

# **City of Desert Hot Springs**

Desert Hot Springs, California

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

*For the Year Ended June 30, 2014*





**City of Desert Hot Springs**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2014**

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Basic Financial Statements  
For the Year Ended June 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

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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***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, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

*Going Concern*

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 16 to the basic financial statements, the City had net decreases of its net position in the amount of \$2,350,957 of its governmental activities and \$1,427,564 of its business-type activities. The General Fund of the City has suffered significant reductions in fund balances from operations and is experiencing cash shortfall. The Health & Wellness Foundation Enterprise Fund is not able to sustain itself, with significantly higher expenditures than revenues. These conditions raised substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Implementation of GASB Statement No. 65*

As discussed in Note 1 to the basic financial statements, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of this standard required retrospective application of previously reported net position and reclassification of certain accounts as of July 1, 2013, as described in Note 11 to the basic financial statements. Our opinion is not modified with respect to this matter.

*Implementation of GASB Statement No. 68*

As further discussed in Note 17 to the basic financial statements, GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*. This statement requires state and local government agencies to display the actuarially determined net pension liability in its financial statements effective with fiscal year 2014-2015. This net pension liability is expected to be substantial. Our opinion is not modified with respect to this matter.

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 Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, and Schedule of Funding Progress on pages 7 through 14 and pages 88 through 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

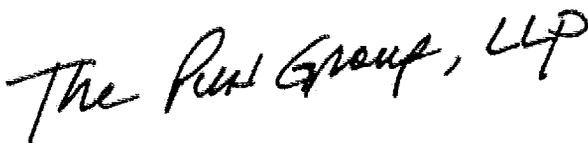
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



La Quinta, California  
February 25, 2015

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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, 2014, 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 February 25, 2015.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the separately issued AU-C Section 265–Communicating Internal Control Related Matters Identified in an Audit letter, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the separately issued AU-C Section 265–Communicating Internal Control Related Matters Identified in an Audit letter to be material weaknesses.

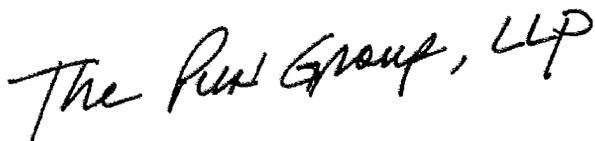
To the Honorable Mayor and Members of the City Council  
of the City of Desert Hot Springs  
Desert Hot Springs, California  
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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

La Quinta, California  
February 25, 2015

## Management's Discussion and Analysis

As the management of the City of Desert Hot Springs, we offer readers of the City of Desert Hot Springs financial statements this narrative, overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in an earlier section of this report.

### Financial points

- Fiscal Emergency was declared in November 2013 and in June 2014.
- Personnel reduction and budget cuts to include salary & benefits at 22.5% and 35% respectively, cuts in vendor contracts up to 10% and all non-essential spending in all departments.
- Measure F was put on June 2014 ballot. Intended to increase revenues to fund public safety did not pass with a majority vote of the people.
- Measure JJ a one percent sales tax, failed to receive voter approval.
- Measure HH and II did receive voter approval. Measure HH implements an annual tax on the cultivation of marijuana. Measure II imposes a month ten percent (10%) tax on the proceeds from the sale of marijuana.
- One time revenue of \$1 Million from DVD franchise agreement was received.
- Staff is proposing additional cuts for midyear review. The final amount is pending City Council Approval
- Balanced budget was approved for FY2014/15.
- Staff proposed mid-year cuts for fiscal year 2014/2015 and also those same cuts for fiscal year 2015-2016.

Due to the worst recession recent history, the overall financial condition of the City has weakened dramatically and even with the state and nation moving past recovery the City is still very much in financial distress. In response to sharp declines in revenue the City has had to draw down on all reserve monies, reduce staffing levels, implement a 22.5% pay cut to remaining staff and eliminate and/or reduce a number of programs and services. Even today the City continues to be affected by the recession and depletion of cash on hand. Costs continue to outpace revenues. City revenues have been victim to minimal property and transient tax gains and now recently declining sales tax revenue due to declining gas prices.

City staff has reviewed all revenues and expenditures in fiscal year 2014-2015 as part of their midyear review. At a budget workshop that took place on January 27, 2015 and at a City Council meeting on February 17, 2015, and on February 24, 2015 staff identified a number of non essential services including Hoteliers Billboards; reduction in street sweeping; elimination of Visitor Center funding; turning off gas to Wardman Park Swimming pool and pool services; contract services for New World updates; reduction in janitorial services to one day a week and reducing Code Enforcement Graffiti abatement contract by 50%; reduction in contract code enforcement personnel; elimination of the Assistant to the City Manager position and the reduction of CALPERS payments due to decrease in employer costs for an estimated savings of \$248,840 for the months of March through June 2015.

If the City keeps with the same budgeting practices in fiscal year 2015-2016 setting aside \$1.5 million in cash flow operating capital (001-4119-4997) and makes the proposed cuts as proposed by staff in fiscal year 2014-2015, it is estimated that the Expendable fund balance approximately \$200,000.

The City is at-risk for cash flow insolvency meaning the City will not have enough cash in its accounts to pay the City's demands. It is imperative that the City Council, Community and staff work together to find an outcome where the City can remain solvent in order to avoid bankruptcy.

Staff is working with a financial consultant to develop a long-term recovery plan. Once a plan is established and approved by the City Council the City must stay diligent to the plan. Any deviation with the exception of additional reserves could take the City off track and lengthen the timetable set in the plan.

## Overview of the Financial Statements

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

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

## Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of a private-sector business.

There are two government-wide financial statements: the Statement of Net Position and the Statement of Activities. They present information for the government as a whole and present a longer-term view of the City's finances.

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

The *Statement of Activities* presents information on how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused employee leaves).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include public safety, public works, parks, community services, capital improvement projects, Housing Authority and community development.

The government-wide financial statements can be found on pages 19-21 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 of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

## Governmental Funds

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

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

The City maintains (4) major individual governmental funds (General Fund, Public Safety Fund, Housing Authority and the Capital Improvement 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. Data from the other (57) non major governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The following funds are included make up the non major governmental funds: Traffic Safety Grant; Gas Tax Fund, Capital Improvement Development Impact Fee Deposit Accounts Funds (9), Citywide and Lighting Assessment Districts Funds (19 ), Air Quality Control Fund, Art in Public Places Fund, Quimby Act Fund, Drainage Assessment Districts Funds (18) , County Service Area 152 (CSA-152) Fund, Park and Recreation Grant Fund, Cabot's Museum Fund, Bicycle Pedestrian Grant Fund, Supplement Law Enforcement Grant Fund, and Abandoned Vehicle Abatement Fund.

### **Proprietary Funds**

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

The proprietary fund financial statements can be found on pages 34-37 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 and the Community Facilities District Skyborne Agency Fund) which is controlled primarily through legal agreements and applicable State and Federal laws for

The fiduciary fund financial statements can be found on pages 40-41 of this report.

### **Notes to the Basic 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 45-85 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 87-92 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 98-134 of this report.

## Government-wide Financial Analysis

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 exceeded liabilities by approximately \$47.5 million as of June 30, 2014 in the Government activities and Business-Type Activities.

The largest portion of the City's net position, \$39.9 million (84.1%), 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 (15.9%) of the City's net position, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**  
**City of Desert Hot Springs**  
**Net Position**

|                                  | Governmental Activities |                      | Business-Type Activities |                      | Total                |                      |
|----------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                                  | 2014                    | 2013                 | 2014                     | 2013                 | 2014                 | 2013                 |
| Current and other assets         | \$ 15,633,230           | \$ 17,794,207        | \$ 16,246,249            | \$ 17,878,009        | \$ 31,879,479        | \$ 35,672,216        |
| Capital assets                   | 46,177,635              | 47,257,573           | 15,667,791               | 16,199,910           | 61,845,426           | 63,457,483           |
| <b>Total assets</b>              | <b>61,810,865</b>       | <b>65,051,780</b>    | <b>31,914,040</b>        | <b>34,077,919</b>    | <b>93,724,905</b>    | <b>99,129,699</b>    |
| Long-term liabilities            | 20,252,979              | 20,435,521           | 20,697,000               | 20,697,000           | 40,949,979           | 41,132,521           |
| Current liabilities              | 5,203,353               | 5,910,769            | 76,190                   | 812,505              | 5,279,543            | 6,723,274            |
| <b>Total liabilities</b>         | <b>25,456,332</b>       | <b>26,346,290</b>    | <b>20,773,190</b>        | <b>21,509,505</b>    | <b>46,229,522</b>    | <b>47,855,795</b>    |
| Net position:                    |                         |                      |                          |                      |                      |                      |
| Net investment in capital assets | 39,924,481              | 41,218,938           | -                        | -                    | 39,924,481           | 41,218,938           |
| Restricted                       | 4,735,170               | 5,639,919            | 1,074,161                | 18,926,710           | 5,809,331            | 24,566,629           |
| Unrestricted                     | (8,305,118)             | (8,153,367)          | 10,066,689               | (6,358,296)          | 1,761,571            | (14,511,663)         |
| <b>Total net position</b>        | <b>\$ 36,354,533</b>    | <b>\$ 38,705,490</b> | <b>\$ 11,140,850</b>     | <b>\$ 12,568,414</b> | <b>\$ 47,495,383</b> | <b>\$ 51,273,904</b> |

An additional portion of the City's net position, \$5.8 million (12.2%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$1.8 million (3.7%), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report (positive/negative) balances in all three categories of net position for the government as a whole, as well as for just its governmental activities. The City was also able to report (positive/negative) balances in its business-type activities.

