\$ 192,651	\$ (17,089)
Interest	137	137	4,455	4,318
Total revenues	<u>205,754</u>	<u>209,877</u>	<u>197,106</u>	<u>(12,771)</u>
EXPENDITURES:				
Current:				
Public works	<u>387,220</u>	<u>420,472</u>	<u>219,787</u>	<u>200,685</u>
NET CHANGES IN FUND BALANCE	<u>\$ (181,466)</u>	<u>\$ (210,595)</u>	<u>(22,681)</u>	<u>\$ 187,914</u>
FUND BALANCE:				
Beginning of year			<u>623,464</u>	
End of year			<u>\$ 600,783</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
County Service Area 152 Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 133,721	\$ 133,721	\$ 120,580	\$ (13,141)
Interest	25	25	20	(5)
Total revenues	<u>133,746</u>	<u>133,746</u>	<u>120,600</u>	<u>(13,146)</u>
EXPENDITURES:				
Current:				
Public works	<u>133,700</u>	<u>133,700</u>	<u>121,580</u>	<u>12,120</u>
NET CHANGES IN FUND BALANCE	<u>\$ 46</u>	<u>\$ 46</u>	(980)	<u>\$ (1,026)</u>
FUND BALANCE:				
Beginning of year			<u>10,526</u>	
End of year			<u>\$ 9,546</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Cabot's Museum Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Current:				
Culture and leisure	\$ 100,000	\$ 134,952	\$ 124,026	\$ 10,926
OTHER FINANCING SOURCES:				
Transfers in	100,000	134,952	134,952	-
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	10,926	<u>\$ 10,926</u>
FUND BALANCE:				
Beginning of year			3	
End of year			<u>\$ 10,929</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
SLESF Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 155,947	\$ 55,947
Interest	5	5	168	163
Total revenues	<u>100,005</u>	<u>100,005</u>	<u>156,115</u>	<u>56,110</u>
OTHER FINANCING USES:				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(131,190)</u>	<u>(31,190)</u>
NET CHANGES IN FUND BALANCE	<u>\$ 5</u>	<u>\$ 5</u>	24,925	<u>\$ 24,920</u>
FUND BALANCE:				
Beginning of year			<u>75</u>	
End of year			<u>\$ 25,000</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Abandoned Vehicle Abatement Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 10,000	\$ 35,000	\$ 30,985	\$ (4,015)
EXPENDITURES:				
Current:				
Public Safety	-	35,000	19,915	15,085
NET CHANGES IN FUND BALANCE	\$ 10,000	\$ -	11,070	\$ 11,070
FUND BALANCE:				
Beginning of year			31,611	
End of year			\$ 42,681	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 209,110	\$ 209,110	\$ 141,686	\$ (67,424)
EXPENDITURES:				
Capital outlay	209,110	209,110	140,840	68,270
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	846	<u>\$ 846</u>
FUND BALANCE:				
Beginning of year			<u>(2,926)</u>	
End of year			<u>\$ (2,080)</u>	

City of Desert Hot Springs
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Assessment District 91-1 Capital Projects Fund
For the Year Ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ 25	\$ 25	\$ 878	\$ 853
EXPENDITURES:				
Public Works	55,000	55,000	-	55,000
REVENUES OVER (UNDER) EXPENDITURES	<u>(54,975)</u>	<u>(54,975)</u>	<u>878</u>	<u>55,853</u>
NET CHANGES IN FUND BALANCE	<u>\$ (54,975)</u>	<u>\$ (54,975)</u>	<u>878</u>	<u>\$ 55,853</u>
FUND BALANCE:				
Beginning of year			<u>122,077</u>	
End of year			<u>\$ 122,955</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.

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

Equipment Replacement Fund - To account for equipment purchases.