**TABLE 2**  
**City of Desert Hot Springs**  
**Changes in Net Position**

|  | Governmental Activities |                      | Business-Type Activities |                      | Total                |                      |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|  | 2014                    | 2013                 | 2014                     | 2013                 | 2014                 | 2013                 |
| <b>Revenues:</b>   |                         |                      |                          |                      |                      |                      |
| Program revenues:  |                         |                      |                          |                      |                      |                      |
| Charges for services   | \$ 2,017,352            | \$ 2,866,244         | \$ 104,000               | \$ 69,333            | \$ 2,121,352         | \$ 2,935,577         |
| Operating grants and   | 1,401,854               | 1,063,320            | -                        | -                    | 1,401,854            | 1,063,320            |
| Capital grants and contributions                             | 1,615,143               | 2,268,536            | -                        | 5,167,048            | 1,615,143            | 7,435,584            |
| General revenues:  |                         |                      |                          |                      |                      |                      |
| Property taxes   | 3,097,310               | 3,901,384            | -                        | -                    | 3,097,310            | 3,901,384            |
| Sales taxes  | 3,180,716               | 3,091,024            | -                        | -                    | 3,180,716            | 3,091,024            |
| Transient occupancy taxes                                    | 1,313,859               | 1,220,821            | -                        | -                    | 1,313,859            | 1,220,821            |
| Other taxes  | 3,972,234               | 3,920,707            | -                        | -                    | 3,972,234            | 3,920,707            |
| Gains on investments   | 53,814                  | 105,832              | 40,617                   | 54,457               | 94,431               | 160,289              |
| Miscellaneous  | 894,991                 | 1,468,479            | -                        | -                    | 894,991              | 1,468,479            |
| <b>Total revenues</b>  | <b>17,547,273</b>       | <b>19,906,347</b>    | <b>144,617</b>           | <b>5,290,838</b>     | <b>17,691,890</b>    | <b>25,197,185</b>    |
| <b>Program expenses:</b>                                     |                         |                      |                          |                      |                      |                      |
| General government   | 4,380,770               | 5,262,048            | -                        | -                    | 4,380,770            | 5,262,048            |
| Public safety  | 9,871,018               | 11,298,476           | -                        | -                    | 9,871,018            | 11,298,476           |
| Public Works   | 2,263,108               | 3,113,902            | -                        | -                    | 2,263,108            | 3,113,902            |
| Economic Development   | 1,075,939               | 4,038,731            | -                        | -                    | 1,075,939            | 4,038,731            |
| Culture and leisure  | 1,466,711               | 369,502              | -                        | -                    | 1,466,711            | 369,502              |
| Interest and fiscal charges                                  | 915,584                 | 788,259              | -                        | 1,356,826            | 915,584              | 2,145,085            |
| Health and wellness foundation                               | -                       | -                    | 1,497,281                | 426,976              | 1,497,281            | 426,976              |
| <b>Total expenses</b>  | <b>19,973,130</b>       | <b>24,870,918</b>    | <b>1,497,281</b>         | <b>1,783,802</b>     | <b>21,470,411</b>    | <b>26,654,720</b>    |
| Excess (deficiency) before extraordinary items and transfers | (2,425,857)             | (4,964,571)          | (1,352,664)              | 3,507,036            | (3,778,521)          | (1,457,535)          |
| <b>Extraordinary items:</b>                                  |                         |                      |                          |                      |                      |                      |
| DHS Health & Wellness Center                                 | -                       | (8,460,675)          | -                        | 8,460,675            | -                    | -                    |
| CPV Sentinel Energy Project                                  | -                       | 2,750,000            | -                        | -                    | -                    | 2,750,000            |
| <b>Transfers</b>   | <b>74,900</b>           | <b>(600,703)</b>     | <b>(74,900)</b>          | <b>600,703</b>       | <b>-</b>             | <b>-</b>             |
| <b>Change in net position</b>                                | <b>(2,350,957)</b>      | <b>(11,275,949)</b>  | <b>(1,427,564)</b>       | <b>12,568,414</b>    | <b>(3,778,521)</b>   | <b>1,292,465</b>     |
| Net position – beginning of year                             | 38,705,490              | 49,981,439           | 12,568,414               | -                    | 51,273,904           | 49,981,439           |
| <b>Net position – end of year</b>                            | <b>\$ 36,354,533</b>    | <b>\$ 38,705,490</b> | <b>\$ 11,140,850</b>     | <b>\$ 12,568,414</b> | <b>\$ 47,495,383</b> | <b>\$ 51,273,904</b> |

The City's total revenues were \$ 17.7 million, while the total cost of all programs and services were \$21.5 million. Other taxes were the City's largest resource at \$4.0 million (22.5% of total revenues and 22.6% of governmental revenues). Sales tax revenue was the second largest revenue source at \$3.1 million (18.0% of total revenues and 18.1% of governmental revenues). Property tax revenue was the third largest revenue source at \$3.1 million (17.5% of total revenues and 17.7% of governmental revenues). Charges for services were the fourth at \$2.1 million (12.0% of total revenues and 12.1% of governmental revenues)

### Governmental activities

Public safety expenses of \$9.9 million comprised the largest component of government activities in terms of cost (49.4% of the total cost of governmental activities for the year ended June 30, 2014).

General government expenses of \$4.4 million (includes City Council, City Manager, City Attorney, City Clerk, Finance, Information Systems and Non-Departmental) was the second largest governmental activities (21.9% of the total cost of governmental activities).

Public works expenses of \$2.3 million were the third largest governmental (11.3% of the total cost of governmental activities).

Culture and leisure expenses of \$1.5 million were the fourth largest governmental (7.3% of the total cost of governmental activities).

Economic Development expenses of \$1.1 million were the fifth largest governmental (5.4% of the total cost of governmental activities).

Interest and fiscal charges, at \$0.9 million, comprised 4.7% of the total cost of governmental activities.

### Business-type activities

Net position for Business-type activities of the City decreased by \$1.4 million for the year ended June 30, 2014. The costs to operate the City's business-type activities for the Health and Wellness Foundation were primarily financed by one time Developer Fees and interest reimbursement.

### Financial Analysis of the City's Funds

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

### Capital Assets and Debt Administration

At the end of fiscal year 2013-14, the City had invested \$81.7 million in a broad range of capital assets before accumulated depreciation (see table below).

**Table 3**  
**City of Desert Hot Springs**  
**Capital Assets**

|                           | Governmental Activities |                      | Business-Type Activities |                      | Total                |                      |
|---------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                           | 2014                    | 2013                 | 2014                     | 2013                 | 2014                 | 2013                 |
| Land                      | \$ 1,455,359            | \$ 1,063,834         | \$ 370,415               | \$ -                 | \$ 1,825,774         | \$ 1,063,834         |
| Construction in progress  | 326,556                 | 2,601,003            | -                        | 16,199,910           | 326,556              | 18,800,913           |
| Building and improvements | 16,546,940              | 16,009,132           | 15,731,122               | -                    | 32,278,062           | 16,009,132           |
| Machinery and equipment   | 9,511,995               | 9,077,242            | -                        | -                    | 9,511,995            | 9,077,242            |
| Vehicles                  | 601,315                 | 870,158              | -                        | -                    | 601,315              | 870,158              |
| Furniture and fixtures    | -                       | -                    | 349,172                  | -                    | 349,172              | -                    |
| Infrastructure            | 36,715,882              | 33,544,050           | -                        | -                    | 36,715,882           | 33,544,050           |
| <b>Total</b>              | <b>\$ 65,158,047</b>    | <b>\$ 63,165,419</b> | <b>\$ 16,450,709</b>     | <b>\$ 16,199,910</b> | <b>\$ 81,608,756</b> | <b>\$ 79,365,329</b> |

For more detailed information on capital asset activity, please see Capital Assets on page 61 and page 62.

## Long Term Debt

As of June 30, 2014 the City had a total of long-term debt outstanding in the amount of \$40.8 million in bonded debt, certificates of participation debt, capital lease obligations, pension-related debt and promissory notes. For more detailed information on each long-term debt, please see Note 6 on pages 63 through 71.

**Table 4**  
**City of Desert Hot Springs**  
**Long-Term Debt**

|                                     | Governmental Activities |                      | Business-Type Activities |                      | Total                |                      |
|-------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                                     | 2014                    | 2013                 | 2014                     | 2013                 | 2014                 | 2013                 |
| Judgment obligation bonds           | \$ 9,725,000            | \$ 9,725,000         | \$ -                     | \$ -                 | \$ 9,725,000         | \$ 9,725,000         |
| Certificate of participation        | 1,750,000               | 1,915,000            | -                        | -                    | 1,750,000            | 1,915,000            |
| 2012A certificates of participation | 5,700,000               | 5,815,000            | -                        | -                    | 5,700,000            | 5,815,000            |
| Capital leases                      | 337,184                 | -                    | -                        | -                    | 337,184              | -                    |
| Pension related debt                | 2,584,271               | 2,652,246            | -                        | -                    | 2,584,271            | 2,652,246            |
| Promissory Notes                    | -                       | -                    | 20,697,000               | 20,697,000           | 20,697,000           | 20,697,000           |
| <b>Total</b>                        | <b>\$ 20,096,455</b>    | <b>\$ 20,107,246</b> | <b>\$ 20,697,000</b>     | <b>\$ 20,697,000</b> | <b>\$ 40,793,455</b> | <b>\$ 40,804,246</b> |

## Request for Information

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

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# **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

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**City of Desert Hot Springs**  
**Statement of Net Position**  
**June 30, 2014**

|  | Primary Government         |                             |                      |
|--|----------------------------|-----------------------------|----------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Total                |
| <b>ASSETS</b>                                |                            |                             |                      |
| Cash and investments                         | \$ 8,195,691               | \$ 25,868                   | \$ 8,221,559         |
| Cash and investments with fiscal agents      | 1,966,378                  | 1,074,161                   | 3,040,539            |
| Receivables, net                             | 5,153,980                  | 15,146,220                  | 20,300,200           |
| Prepaid items                                | 109,727                    | -                           | 109,727              |
| Property held for resale                     | 207,454                    | -                           | 207,454              |
| Capital assets:                              |                            |                             |                      |
| Not being depreciated                        | 1,781,915                  | 370,415                     | 2,152,330            |
| Depreciable, net of accumulated depreciation | 44,395,720                 | 15,297,376                  | 59,693,096           |
| Capital assets, net                          | 46,177,635                 | 15,667,791                  | 61,845,426           |
| <b>Total assets</b>                          | <b>61,810,865</b>          | <b>31,914,040</b>           | <b>93,724,905</b>    |
| <b>LIABILITIES</b>                           |                            |                             |                      |
| Accounts payable and other liabilities       | 1,859,033                  | 24,190                      | 1,883,223            |
| Accrued liabilities                          | 186,962                    | -                           | 186,962              |
| Deposits                                     | 319,449                    | -                           | 319,449              |
| Interest payable                             | 216,872                    | -                           | 216,872              |
| Unearned revenues                            | 1,831,269                  | 52,000                      | 1,883,269            |
| Long-term debt - due within one year         | 789,768                    | -                           | 789,768              |
| Long-term debt - due in more than one year   | 20,252,979                 | 20,697,000                  | 40,949,979           |
| <b>Total liabilities</b>                     | <b>25,456,332</b>          | <b>20,773,190</b>           | <b>46,229,522</b>    |
| <b>NET POSITION</b>                          |                            |                             |                      |
| Net investment in capital assets             | 39,924,481                 | -                           | 39,924,481           |
| Restricted for:                              |                            |                             |                      |
| Street maintenance and improvement           | 1,899,863                  | -                           | 1,899,863            |
| Health and wellness center                   | 272,056                    | 1,074,161                   | 1,346,217            |
| Debt service                                 | 800,997                    | -                           | 800,997              |
| Lighting/Landscaping/Drainage                | 1,461,600                  | -                           | 1,461,600            |
| Assessment District 91-1                     | 112,169                    | -                           | 112,169              |
| Assessment District 92-1                     | 37,927                     | -                           | 37,927               |
| Assessment District 93-2                     | 27,153                     | -                           | 27,153               |
| Other  | 123,405                    | -                           | 123,405              |
| <b>Total restricted</b>                      | <b>4,735,170</b>           | <b>1,074,161</b>            | <b>5,809,331</b>     |
| Unrestricted (deficit)                       | (8,305,118)                | 10,066,689                  | 1,761,571            |
| <b>Total net position</b>                    | <b>\$ 36,354,533</b>       | <b>\$ 11,140,850</b>        | <b>\$ 47,495,383</b> |

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

| <b>Functions/Programs</b>        | <b>Expenses</b>             | <b>Program Revenues</b>             |   |   | <b>Total<br/>Program<br/>Revenues</b> |
|----------------------------------|-----------------------------|-------------------------------------|---|---|---------------------------------------|
|                                  |                             | <b>Charges<br/>for<br/>Services</b> | <b>Operating<br/>Grants and<br/>Contributions</b> | <b>Capital<br/>Grants and<br/>Contributions</b> |                                       |
| <b>Primary government:</b>       |                             |                                     |   |   |                                       |
| <b>Governmental activities:</b>  |                             |                                     |   |   |                                       |
| General government               | \$ 4,380,770                | \$ 232,724                          | \$ 34,282   | \$ 865,123                                      | \$ 1,132,129                          |
| Public safety                    | 9,871,018                   | 409,098                             | 494,091   | 23,182  | 926,371                               |
| Public works                     | 2,263,108                   | 36,150                              | 873,481   | 455,114   | 1,364,745                             |
| Economic development             | 1,075,939                   | 572,326                             | -   | -   | 572,326                               |
| Culture and leisure              | 1,466,711                   | 767,054                             | -   | 271,724   | 1,038,778                             |
| Interest and fiscal charges      | 915,584                     | -                                   | -   | -   | -                                     |
| Total governmental activities    | <u>19,973,130</u>           | <u>2,017,352</u>                    | <u>1,401,854</u>                                  | <u>1,615,143</u>                                | <u>5,034,349</u>                      |
| <b>Business-type activities:</b> |                             |                                     |   |   |                                       |
| Health and Wellness Foundation   | 1,497,281                   | 104,000                             | -   | -   | 104,000                               |
| Total business-type activities   | <u>1,497,281</u>            | <u>104,000</u>                      | <u>-</u>  | <u>-</u>  | <u>104,000</u>                        |
| <b>Total primary government</b>  | <u><u>\$ 21,470,411</u></u> | <u><u>\$ 2,121,352</u></u>          | <u><u>\$ 1,401,854</u></u>                        | <u><u>\$ 1,615,143</u></u>                      | <u><u>\$ 5,138,349</u></u>            |

**City of Desert Hot Springs**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2014**

| <b>Functions/Programs</b>                                      | Net (Expense) Revenue and<br>Changes in Net Position |                             |                |
|--|--|-----------------------------|----------------|
|  | Primary Government                                   |                             |                |
|  | Governmental<br>Activities                           | Business-Type<br>Activities | Total          |
| <b>Primary government:</b>                                     |  |                             |                |
| <b>Governmental activities:</b>                                |  |                             |                |
| General government   | \$ (3,248,641)                                       | \$ -                        | \$ (3,248,641) |
| Public safety  | (8,944,647)  | -                           | (8,944,647)    |
| Public works   | (898,363)  | -                           | (898,363)      |
| Economic development   | (503,613)  | -                           | (503,613)      |
| Culture and leisure  | (427,933)  | -                           | (427,933)      |
| Interest and fiscal charges                                    | (915,584)  | -                           | (915,584)      |
| Total governmental activities                                  | (14,938,781)   | -                           | (14,938,781)   |
| <b>Business-type activities:</b>                               |  |                             |                |
| Health and Wellness Foundation                                 | -  | (1,393,281)                 | (1,393,281)    |
| Total business-type activities                                 | -  | (1,393,281)                 | (1,393,281)    |
| <b>Total primary government</b>                                | (14,938,781)   | (1,393,281)                 | (16,332,062)   |
| <br><b>General revenues:</b>                                   |  |                             |                |
| <b>Taxes:</b>  |  |                             |                |
| Property taxes   | 3,097,310  | -                           | 3,097,310      |
| Sales taxes  | 3,180,716  | -                           | 3,180,716      |
| Utility users taxes  | 2,841,204  | -                           | 2,841,204      |
| Franchise taxes  | 1,131,030  | -                           | 1,131,030      |
| Transient occupancy taxes                                      | 1,313,859  | -                           | 1,313,859      |
| Total taxes  | 11,564,119   | -                           | 11,564,119     |
| Investment income  | 53,814   | 40,617                      | 94,431         |
| Miscellaneous  | 894,991  | -                           | 894,991        |
| <b>Transfers</b>   | 74,900   | (74,900)                    | -              |
| <b>Total general revenues and transfers</b>                    | 12,587,824   | (34,283)                    | 12,553,541     |
| <b>Change in net position</b>                                  | (2,350,957)  | (1,427,564)                 | (3,778,521)    |
| <b>Net position - beginning of year, as Restated (Note 11)</b> | 38,705,490   | 12,568,414                  | 51,273,904     |
| <b>Net position - end of year</b>                              | \$ 36,354,533  | \$ 11,140,850               | \$ 47,495,383  |

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# FUND FINANCIAL STATEMENTS

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

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

***Public Safety Special Revenue Fund*** - To account for and report special taxes and grants for community safety expenditures.

***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.

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

**City of Desert Hot Springs**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

|  | Major Funds         |                       |                     |                     |
|--|---------------------|-----------------------|---------------------|---------------------|
|  | General             | Special Revenue Funds |                     | Capital Projects    |
|  |                     | Public Safety         | Housing Authority   | Capital Improvement |
| <b>ASSETS</b>  |                     |                       |                     |                     |
| Cash and investments   | \$ 2,458,525        | \$ 884,544            | \$ -                | \$ -                |
| Cash and investments with fiscal agents                                      | -                   | -                     | -                   | -                   |
| Receivables:   |                     |                       |                     |                     |
| Accounts   | 719,677             | 490,322               | -                   | 667,225             |
| Interest   | 727                 | -                     | -                   | -                   |
| Notes  | -                   | -                     | 2,122,817           | -                   |
| Abatements   | 315,447             | -                     | -                   | -                   |
| Prepaid items  | 109,727             | -                     | -                   | -                   |
| Due from other governments   | 1,064               | -                     | -                   | -                   |
| Due from other funds   | 301,006             | -                     | -                   | -                   |
| Advances to other funds  | -                   | -                     | -                   | 631,269             |
| Property held for resale   | -                   | -                     | 207,454             | -                   |
| <b>Total assets</b>  | <b>\$ 3,906,173</b> | <b>\$ 1,374,866</b>   | <b>\$ 2,330,271</b> | <b>\$ 1,298,494</b> |
| <b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b> |                     |                       |                     |                     |
| <b>Liabilities:</b>  |                     |                       |                     |                     |
| Accounts payable   | \$ 624,227          | \$ 1,165,981          | \$ -                | \$ -                |
| Accrued liabilities  | 68,149              | 109,038               | -                   | -                   |
| Due to other funds   | -                   | -                     | -                   | 249,236             |
| Due to other governments   | -                   | 585                   | -                   | -                   |
| Deposits   | 101,460             | -                     | -                   | 217,989             |
| Advances from other funds  | -                   | -                     | -                   | -                   |
| Unearned revenue   | 1,000,000           | -                     | -                   | 831,269             |
| <b>Total liabilities</b>   | <b>1,793,836</b>    | <b>1,275,604</b>      | <b>-</b>            | <b>1,298,494</b>    |
| <b>Deferred Inflows of Resources:</b>  |                     |                       |                     |                     |
| Unavailable revenue  | 464,593             | 99,262                | 2,122,817           | -                   |
| <b>Fund Balances:</b>  |                     |                       |                     |                     |
| Nonspendable   | 109,727             | -                     | 207,454             | -                   |
| Restricted   | -                   | -                     | -                   | -                   |
| Committed  | -                   | -                     | -                   | -                   |
| Assigned   | 1,538,017           | -                     | -                   | -                   |
| <b>Total fund balances</b>   | <b>1,647,744</b>    | <b>-</b>              | <b>207,454</b>      | <b>-</b>            |
| <b>Total liabilities, deferred inflows of resources, and fund balances</b>   | <b>\$ 3,906,173</b> | <b>\$ 1,374,866</b>   | <b>\$ 2,330,271</b> | <b>\$ 1,298,494</b> |

See accompanying Notes to the Basic Financial Statements.

**City of Desert Hot Springs**  
**Balance Sheet (Continued)**  
**Governmental Funds**  
**June 30, 2014**

|  | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-----------------------------------|--------------------------------|
| <b>ASSETS</b>  |                                   |                                |
| Cash and investments   | \$ 4,128,868                      | \$ 7,471,937                   |
| Cash and investments with fiscal agents  | 1,966,378                         | 1,966,378                      |
| Receivables:   |                                   |                                |
| Accounts   | 584,278                           | 2,461,502                      |
| Interest   | 852                               | 1,579                          |
| Notes  | -                                 | 2,122,817                      |
| Abatements   | -                                 | 315,447                        |
| Prepaid items  | -                                 | 109,727                        |
| Due from other governments   | 251,375                           | 252,439                        |
| Due from other funds   | -                                 | 301,006                        |
| Advances to other funds  | -                                 | 631,269                        |
| Property held for resale   | -                                 | 207,454                        |
| <b>Total assets</b>  | <b>\$ 6,931,751</b>               | <b>\$ 15,841,555</b>           |
| <br><b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b> |                                   |                                |
| <b>Liabilities:</b>  |                                   |                                |
| Accounts payable   | \$ 65,149                         | \$ 1,855,357                   |
| Accrued liabilities  | 9,775                             | 186,962                        |
| Due to other funds   | 51,770                            | 301,006                        |
| Due to other governments   | 3,091                             | 3,676                          |
| Deposits   | -                                 | 319,449                        |
| Advances from other funds  | 631,269                           | 631,269                        |
| Unearned revenue   | -                                 | 1,831,269                      |
| <b>Total liabilities</b>   | <b>761,054</b>                    | <b>5,128,988</b>               |
| <br><b>Deferred Inflows of Resources:</b>  |                                   |                                |
| Unavailable revenue  | 482,126                           | 3,168,798                      |
| <br><b>Fund Balances:</b>  |                                   |                                |
| Nonspendable   | -                                 | 317,181                        |
| Restricted   | 4,735,170                         | 4,735,170                      |
| Committed  | 953,401                           | 953,401                        |
| Assigned   | -                                 | 1,538,017                      |
| <b>Total fund balances</b>   | <b>5,688,571</b>                  | <b>7,543,769</b>               |
| <b>Total liabilities, deferred inflows of<br/>resources, and fund balances</b>   | <b>\$ 6,931,751</b>               | <b>\$ 15,841,555</b>           |

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, 2014**

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**Total Fund Balances - Total Governmental Funds** \$ 7,543,769