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City of Desert Hot Springs
Combining Statement of Net Position
Internal Service Funds
June 30, 2020

	Risk Management	Equipment Replacement	Total
ASSETS			
Current assets:			
Cash and investments	\$ 616,302	\$ 10,633	\$ 626,935
Total current assets	<u>616,302</u>	<u>10,633</u>	<u>626,935</u>
Capital assets:			
Depreciable, net	-	294,129	294,129
Total capital assets	<u>-</u>	<u>294,129</u>	<u>294,129</u>
Total assets	<u>616,302</u>	<u>304,762</u>	<u>921,064</u>
LIABILITIES			
Current liabilities:			
Accounts payable	5,319	-	5,319
Capital lease payable - due within one year	-	133,744	133,744
Claims payable - due within one year	303,313	-	303,313
Total current liabilities	<u>308,632</u>	<u>133,744</u>	<u>442,376</u>
Noncurrent liabilities:			
Claims payable - due in more than one year	249,384	-	249,384
Total noncurrent liabilities	<u>249,384</u>	<u>-</u>	<u>249,384</u>
Total liabilities	<u>558,016</u>	<u>133,744</u>	<u>691,760</u>
NET POSITION			
Net investment in capital assets	-	160,385	160,385
Unrestricted	58,286	10,633	68,919
Total net position	<u>\$ 58,286</u>	<u>\$ 171,018</u>	<u>\$ 229,304</u>

City of Desert Hot Springs
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2020

	Risk Management	Equipment Replacement	Total
OPERATING REVENUES:			
Charges for services	\$ 318,664	\$ 136,816	\$ 455,480
Insurance recovery	83,051	1,289	84,340
Total operating revenues	401,715	138,105	539,820
OPERATING EXPENSES:			
Insurance and claims	481,330	-	481,330
Depreciation	-	125,990	125,990
Total operating expenses	481,330	125,990	607,320
OPERATING INCOME (LOSS)	(79,615)	12,115	(67,500)
NONOPERATING EXPENSES:			
Interest expenses	-	(8,554)	(8,554)
Total nonoperating expenses	-	(8,554)	(8,554)
Changes in net position	(79,615)	3,561	(76,054)
NET POSITION:			
Beginning of year	137,901	167,457	305,358
End of year	<u>\$ 58,286</u>	<u>\$ 171,018</u>	<u>\$ 229,304</u>

City of Desert Hot Springs
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2020

	Risk Management	Equipment Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from claims recoveries	\$ 414,346	\$ -	\$ 414,346
Receipts from use departments	-	179,772	179,772
Payments for vendor for goods and services	-	(45,734)	(45,734)
Payments for insurance claims	(166,607)	-	(166,607)
Net cash provided by operating activities	247,739	134,038	381,777
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital leases	-	(128,260)	(128,260)
Interest paid on capital leases	-	(8,554)	(8,554)
Net cash used in capital and related financing activities	-	(136,814)	(136,814)
Net increase (decrease) in cash and cash equivalents	247,739	(2,776)	244,963
CASH AND CASH EQUIVALENTS:			
Beginning of year	368,563	13,409	381,972
End of year	<u>\$ 616,302</u>	<u>\$ 10,633</u>	<u>\$ 626,935</u>
RECONCILIATION OF OPERATING LOSS TO NET			
CASH PROVIDED USED IN OPERATING ACTIVITIES:			
Operating income (loss)	\$ (79,615)	\$ 12,115	\$ (67,500)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	125,990	125,990
(Increase) decrease in accounts receivable	12,631	41,667	54,298
Increase (decrease) in accounts payable	(7,131)	(45,734)	(52,865)
Increase (decrease) in claims payable	321,854	-	321,854
Total adjustments	<u>327,354</u>	<u>121,923</u>	<u>449,277</u>
Net cash used in operating activities	\$ 247,739	\$ 134,038	\$ 381,777

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AGENCY FUNDS

Community Services Fund - this fund was established to account for the TUMF & MSHCP pass-through deposits for permits, holding funds for permits per developer agreements and for cash payments in lieu of bonds for permit work.

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, 2020

	Agency Funds				Total
	Community Services Fund	Community Facilities District Skyborne Fund	Community Facilities District Fund	Gang Task Force Fund	
ASSETS					
Cash and investments	\$ 1,817,363	\$ 405,329	\$ 570,016	\$ 131,108	\$ 2,923,816
Cash with fiscal agent	-	112,888	-	-	112,888
Accounts receivable	-	2,415	4,318	-	6,733
Interest receivable	-	345	493	131	969
Total assets	\$ 1,817,363	\$ 520,977	\$ 574,827	\$ 131,239	\$ 3,044,406
LIABILITIES					
Accounts payable	\$ 214,653	\$ 1,713	\$ 1,926	\$ 35	\$ 218,327
Deposits payable	1,599,621	112,888	15,000	131,204	1,858,713
Due to bondholders	3,089	406,376	557,901	-	967,366
Total liabilities	\$ 1,817,363	\$ 520,977	\$ 574,827	\$ 131,239	\$ 3,044,406