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

Capital assets, excluding the \$905,968 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 | \$ 1,781,915 |            |
| Capital assets, depreciable           | 43,489,752   | 45,271,667 |

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. 3,168,798

Interest expenses are recognized when due, and therefore, interest payable is not recorded in the governmental funds. (216,872)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds' Balance Sheet.

|   |              |              |
|---|--------------|--------------|
| Long-term liabilities - due within one year (net of \$281,076 reported in Internal Service Funds) | (508,692)    |              |
| Funds)  | (19,698,413) | (20,207,105) |

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 is included in governmental activities in the Government-Wide Statement of Net Position. 794,276

**Net Position of Governmental Activities** \$ 36,354,533

**City of Desert Hot Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

|   | Major Funds         |                       |                   |                     |
|---|---------------------|-----------------------|-------------------|---------------------|
|   | General             | Special Revenue Funds |                   | Capital Projects    |
|   |                     | Public Safety         | Housing Authority | Capital Improvement |
| <b>REVENUES:</b>                            |                     |                       |                   |                     |
| Taxes                                       | \$ 6,548,605        | \$ 4,028,098          | \$ -              | \$ -                |
| Permits and fees                            | 1,344,109           | 404,794               | -                 | -                   |
| Intergovernmental                           | -                   | 66,772                | -                 | 1,096,140           |
| Licenses                                    | 169,906             | -                     | -                 | -                   |
| Interest                                    | 41,560              | -                     | -                 | -                   |
| Miscellaneous                               | 1,450,300           | 244,498               | -                 | -                   |
| <b>Total revenues</b>                       | <b>9,554,480</b>    | <b>4,744,162</b>      | <b>-</b>          | <b>1,096,140</b>    |
| <b>EXPENDITURES:</b>                        |                     |                       |                   |                     |
| Current:                                    |                     |                       |                   |                     |
| General government                          | 2,805,110           | -                     | -                 | -                   |
| Public safety                               | 13,660              | 9,869,664             | -                 | -                   |
| Public works                                | 444,827             | -                     | -                 | -                   |
| Economic development                        | 1,113,841           | -                     | -                 | -                   |
| Culture and leisure                         | 764,276             | -                     | -                 | -                   |
| Capital outlay                              | 947,536             | -                     | -                 | 451,643             |
| Debt service:                               |                     |                       |                   |                     |
| Principal retirement                        | -                   | -                     | -                 | -                   |
| Interest and fiscal charges                 | -                   | -                     | -                 | -                   |
| <b>Total expenditures</b>                   | <b>6,089,250</b>    | <b>9,869,664</b>      | <b>-</b>          | <b>451,643</b>      |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <b>3,465,230</b>    | <b>(5,125,502)</b>    | <b>-</b>          | <b>644,497</b>      |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                     |                       |                   |                     |
| Transfers in                                | 713,264             | 5,145,516             | -                 | 1,450,724           |
| Transfers out                               | (5,738,264)         | (20,016)              | -                 | (304,995)           |
| <b>Total other financing sources (uses)</b> | <b>(5,025,000)</b>  | <b>5,125,500</b>      | <b>-</b>          | <b>1,145,729</b>    |
| <b>NET CHANGES IN FUND BALANCES</b>         | <b>(1,559,770)</b>  | <b>(2)</b>            | <b>-</b>          | <b>1,790,226</b>    |
| <b>FUND BALANCES:</b>                       |                     |                       |                   |                     |
| Beginning of year                           | 3,207,514           | 2                     | 207,454           | (1,790,226)         |
| End of year                                 | <u>\$ 1,647,744</u> | <u>\$ -</u>           | <u>\$ 207,454</u> | <u>\$ -</u>         |

See accompanying Notes to the Basic Financial Statements.

**City of Desert Hot Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

|   | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-----------------------------------|--------------------------------|
| <b>REVENUES:</b>                            |                                   |                                |
| Taxes                                       | \$ 2,012,622                      | \$ 12,589,325                  |
| Permits and fees                            | 98,543                            | 1,847,446                      |
| Intergovernmental                           | 1,771,005                         | 2,933,917                      |
| Licenses                                    | -                                 | 169,906                        |
| Interest                                    | 11,208                            | 52,768                         |
| Miscellaneous                               | 65,316                            | 1,760,114                      |
| <b>Total revenues</b>                       | <b>3,958,694</b>                  | <b>19,353,476</b>              |
| <b>EXPENDITURES:</b>                        |                                   |                                |
| Current:                                    |                                   |                                |
| General government                          | 72,993                            | 2,878,103                      |
| Public safety                               | 4,116                             | 9,887,440                      |
| Public works                                | 1,344,185                         | 1,789,012                      |
| Economic development                        | -                                 | 1,113,841                      |
| Culture and leisure                         | 99,650                            | 863,926                        |
| Capital outlay                              | 482,588                           | 1,881,767                      |
| Debt service:                               |                                   |                                |
| Principal retirement                        | 280,000                           | 280,000                        |
| Interest and fiscal charges                 | 868,745                           | 868,745                        |
| <b>Total expenditures</b>                   | <b>3,152,277</b>                  | <b>19,562,834</b>              |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <b>806,417</b>                    | <b>(209,358)</b>               |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                                   |                                |
| Transfers in                                | 1,067,177                         | 8,376,681                      |
| Transfers out                               | (1,820,506)                       | (7,883,781)                    |
| <b>Total other financing sources (uses)</b> | <b>(753,329)</b>                  | <b>492,900</b>                 |
| <b>NET CHANGES IN FUND BALANCES</b>         | <b>53,088</b>                     | <b>283,542</b>                 |
| <b>FUND BALANCES:</b>                       |                                   |                                |
| Beginning of year                           | 5,635,483                         | 7,260,227                      |
| End of year                                 | <b>\$ 5,688,571</b>               | <b>\$ 7,543,769</b>            |

**City of Desert Hot Springs**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position**  
**For the Year Ended June 30, 2014**

---

**Net Change in Fund Balances - Total Governmental Funds** \$ 283,542

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                               | 1,881,767       |           |
| The net effect of disposal of capital assets | <u>(55,049)</u> | 1,826,718 |

Depreciation expense on capital assets, net of internal service fund depreciation expense of \$269,213, 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. (3,098,909)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (1,807,279)

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. (49,029)

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. 563,015

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

|  |               |                |
|--|---------------|----------------|
| Principal repayments of long-term debt       | 280,000       |                |
| Principal repayments of pension-related debt | <u>67,975</u> | <u>347,975</u> |

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

|                                  |  |       |
|----------------------------------|--|-------|
| Amortization of premium/discount |  | 2,190 |
|----------------------------------|--|-------|

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. (419,180)

**Change in Net Position of Governmental Activities** \$ (2,350,957)

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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

**Enterprise Fund includes:**

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

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

**City of Desert Hot Springs**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

|   | Business-Type<br>Activities<br><u>Health &amp; Wellness<br/>Foundation</u> | Governmental<br>Activities<br><u>Internal<br/>Service Funds</u> |
|---|--|---|
| <b>ASSETS</b>                                     |  |   |
| Current assets:                                   |  |   |
| Cash and investments                              | \$ 25,868  | \$ 723,754  |
| Cash and investments with fiscal agent            | 1,074,161  | -   |
| Receivables, net:                                 |  |   |
| Accounts  | 653  | -   |
| Interest  | 18,973   | 196   |
| Notes   | 15,126,594   | -   |
| Total current assets                              | <u>16,246,249</u>  | <u>723,950</u>  |
| Noncurrent assets:                                |  |   |
| Nondepreciable capital assets                     | 370,415  | -   |
| Depreciable capital assets, net                   | 15,297,376   | 905,968   |
| Total noncurrent assets                           | <u>15,667,791</u>  | <u>905,968</u>  |
| <b>Total assets</b>                               | <u>31,914,040</u>  | <u>1,629,918</u>  |
| <b>LIABILITIES</b>                                |  |   |
| Current liabilities:                              |  |   |
| Accounts payable                                  | 24,190   | -   |
| Unearned revenue                                  | 52,000   | -   |
| Capital lease payable - due in one year           | -  | 106,748   |
| Claims payable - due in one year                  | -  | 174,328   |
| Total current liabilities                         | <u>76,190</u>  | <u>281,076</u>  |
| Noncurrent liabilities:                           |  |   |
| Notes payable - due in more than one year         | 20,697,000   | -   |
| Capital lease payable - due in more than one year | -  | 230,436   |
| Claims payable - due in more than one year        | -  | 324,130   |
| Total noncurrent liabilities                      | <u>20,697,000</u>  | <u>554,566</u>  |
| <b>Total liabilities</b>                          | <u>20,773,190</u>  | <u>835,642</u>  |
| <b>NET POSITION</b>                               |  |   |
| Net investment in capital assets                  | -  | 568,784   |
| Restricted  | 1,074,161  | -   |
| Unrestricted                                      | 10,066,689   | 225,492   |
| <b>Total net position</b>                         | <u>\$ 11,140,850</u>   | <u>\$ 794,276</u>   |

**City of Desert Hot Springs**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

|   | Business-Type<br>Activities<br><u>Health &amp; Wellness<br/>Foundation</u> | Governmental<br>Activities<br><u>Internal<br/>Service Funds</u> |
|---|--|---|
| <b>OPERATING REVENUES:</b>                    |  |   |
| Charges for services                          | \$ 104,000   | \$ 250,000  |
| Insurance recovery                            | -  | 95,479  |
| Other   | -  | 64,951  |
| <b>Total operating revenues</b>               | <u>104,000</u>   | <u>410,430</u>  |
| <b>OPERATING EXPENSES:</b>                    |  |   |
| Insurance claims                              | -  | 181,739   |
| General and administrative                    | 614,104  | -   |
| Depreciation                                  | 782,918  | 269,213   |
| <b>Total operating expenses</b>               | <u>1,397,022</u>   | <u>450,952</u>  |
| <b>OPERATING (LOSS)</b>                       | <u>(1,293,022)</u>   | <u>(40,522)</u>   |
| <b>NONOPERATING REVENUES (EXPENSES):</b>      |  |   |
| Interest income                               | 40,617   | 1,046   |
| Gain on sale of property                      | -  | 38,296  |
| Interest expense                              | (100,259)  | -   |
| <b>Total nonoperating revenues (expenses)</b> | <u>(59,642)</u>  | <u>39,342</u>   |
| <b>INCOME (LOSS) BEFORE TRANSFERS</b>         | <u>(1,352,664)</u>   | <u>(1,180)</u>  |
| <b>TRANSFERS:</b>                             |  |   |
| Transfer out                                  | (74,900)   | (418,000)   |
| <b>Total transfers</b>                        | <u>(74,900)</u>  | <u>(418,000)</u>  |
| <b>Changes in net position</b>                | (1,427,564)  | (419,180)   |
| <b>NET POSITION:</b>                          |  |   |
| Beginning of year, as restated (Note 11)      | 12,568,414   | 1,213,456   |
| End of year                                   | <u>\$ 11,140,850</u>   | <u>\$ 794,276</u>   |

**City of Desert Hot Springs**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

|  | Business-Type<br>Activities<br>Health & Wellness<br>Foundation | Governmental<br>Activities<br>Internal<br>Service Funds |
|--|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                       |  |   |
| Receipts from customers and users                                  | \$ 103,347   | \$ -  |
| Receipts from interfund charges                                    | -  | 250,000   |
| Receipts from claims and recoveries                                | -  | 95,479  |
| Receipts from others   | -  | 160,029   |
| Payments to suppliers for goods and services                       | (701,495)  | (11,184)  |
| Payments for insurance claims                                      | -  | (384,887)   |
| <b>Net cash (used in) operating activities</b>                     | (598,148)  | 109,437   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>            |  |   |
| Payment to other funds   | -  | (28,779)  |
| Transfers from (to) other funds                                    | (74,900)   | (418,000)   |
| <b>Net cash (used in) noncapital financing activities</b>          | (74,900)   | (446,779)   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>   |  |   |
| Acquisition of capital assets                                      | (899,723)  | -   |
| Proceeds from sale of capital assets                               | -  | 38,296  |
| Payments on capital lease  | -  | (124,282)   |
| Interest paid  | (100,259)  | -   |
| <b>Net cash (used in) capital and related financing activities</b> | (999,982)  | (85,986)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                       |  |   |
| Interest received  | 21,644   | 861   |
| <b>Net cash provided by investing activities</b>                   | 21,644   | 861   |
| <b>Net (decrease) in cash and cash equivalents</b>                 | (1,651,386)  | (422,467)   |
| <b>CASH AND CASH EQUIVALENTS:</b>                                  |  |   |
| Beginning of year  | 2,751,415  | 1,146,221   |
| End of year  | \$ 1,100,029   | \$ 723,754  |
| <b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>           |  |   |
| Issuance of capital lease  | \$ -   | \$ 461,466  |

See accompanying Notes to the Basic Financial Statements.

**City of Desert Hot Springs**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

|  | Business-Type<br>Activities<br>Health & Wellness<br>Foundation | Governmental<br>Activities<br>Internal<br>Service Funds |
|--|--|---|
| <b>RECONCILIATION OF OPERATING (LOSS) TO NET</b>   |  |   |
| <b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>                                     |  |   |
| Operating (loss)   | \$ (1,293,022)   | \$ (40,522)   |
| Adjustments to reconcile operating (loss) to<br>net cash (used in) operating activities: |  |   |
| Depreciation expense   | 782,918  | 269,213   |
| (Increase) decrease in:  |  |   |
| Accounts receivable  | (653)  | 95,078  |
| Increase (decrease) in:  |  |   |
| Accounts payable and accrued expenses  | (87,391)   | (11,184)  |
| Claims payable   | -  | (203,148)   |
| Total adjustments  | 694,874  | 149,959   |
| <b>Net cash (used in) operating activities</b>   | <b>\$ (598,148)</b>  | <b>\$ 109,437</b>                                       |

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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**Successor Agency Private-Purpose Trust Fund** - To account for the balances and transactions of the Successor Agency to the 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.

**City of Desert Hot Springs**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

|   | Successor<br>Agency Private -<br>Purpose Trust<br>Fund | Agency<br>Funds |
|---|--|-----------------|
| <b>ASSETS</b>                             |  |                 |
| Current assets:                           |  |                 |
| Cash and investments                      | \$ 2,186,356   | \$ 476,188      |
| Cash and investments with fiscal agents   | 5,696,616  | 180,985         |
| Accounts receivable                       | 1,200  | 2,446           |
| Interest receivable                       | -  | 85              |
| Total current assets                      | 7,884,172  | 659,704         |
| Noncurrent assets:                        |  |                 |
| Notes receivable                          | 24,044   | -               |
| Property held for resale                  | 7,448,942  | -               |
| Total noncurrent assets                   | 7,472,986  | -               |
| <b>Total assets</b>                       | 15,357,158   | \$ 659,704      |
| <b>LIABILITIES</b>                        |  |                 |
| Current liabilities:                      |  |                 |
| Accounts payable                          | 17,547   | \$ 2,915        |
| Accrued liabilities                       | 3,440  | -               |
| Deposits payable                          | 8,600  | 12,823          |
| Interest payable                          | 820,314  | -               |
| Bonds payable - due within one year       | 1,733,680  | -               |
| Due to bondholders                        | -  | 643,966         |
| Total current liabilities                 | 2,583,581  | 659,704         |
| Noncurrent liabilities:                   |  |                 |
| Bonds payable - due in more than one year | 37,968,683   | -               |
| Total noncurrent liabilities              | 37,968,683   | -               |
| <b>Total liabilities</b>                  | 40,552,264   | \$ 659,704      |
| <b>NET POSITION (DEFICIT)</b>             |  |                 |
| Held in trust                             | (25,195,106)   |                 |
| <b>Total net position (deficit)</b>       | \$ (25,195,106)  |                 |

**City of Desert Hot Springs**  
**Statement of Change in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2014**

---

|  | Successor<br>Agency Private -<br>Purpose Trust<br>Fund |
|--|--|
|  | Fund   |
| <b>ADDITIONS:</b>                        |  |
| Redevelopment Property Tax Trust Fund    | \$ 3,525,347   |
| Intergovernmental                        | 3,063  |
| Use of money and property                | 304,666  |
| Other revenue                            | 1,380,331  |
| <b>Total additions</b>                   | <b>5,213,407</b>                                       |
| <br><b>DEDUCTIONS:</b>                   |  |
| Enforceable obligations                  | 2,947,238  |
| Administration                           | 317,512  |
| <b>Total deductions</b>                  | <b>3,264,750</b>                                       |
| <b>Change in net position</b>            | 1,948,657  |
| <br><b>NET POSITION:</b>                 |  |
| Beginning of year, as restated (Note 11) | (27,143,763)   |
| End of year                              | \$ (25,195,106)  |

See accompanying Notes to the Basic Financial Statements.

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**City of Desert Hot Springs**  
**Index to Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

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**City of Desert Hot Springs**  
**Index to Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

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

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

**A. Financial Reporting Entity**

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

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

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

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

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

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

*Desert Hot Springs Health & Wellness Foundation (the “Foundation”)* – The Foundation is a California nonprofit public benefit corporation which was incorporated on December 1, 2011 as a result of the joint effort of the City of Desert Hot Springs (the “City”) and the Desert Healthcare District (the “District”). Funding of the Foundation came from the New Market Tax Credit which closed on July 13, 2012. The purpose of the Foundation is to embark upon a project consisting of the acquisition of real property and completion of buildings and improvement to be operated as a health and wellness center and to operate 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. Four of the board members were appointed by the City Council of the City and one of the board members was appointed by the District. Separate financial statements can be obtained from the City Hall.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

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

The City has no discretely presented component units.

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

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

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

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

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

*Government-Wide Financial Statements*

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

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

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

*Government-Wide Financial Statements (Continued)*

The following interfund activities have been eliminated:

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

*Governmental Fund Financial Statements*

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

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

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

The City reports the following major governmental funds:

- ***General Fund*** – This fund is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.
- ***Public Safety Special Revenue Fund*** – This fund was established to account for special taxes and grants for public safety expenditures.
- ***Housing Authority Special Revenue Fund*** – This fund was established to account for funds set aside for development and improvements of the City’s housing activity and operations.
- ***Capital Improvement Capital Projects Fund*** – This fund was established to account for expenditures related to various capital projects identified in the City’s 5-Year CIP plan.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

*Proprietary Fund Financial Statements*

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

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

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

The City reports the following major proprietary fund:

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

*Fiduciary Fund Financial Statements*

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

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

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

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

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

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

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

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

***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. Prepaid Items***

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

***F. 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”.

***G. Property Held For Resale***

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

***H. Capital Assets***

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

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

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the streets, parks and recreation, lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land.

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

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

***I. 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.

***J. 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.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

***K. Compensated Absences***

Permanent City employees earn from 12 to 21 days per year of annual leave depending on their length of employment. Leave is payable to employees at the time leave is taken or upon termination of employment. To encourage attendance at work, the City allows employees to accrue up to a maximum of 750 hours of annual leave and twice per year, the City pays out all hours above 580 hours of annual leave. 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.

***L. 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.

***M. 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”).

***N. Property Taxes***

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

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

***O. 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.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

***O. Net Position (Continued)***

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.

***P. Fund Balances***

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

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

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

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

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**Q. *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

**R. *Use of Estimates***

The preparation of the basic financial statements in conformity 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.

**S. *Accounting Changes***

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement became effective for periods beginning after December 15, 2012, and result in certain restatements as disclosed in Note 11 to the basic financial statements and reclassification of certain accounts as presented in the Statement of Net Position.

GASB has issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The requirements of this statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement became effective for periods beginning after December 15, 2012 and did not have a significant impact on the City's financial statements for year ended June 30, 2014.

GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this statement enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement also enhances the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This statement also augments the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement became effective for period beginning after June 15, 2013 and did not have a significant impact on the City's financial statements for the year ended June 30, 2014.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

**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, 2014:

|   | Government-Wide Statement of Net Position |                             |                      | Fiduciary Fund<br>Statement of<br>Net Position |                      |
|---|---|-----------------------------|----------------------|--|----------------------|
|   | Governmental<br>Activities                | Business-Type<br>Activities | Total                | Net Position                                   | Total                |
| Cash and investments                    | \$ 8,195,691                              | \$ 25,868                   | \$ 8,221,559         | \$ 2,662,544                                   | \$ 10,884,103        |
| Cash and investments with fiscal agents | 1,966,378                                 | 1,074,161                   | 3,040,539            | 5,877,601                                      | 8,918,140            |
| <b>Total cash and investments</b>       | <b>\$ 10,162,069</b>                      | <b>\$ 1,100,029</b>         | <b>\$ 11,262,098</b> | <b>\$ 8,540,145</b>                            | <b>\$ 19,802,243</b> |

Cash, cash equivalents and investments consisted of the following at June 30, 2014:

|   |               |
|---|---------------|
| Cash and cash equivalents:                    |               |
| Petty cash                                    | \$ 4,000      |
| Demand deposits                               | 8,855,893     |
| Total cash and cash equivalents               | 8,859,893     |
| Investments:                                  |               |
| Local Agency Investment Fund                  | 2,024,210     |
| Cash and investments with fiscal agent:       |               |
| Certificates of deposit                       | 4,340,463     |
| Money market mutual funds                     | 3,503,516     |
| Cash held by trustee                          | 1,074,161     |
| Total cash and investments with fiscal agents | 8,918,140     |
| Total cash and investments                    | \$ 19,802,243 |

**A. Demand Deposits**

The carrying amounts of the City's demand deposits were \$8,855,893 at June 30, 2014. Bank balances at that date were \$9,045,076, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the carrying amount and bank balances represents outstanding checks, deposits in transit, and other reconciling items.