City of Desert Hot Springs
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2020

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
<u>Community Services Fund</u>				
Assets:				
Cash and investments	\$ 1,993,224	\$ 798,763	\$ (974,624)	\$ 1,817,363
Total assets	\$ 1,993,224	\$ 798,763	\$ (974,624)	\$ 1,817,363
Liabilities:				
Accounts payable	\$ 71,954	\$ 1,080,628	\$ (937,929)	\$ 214,653
Deposits payable	1,918,181	798,764	(1,117,324)	1,599,621
Due to bondholders	3,089	-	-	3,089
Total liabilities	\$ 1,993,224	\$ 1,879,392	\$ (2,055,253)	\$ 1,817,363
<u>Community Facilities District Skyborne Fund</u>				
Assets:				
Cash and investments	\$ 672,206	\$ 206,802	\$ (473,679)	\$ 405,329
Cash with fiscal agent	180,156	2,358,007	(2,425,275)	112,888
Accounts receivable	2,289	2,415	(2,289)	2,415
Interest receivable	1,169	345	(1,169)	345
Total assets	\$ 855,820	\$ 2,567,569	\$ (2,902,412)	\$ 520,977
Liabilities:				
Accounts payable	\$ 2,251	\$ 177,780	\$ (178,318)	\$ 1,713
Deposits payable	-	1,730,028	(1,617,140)	112,888
Due to bondholders	853,569	210,578	(657,771)	406,376
Total liabilities	\$ 855,820	\$ 2,118,386	\$ (2,453,229)	\$ 520,977
<u>Community Facilities District Fund</u>				
Assets:				
Cash and investments	\$ 290,806	\$ 338,431	\$ (59,221)	\$ 570,016
Accounts receivable	1,850	4,319	(1,851)	4,318
Interest receivable	406	491	(404)	493
Total assets	\$ 293,062	\$ 343,241	\$ (61,476)	\$ 574,827
Liabilities:				
Accounts payable	\$ 1,049	53,169	\$ (52,292)	\$ 1,926
Deposits payable	30,000	-	(15,000)	15,000
Due to bondholders	262,013	306,671	(10,783)	557,901
Total liabilities	\$ 293,062	\$ 359,840	\$ (78,075)	\$ 574,827

(Continued)

City of Desert Hot Springs
Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)
Agency Funds
For the Year Ended June 30, 2020

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
<u>Gang Task Force Fund</u>				
Assets:				
Cash and investments	\$ 171,208	\$ 3,826	\$ (43,926)	\$ 131,108
Interest receivable	328	131	(328)	131
Total assets	\$ 171,536	\$ 3,957	\$ (44,254)	\$ 131,239
Liabilities:				
Accounts payable	\$ 6,882	\$ 37,080	\$ (43,927)	\$ 35
Deposits payable	164,654	3,630	(37,080)	131,204
Total liabilities	\$ 171,536	\$ 40,710	\$ (81,007)	\$ 131,239
<u>Total All Agency Funds</u>				
Assets:				
Cash and investments	\$ 3,127,444	\$ 1,347,822	\$ (1,551,450)	\$ 2,923,816
Cash with fiscal agent	180,156	2,358,007	(2,425,275)	112,888
Accounts receivable	4,139	6,734	(4,140)	6,733
Interest receivable	1,903	967	(1,901)	969
Total assets	\$ 3,313,642	\$ 3,713,530	\$ (3,982,766)	\$ 3,044,406
Liabilities:				
Accounts payable	\$ 82,136	\$ 1,348,657	\$ (1,212,466)	\$ 218,327
Deposits payable	2,112,835	2,532,422	(2,786,544)	1,858,713
Due to bondholders	1,118,671	517,249	(668,554)	967,366
Total liabilities	\$ 3,313,642	\$ 4,398,328	\$ (4,667,564)	\$ 3,044,406

(Concluded)

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Desert Hot Springs, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

Purpose of this Report

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

The Pw Group, LLP

Santa Ana, California
November 24, 2020