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**A. Demand Deposits (Continued)**

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 table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

| Authorized Investment Type   | Maximum Maturity * | Maximum Percentage of Portfolio * | Maximum Investment in One Issuer *            |
|--|--------------------|-----------------------------------|---|
| United States Treasury Obligations   | 5 years            | 80%                               | Total amount invested cannot be in one issuer |
| U.S. Sponsored Enterprise Securities   | 5 years            | 80%                               | Total amount invested cannot be in one issuer |
| Bankers' Acceptances   | 180 days           | 40%                               | 40%   |
| Commercial paper of "prime" quality of the highest ranking or of the highest rating as provided for by a nationally recognized statistical rating organization ("MRSRO") | 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, 2014**

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

**C. 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, 2014, the City's investments had the following maturities:

| Investment Type                      | Fair Value          | Investment Maturities (in Years) |                   |                   |
|--------------------------------------|---------------------|----------------------------------|-------------------|-------------------|
|                                      |                     | Less than 1                      | 1 to 2            | 2 to 3            |
| Local Agency Investment Fund (LAIF)  | \$ 2,024,210        | \$ 2,024,210                     | \$ -              | \$ -              |
| Investments held with fiscal agents: |                     |                                  |                   |                   |
| Certificates of deposits             | 4,340,463           | 3,760,463                        | 179,000           | 401,000           |
| Money market mutual funds            | 3,503,516           | 3,503,516                        | -                 | -                 |
| <b>Total</b>                         | <b>\$ 9,868,189</b> | <b>\$ 9,288,189</b>              | <b>\$ 179,000</b> | <b>\$ 401,000</b> |

**Credit Risk**

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

| Credit Quality Distribution for Securities<br>with Credit Exposure as a Percentage of Total Investments |                     |                             |                           |  |
|---|---------------------|-----------------------------|---------------------------|--|
| Investment Type   | Fair Value          | Moody's<br>Credit<br>Rating | S&P's<br>Credit<br>Rating | % of Investments<br>with Interest<br>Rate Risk |
| Local Agency Investment Fund (LAIF)   | \$ 2,024,210        | Not Rated                   | Not Rated                 | 20.51%   |
| Investments held with fiscal agents:  |                     |                             |                           |  |
| Certificates of deposits  | 4,340,463           | Not Rated                   | Not Rated                 | 43.99%   |
| Money market mutual funds   | 3,503,516           | Not Rated                   | Not Rated                 | 35.50%   |
| <b>Total</b>  | <b>\$ 9,868,189</b> |                             |                           | <b>100.00%</b>                                 |

**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).

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**D. 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, 2014, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

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

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

As of June 30, 2014, the City had \$2,024,210 invested in LAIF, which had invested 1.96% 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, 2014, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants’ total aggregate amortized cost by total aggregate fair value. The credit quality rating of LAIF is unrated as of June 30, 2014.

**Note 3 – Notes Receivable**

**A. Governmental Fund Financial Statements**

Notes receivable, which amounted to \$2,122,817, are reported in the Housing Authority Special Revenue Fund as follows:

|   |                     |
|---|---------------------|
| Housing Rehabilitation Loan Program     | \$ 2,122,817        |
| Owner Participation and Loan Agreement: |                     |
| Low and Moderate Income Housing Units   | 750,000             |
| Multifamily Residential Housing         | 1,700,000           |
| Subtotal                                | 4,572,817           |
| Less: Allowance for doubtful accounts   | (2,450,000)         |
| <b>Total</b>                            | <b>\$ 2,122,817</b> |

The former Redevelopment Agency of the City of Desert Hot Springs (“Redevelopment Agency”) operated a housing rehabilitation loan program, which provides loans to borrowers who meet certain qualifications for the purpose of rehabilitating their homes. The loans are secured by a deed of trust and are normally repaid when the home changes ownership. Since the loans are not currently available resources, they are offset with unavailable revenue in the fund financial statements, and recognized as revenue in the government-wide financial statements.

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

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

**B. Proprietary Fund Financial Statements**

On July 13, 2012, the City entered into a Fund Loan Agreement with Desert Hot Springs Investment Fund, LLC, a Missouri limited liability company (the "Investment Fund") and provided \$15,126,594 to the Investment Fund. The proceeds were used to fund the Investment Fund's equity investments in New Market Community Capital X, LLC, a Delaware limited liability company ("NMCC"), and LCD New Market Fund XII, LLC, a Delaware limited liability company ("LCD") in the amount of \$8,300,000 and \$13,000,000, respectively. The note bears an interest rate of 0.5% with maturity date of July 1, 2048. Interest is payable quarterly commencing on October 1, 2012 while principal is not due until January 1, 2020. As of June 30, 2014, the outstanding balance for the note receivable was in the amount of \$15,126,594.

**Note 4 – Interfund Transactions**

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

At June 30, 2014, the City had the following short-term interfund receivable/payable:

|   | <b>Due from<br/>Other Funds</b> |
|---|---------------------------------|
| <b>Due to Other Funds</b>                 | General Fund                    |
| Capital Improvement Capital Projects Fund | \$ 249,236                      |
| Nonmajor Governmental Funds               | 51,770                          |
| <b>Total</b>                              | <b>\$ 301,006</b>               |

The above interfund balances resulted from temporary reclassifications made at June 30, 2014 to cover cash shortfalls.

**B. Advances To/From Other Funds**

At June 30, 2014, the City had the following long-term interfund receivable/payable:

|                                  | <b>Advances to<br/>Other Funds</b>           |
|----------------------------------|--|
| <b>Advances From Other Funds</b> | Capital Improvement<br>Capital Projects Fund |
| Nonmajor Governmental Funds      | \$ 631,269                                   |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**B. Advances To/From Other Funds (Continued)**

The interfund balance resulted from the Capital Improvement Capital Projects Fund loaning the Capital Improvement Deposits Special Revenue Fund \$631,269 for the Community Camera – Lockheed camera project, in which the Capital Improvement Capital Projects Fund covered the expenditures in prior fiscal years. The amount is expected to be repaid in future years as funding in the Capital Improvement Deposits Special Revenue Fund becomes available.

**C. Transfers In/Out**

For the year ended June 30, 2014, the City had the following transfers in/out which arise in the normal course of operations:

|  | Transfers In      |                     |                                    |   | Total               |
|--|-------------------|---------------------|------------------------------------|---|---------------------|
|  | Transfers Out     | General Fund        | Public Safety Special Revenue Fund | Capital Improvement Capital Projects Fund |                     |
| General Fund                                 | \$ -              | \$ 4,998,637        | \$ 445,544                         | \$ 294,083                                | \$ 5,738,264        |
| Public Safety Special Revenue Fund           | 20,016            | -                   | -                                  | -   | 20,016              |
| Capital Improvement Capital Projects Fund    | -                 | -                   | -                                  | 304,995                                   | 304,995             |
| Nonmajor Governmental Funds                  | 200,348           | 146,879             | 1,005,180                          | 468,099                                   | 1,820,506           |
| Health & Wellness Foundation Enterprise Fund | 74,900            | -                   | -                                  | -   | 74,900              |
| Internal Service Funds                       | 418,000           | -                   | -                                  | -   | 418,000             |
| <b>Total</b>                                 | <b>\$ 713,264</b> | <b>\$ 5,145,516</b> | <b>\$ 1,450,724</b>                | <b>\$ 1,067,177</b>                       | <b>\$ 8,376,681</b> |

The transfer of \$4,998,637 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 transfer of \$445,544 from General Fund to the Capital Improvement Capital Projects Fund was to provide additional funding for various capital improvement projects.

The transfers totaling \$294,083 from General Fund to the Nonmajor Governmental Funds were budgeted transfers to provide funding for the expenditures of the Lighting and Landscaping Districts, County Service Area 152, Air Quality, and Cabot's Museum.

The transfer of \$20,016 from the Public Safety Special Revenue Fund to the General Fund relates to funding expenditures for the City's emergency preparedness program.

The transfer of \$304,995 from the Capital Improvement Capital Projects Fund to the Nonmajor Governmental Funds relates to reversing part of the transfers from the 2012 Street Bond Fund after reconciliation of administrative costs during the fiscal year and minor changes to funding sources for the Essential Transportation 111 project.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Transfers In/Out (Continued)**

The transfers totaling \$200,348 from the Nonmajor Governmental Funds to the General Fund relate to budgeted transfers to cover expenditures during the year for the Cabot's Museum and reimbursement from the City Debt Service Fund for public safety-related expenditures originally subsidized by General Fund.

The transfer of \$146,879 from the Nonmajor Governmental Funds to the Public Safety Special Revenue Fund relate to assistance in funding public safety expenditures.

The transfers totaling \$1,005,180 from the Nonmajor Governmental Funds to the Capital Improvement Capital Projects Fund relate to funding the expenditures of various projects, primarily Essential Transportation 111.

The transfers totaling \$468,099 within the Nonmajor Governmental Funds were to cover a portion of the expenditures allowable for projects included in the Certificates of Participation, Series 12A.

The transfer of \$74,900 from the Health & Wellness Foundation Enterprise Fund to the General Fund relates to budgeted transfers to cover Health & Wellness Center operating expenditures during the year.

The transfer of \$418,000 from the Internal Service Funds to the General Fund was to move excess cash available to cover expenditures during the year originally transferred from the General Fund in prior years.

**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, 2014 is as follows:

|  | Governmental Activities |                       |                    |                    | Balance<br>June 30, 2014 |
|--|-------------------------|-----------------------|--------------------|--------------------|--------------------------|
|  | Balance<br>July 1, 2013 | Additions             | Deletions          | Transfers          |                          |
| <b>Nondepreciable assets:</b>                      |                         |                       |                    |                    |                          |
| Land   | \$ 1,063,834            | \$ 391,525            | \$ -               | \$ -               | \$ 1,455,359             |
| Construction in progress                           | 2,601,003               | 33,579                | (55,049)           | (2,252,977)        | 326,556                  |
| Total nondepreciable assets                        | <u>3,664,837</u>        | <u>425,104</u>        | <u>(55,049)</u>    | <u>(2,252,977)</u> | <u>1,781,915</u>         |
| <b>Depreciable assets:</b>                         |                         |                       |                    |                    |                          |
| Building and improvements                          | 16,009,132              | 537,808               | -                  | -                  | 16,546,940               |
| Machinery and equipment                            | 9,077,242               | 461,466               | (26,713)           | -                  | 9,511,995                |
| Vehicles   | 870,158                 | -                     | (268,843)          | -                  | 601,315                  |
| Infrastructure                                     | 33,544,050              | 918,855               | -                  | 2,252,977          | 36,715,882               |
| Total capital assets, being depreciated            | <u>59,500,582</u>       | <u>1,918,129</u>      | <u>(295,556)</u>   | <u>2,252,977</u>   | <u>63,376,132</u>        |
| <b>Less accumulated depreciation:</b>              |                         |                       |                    |                    |                          |
| Building and improvements                          | (4,034,037)             | (604,682)             | -                  | -                  | (4,638,719)              |
| Machinery and equipment                            | (4,765,685)             | (907,226)             | 26,713             | -                  | (5,646,198)              |
| Vehicles   | (801,721)               | (20,420)              | 268,843            | -                  | (553,298)                |
| Infrastructure                                     | (6,306,403)             | (1,835,794)           | -                  | -                  | (8,142,197)              |
| Total accumulated depreciation                     | <u>(15,907,846)</u>     | <u>(3,368,122)</u>    | <u>295,556</u>     | <u>-</u>           | <u>(18,980,412)</u>      |
| Total depreciable assets, net                      | <u>43,592,736</u>       | <u>(1,449,993)</u>    | <u>-</u>           | <u>2,252,977</u>   | <u>44,395,720</u>        |
| <b>Governmental activities capital assets, net</b> | <u>\$ 47,257,573</u>    | <u>\$ (1,024,889)</u> | <u>\$ (55,049)</u> | <u>\$ -</u>        | <u>\$ 46,177,635</u>     |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**A. Governmental Activities (Continued)**

Depreciation expense was charged to functions/programs of governmental activities for the fiscal year ended June 30, 2014 as follows:

|                                   |                     |
|-----------------------------------|---------------------|
| General government                | \$ 1,994,478        |
| Public safety                     | 328,728             |
| Public works                      | 143,497             |
| Culture and leisure               | 632,206             |
| Equipment replacement             | 269,213             |
| <b>Total depreciation expense</b> | <b>\$ 3,368,122</b> |

**B. Business-Type Activities**

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2014 is as follows:

|   | Business-Type Activities |              |              |                   |                          |
|---|--------------------------|--------------|--------------|-------------------|--------------------------|
|   | Balance<br>July 1, 2013  | Additions    | Deletions    | Reclassifications | Balance<br>June 30, 2014 |
| <b>Nondepreciable assets:</b>                       |                          |              |              |                   |                          |
| Land  | \$ -                     | \$ 370,415   | \$ -         | \$ -              | \$ 370,415               |
| Construction in progress                            | 16,199,910               | -            | (119,616)    | (16,080,294)      | -                        |
| Total nondepreciable assets                         | 16,199,910               | 370,415      | (119,616)    | (16,080,294)      | 370,415                  |
| <b>Depreciable assets:</b>                          |                          |              |              |                   |                          |
| Building and improvements                           | -                        | -            | -            | 15,731,122        | 15,731,122               |
| Furniture and fixtures                              | -                        | -            | -            | 349,172           | 349,172                  |
| Total depreciable assets                            | -                        | -            | -            | 16,080,294        | 16,080,294               |
| <b>Less accumulated depreciation:</b>               |                          |              |              |                   |                          |
| Building and improvements                           | -                        | (715,847)    | -            | -                 | (715,847)                |
| Furniture and fixtures                              | -                        | (67,071)     | -            | -                 | (67,071)                 |
| Total accumulated depreciation                      | -                        | (782,918)    | -            | -                 | (782,918)                |
| Total depreciable assets, net                       | -                        | (782,918)    | -            | 16,080,294        | 15,297,376               |
| <b>Business-type activities capital assets, net</b> | \$ 16,199,910            | \$ (412,503) | \$ (119,616) | \$ -              | \$ 15,667,791            |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

**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, 2014 is as follows:

|                                     | Balance<br>July 1, 2013 | Additions           | Deletions             | Balance<br>June 30, 2014 | Due within<br>One Year | Due in more<br>than One Year |
|-------------------------------------|-------------------------|---------------------|-----------------------|--------------------------|------------------------|------------------------------|
| Judgment Obligation Bonds           | \$ 9,725,000            | \$ -                | \$ -                  | \$ 9,725,000             | \$ -                   | \$ 9,725,000                 |
| Certificates of Participation       | 1,915,000               | -                   | (165,000)             | 1,750,000                | 175,000                | 1,575,000                    |
| 2012A Certificates of Participation | 5,815,000               | -                   | (115,000)             | 5,700,000                | 115,000                | 5,585,000                    |
| Subtotal                            | 17,455,000              | -                   | (280,000)             | 17,175,000               | 290,000                | 16,885,000                   |
| Add/(less) deferred amounts:        |                         |                     |                       |                          |                        |                              |
| Bond discount - Judgment Bonds      | (162,523)               | -                   | 2,920                 | (159,603)                | (2,920)                | (156,683)                    |
| Bond discount - COP                 | (25,658)                | -                   | 2,555                 | (23,103)                 | (2,555)                | (20,548)                     |
| Bond premium - 2012A COP            | 223,635                 | -                   | (7,665)               | 215,970                  | 7,665                  | 208,305                      |
| Total bonds payable                 | 17,490,454              | -                   | (282,190)             | 17,208,264               | 292,190                | 16,916,074                   |
| Capital lease payable               | -                       | 461,466             | (124,282)             | 337,184                  | 106,748                | 230,436                      |
| Claims and judgments payable        | 701,606                 | 541,471             | (744,619)             | 498,458                  | 174,328                | 324,130                      |
| Compensated absences                | 977,585                 | 406,985             | (970,000)             | 414,570                  | 124,371                | 290,199                      |
| Pension-related debt                | 2,652,246               | -                   | (67,975)              | 2,584,271                | 92,131                 | 2,492,140                    |
| <b>Total</b>                        | <b>\$ 21,821,891</b>    | <b>\$ 1,409,922</b> | <b>\$ (2,189,066)</b> | <b>\$ 21,042,747</b>     | <b>\$ 789,768</b>      | <b>\$ 20,252,979</b>         |

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

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**A. Governmental Activities (Continued)**

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

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

At June 30, 2014, the outstanding balance of the bonds was \$9,725,000. The annual debt service requirements on the Bonds are as follows:

| Year Ending<br>June 30, | Principal    | Interest      | Total         |
|-------------------------|--------------|---------------|---------------|
| 2015                    | \$ -         | \$ 476,250    | \$ 476,250    |
| 2016                    | -            | 476,250       | 476,250       |
| 2017                    | -            | 476,250       | 476,250       |
| 2018                    | -            | 476,250       | 476,250       |
| 2019                    | -            | 476,250       | 476,250       |
| 2020-2024               | 440,000      | 2,373,413     | 2,813,413     |
| 2025-2029               | 1,575,000    | 2,134,250     | 3,709,250     |
| 2030-2034               | 1,985,000    | 1,722,901     | 3,707,901     |
| 2035-2039               | 2,515,000    | 1,192,000     | 3,707,000     |
| 2040-2044               | 3,210,000    | 497,250       | 3,707,250     |
| TOTAL                   | \$ 9,725,000 | \$ 10,301,064 | \$ 20,026,064 |

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**A. Governmental Activities (Continued)**

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

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

At June 30, 2014, the outstanding balance of the Certificates was \$1,750,000. The annual debt service requirements on the Certificates are as follows:

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ 175,000          | \$ 91,950         | \$ 266,950          |
| 2016                    | 180,000             | 83,200            | 263,200             |
| 2017                    | 190,000             | 74,200            | 264,200             |
| 2018                    | 200,000             | 64,700            | 264,700             |
| 2019                    | 210,000             | 54,200            | 264,200             |
| 2020-2023               | 795,000             | 98,728            | 893,728             |
| TOTAL                   | <u>\$ 1,750,000</u> | <u>\$ 466,978</u> | <u>\$ 2,216,978</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, 2014**

**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**

At June 30, 2014, the outstanding balance of the Certificates was \$5,700,000. The annual debt service requirements on the Certificates are as follows:

| Year Ending<br>June 30, | Principal           | Interest            | Total                |
|-------------------------|---------------------|---------------------|----------------------|
| 2015                    | \$ 115,000          | \$ 283,694          | \$ 398,694           |
| 2016                    | 120,000             | 281,394             | 401,394              |
| 2017                    | 120,000             | 277,794             | 397,794              |
| 2018                    | 125,000             | 274,194             | 399,194              |
| 2019                    | 130,000             | 270,444             | 400,444              |
| 2020-2024               | 705,000             | 1,288,988           | 1,993,988            |
| 2025-2029               | 850,000             | 1,146,300           | 1,996,300            |
| 2030-2034               | 1,060,000           | 936,400             | 1,996,400            |
| 2035-2039               | 1,410,000           | 583,200             | 1,993,200            |
| 2040-2042               | 1,065,000           | 130,200             | 1,195,200            |
| TOTAL                   | <u>\$ 5,700,000</u> | <u>\$ 5,472,608</u> | <u>\$ 11,172,608</u> |

**Capital Lease Payable**

The City entered into a capital lease agreement during the year ended June 30, 2014 for the acquisition of 13 police vehicles in the amount of \$461,466. The accumulated depreciation at June 30, 2014 was \$92,293. The total principal balance of the leases outstanding at June 30, 2014 was \$337,184.

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

| Year Ending<br>June 30,                           |                   |
|---|-------------------|
| 2015  | \$ 124,281        |
| 2016  | 124,282           |
| 2017  | 124,281           |
| Subtotal  | <u>372,844</u>    |
| Less: Interest                                    | <u>(35,660)</u>   |
| Present Value of Future<br>Minimum Lease Payments | <u>\$ 337,184</u> |

**Claims and Judgments Payable**

The amount of claims and judgments payable at June 30, 2014 was \$498,458. The Risk Management Internal Service Fund has been used to liquidate the liability for claims and judgments payable. See Note 7 for details.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**A. Governmental Activities (Continued)**

**Compensated Absences**

The City’s liability for vested and unpaid compensated absences (accrued vacation and sick pay) in the governmental activities has been accrued and amounted to \$414,570. The General Fund has been used to liquidate the majority of the liability for compensated absences.

**Pension-Related Debt**

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

The amount of pension-related debt outstanding at June 30, 2014 totaled \$2,584,271, including \$684,308 for the Miscellaneous Plan and \$1,899,963 for the Safety Plan.

**B. Business-Type Activities**

A summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2014 is as follows:

|                             | Balance<br>July 1, 2013 | Additions   | Deletions   | Balance<br>June 30, 2014 | Due within<br>One Year | Due in more<br>than One Year |
|-----------------------------|-------------------------|-------------|-------------|--------------------------|------------------------|------------------------------|
| LCD - Promissory Note A-1   | \$ 9,207,621            | \$ -        | \$ -        | \$ 9,207,621             | \$ -                   | \$ 9,207,621                 |
| NMCC - Promissory Note A-2  | 3,960,000               | -           | -           | 3,960,000                | -                      | 3,960,000                    |
| LCD - Promissory Note B-1   | 3,272,379               | -           | -           | 3,272,379                | -                      | 3,272,379                    |
| NMCC - Promissory Note B-2  | 1,958,973               | -           | -           | 1,958,973                | -                      | 1,958,973                    |
| NMCC - Promissory Note C-2  | 2,298,027               | -           | -           | 2,298,027                | -                      | 2,298,027                    |
| <b>Total long-term debt</b> | <b>\$ 20,697,000</b>    | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 20,697,000</b>     | <b>\$ -</b>            | <b>\$ 20,697,000</b>         |

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

**LCD – Promissory Note A-1**

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. A one-time principal payment of \$411,163 is due on January 1, 2020, and thereafter, principal payments are payable quarterly with the interest payments. At June 30, 2014, the outstanding balance of the LCD – Promissory Note A-1 was \$9,207,621.

The annual debt service requirements are as follows:

| Year Ending<br>June 30, | Principal           | Interest            | Total                |
|-------------------------|---------------------|---------------------|----------------------|
| 2015                    | \$ -                | \$ 46,044           | \$ 46,044            |
| 2016                    | -                   | 46,044              | 46,044               |
| 2017                    | -                   | 46,044              | 46,044               |
| 2018                    | -                   | 46,044              | 46,044               |
| 2019                    | -                   | 46,044              | 46,044               |
| 2020-2024               | 1,079,017           | 214,000             | 1,293,017            |
| 2025-2029               | 951,290             | 192,210             | 1,143,500            |
| 2030-2034               | 1,192,929           | 165,570             | 1,358,499            |
| 2035-2039               | 1,440,679           | 132,822             | 1,573,501            |
| 2040-2044               | 1,694,700           | 93,795              | 1,788,495            |
| 2045-2049               | 1,955,150           | 48,354              | 2,003,504            |
| 2050-2052               | 893,856             | 5,233               | 899,089              |
| <b>TOTAL</b>            | <b>\$ 9,207,621</b> | <b>\$ 1,082,204</b> | <b>\$ 10,289,825</b> |

**NMCC – Promissory Note A-2**

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. One time principal payment of \$271,350 is due on January 1, 2020. Thereafter, principal payments are payable quarterly with the interest payments. At June 30, 2014, the outstanding balance of the NMCC – Promissory Note A-2 was \$3,960,000.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

**NMCC – Promissory Note A-2 (Continued)**

The annual debt service requirements are as follows:

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ -                | \$ 19,800         | \$ 19,800           |
| 2016                    | -                   | 19,800            | 19,800              |
| 2017                    | -                   | 19,800            | 19,800              |
| 2018                    | -                   | 19,800            | 19,800              |
| 2019                    | -                   | 19,800            | 19,800              |
| 2020-2024               | 516,502             | 90,398            | 606,900             |
| 2025-2029               | 372,703             | 81,810            | 454,513             |
| 2030-2034               | 488,386             | 71,112            | 559,498             |
| 2035-2039               | 606,998             | 57,501            | 664,499             |
| 2040-2044               | 728,611             | 40,890            | 769,501             |
| 2045-2049               | 853,298             | 21,204            | 874,502             |
| 2050-2052               | 393,502             | 2,305             | 395,807             |
| TOTAL                   | <u>\$ 3,960,000</u> | <u>\$ 464,220</u> | <u>\$ 4,424,220</u> |

**LCD – Promissory Note B-1**

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2014, the outstanding balance of the LCD – Promissory Note B-1 was \$3,272,379.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

**LCD – Promissory Note B-1 (Continued)**

The annual debt service requirements are as follows:

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ -                | \$ 16,356         | \$ 16,356           |
| 2016                    | -                   | 16,356            | 16,356              |
| 2017                    | -                   | 16,356            | 16,356              |
| 2018                    | -                   | 16,356            | 16,356              |
| 2019                    | -                   | 16,356            | 16,356              |
| 2020-2024               | 221,214             | 79,461            | 300,675             |
| 2025-2029               | 333,563             | 72,441            | 406,004             |
| 2030-2034               | 433,079             | 62,922            | 496,001             |
| 2035-2039               | 535,110             | 50,889            | 585,999             |
| 2040-2044               | 639,726             | 36,273            | 675,999             |
| 2045-2049               | 746,989             | 19,011            | 766,000             |
| 2050-2052               | 362,698             | 2,211             | 364,909             |
| TOTAL                   | <u>\$ 3,272,379</u> | <u>\$ 404,988</u> | <u>\$ 3,677,367</u> |

**NMCC – Promissory Note B-2**

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2014, the outstanding balance of the NMCC – Promissory Note B-2 was \$1,958,973.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

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

**NMCC – Promissory Note B-2 (Continued)**

The annual debt service requirements are as follows:

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ -                | \$ 9,792          | \$ 9,792            |
| 2016                    | -                   | 9,792             | 9,792               |
| 2017                    | -                   | 9,792             | 9,792               |
| 2018                    | -                   | 9,792             | 9,792               |
| 2019                    | -                   | 9,792             | 9,792               |
| 2020-2024               | 96,444              | 47,952            | 144,396             |
| 2025-2029               | 173,408             | 44,595            | 218,003             |
| 2030-2034               | 248,635             | 39,366            | 288,001             |
| 2035-2039               | 325,763             | 32,229            | 357,992             |
| 2040-2044               | 404,842             | 23,154            | 427,996             |
| 2045-2049               | 485,922             | 12,078            | 498,000             |
| 2050-2052               | 223,959             | 1,338             | 225,297             |
| TOTAL                   | <u>\$ 1,958,973</u> | <u>\$ 249,672</u> | <u>\$ 2,208,645</u> |

**NMCC – Promissory Note C-2**

The note bears an interest rate of 0.5% with maturity date of July 31, 2051. The note may not be repaid in whole or in part at any time prior to the seventh anniversary. Interest is payable quarterly on December 26, March 26, June 26 and September 26 of each year commencing on September 26, 2012 for interest accrued through December 31, March 31, June 30 and September 30 of each year, respectively. Commencing March 26, 2020, principal payments are payable quarterly with the interest payments. At June 30, 2014, the outstanding balance of the NMCC – Promissory Note C-2 was \$2,298,027.

The annual debt service requirements are as follows:

| Year Ending<br>June 30, | Principal           | Interest          | Total               |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ -                | \$ 11,496         | \$ 11,496           |
| 2016                    | -                   | 11,496            | 11,496              |
| 2017                    | -                   | 11,496            | 11,496              |
| 2018                    | -                   | 11,496            | 11,496              |
| 2019                    | -                   | 11,496            | 11,496              |
| 2020-2024               | 116,020             | 56,229            | 172,249             |
| 2025-2029               | 204,781             | 52,218            | 256,999             |
| 2030-2034               | 290,917             | 46,086            | 337,003             |
| 2035-2039               | 379,235             | 37,767            | 417,002             |
| 2040-2044               | 469,789             | 27,213            | 497,002             |
| 2045-2049               | 562,633             | 14,361            | 576,994             |
| 2050-2052               | 274,652             | 1,661             | 276,313             |
| TOTAL                   | <u>\$ 2,298,027</u> | <u>\$ 293,015</u> | <u>\$ 2,591,042</u> |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Fiduciary Fund**

A summary of changes in long-term liabilities for the fiduciary fund for the year ended June 30, 2014 is as follows:

|                               | Balance<br>July 1, 2013 | Additions | Deletions      | Balance<br>June 30, 2014 | Due within<br>One Year | Due in more<br>than One Year |
|-------------------------------|-------------------------|-----------|----------------|--------------------------|------------------------|------------------------------|
| 2006 Tax Allocation           |                         |           |                |                          |                        |                              |
| Refunding Bonds               | \$ 4,335,000            | \$ -      | \$ (550,000)   | \$ 3,785,000             | \$ 570,000             | \$ 3,215,000                 |
| 2008 Tax Allocation Bonds A-1 | 16,435,000              | -         | (1,040,000)    | 15,395,000               | 1,115,000              | 14,280,000                   |
| 2008 Tax Allocation Bonds A-2 | 15,870,000              | -         | -              | 15,870,000               | -                      | 15,870,000                   |
| 2009 Tax Allocation Bonds     | 5,395,000               | -         | (105,000)      | 5,290,000                | 110,000                | 5,180,000                    |
| Subtotal                      | 42,035,000              | -         | (1,695,000)    | 40,340,000               | 1,795,000              | 38,545,000                   |
| Add/(less) deferred amounts:  |                         |           |                |                          |                        |                              |
| Bond premium - 2006 Tax       |                         |           |                |                          |                        |                              |
| Allocation Refunding Bonds    | 14,643                  | -         | (1,825)        | 12,818                   | 1,825                  | 10,993                       |
| Bond discount - 2008 TAB A-1  | (598,813)               | -         | 58,765         | (540,048)                | (58,765)               | (481,283)                    |
| Bond discount - 2008 TAB A-2  | (176,694)               | -         | 6,935          | (169,759)                | (6,935)                | (162,824)                    |
| Bond premium - 2009 TAB       | 61,907                  | -         | (2,555)        | 59,352                   | 2,555                  | 56,797                       |
| Total bonds payable           | \$ 41,336,043           | \$ -      | \$ (1,633,680) | \$ 39,702,363            | \$ 1,733,680           | \$ 37,968,683                |

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

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

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

The Refunding Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 125% of the annual debt service requirement each fiscal year, through final maturity of the Refunding Bonds on September 1, 2021 or early retirement of the Bonds, whichever occurs first. Revenues received by the Successor Agency from the Redevelopment Property Tax Trust Fund (“RPTTF”) have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$713,456 and total net revenues reported by the Successor Agency was \$3,525,347. The ratio of net revenues to the debt service payments due during the year ended June 30, 2014 was 4.94 (494%).

The amount of Refunding Bonds outstanding at June 30, 2014 totaled \$3,785,000 in the Successor Agency Private-Purpose Trust Fund.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Fiduciary Fund (Continued)**

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

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

| Year Ending<br>June 30, | Principal    | Interest   | Total        |
|-------------------------|--------------|------------|--------------|
| 2015                    | \$ 570,000   | \$ 141,056 | \$ 711,056   |
| 2016                    | 590,000      | 117,856    | 707,856      |
| 2017                    | 600,000      | 94,057     | 694,057      |
| 2018                    | 625,000      | 69,556     | 694,556      |
| 2019                    | 645,000      | 44,156     | 689,156      |
| 2020-2022               | 755,000      | 19,879     | 774,879      |
| TOTAL                   | \$ 3,785,000 | \$ 486,560 | \$ 4,271,560 |

**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 \$2,154,050 and total net revenues reported by the Successor Agency was \$3,525,347. The ratio of net revenues to the debt service payments due during the year ended June 30, 2014 was 1.64 (164%).

The amount of Series 2008A-1 Bonds outstanding at June 30, 2014 totaled \$15,395,000 in the Successor Agency Private-Purpose Trust Fund.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Fiduciary Fund (Continued)**

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

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

| Year Ending<br>June 30, | Principal     | Interest     | Total         |
|-------------------------|---------------|--------------|---------------|
| 2015                    | \$ 1,115,000  | \$ 1,038,625 | \$ 2,153,625  |
| 2016                    | 1,190,000     | 957,950      | 2,147,950     |
| 2017                    | 1,275,000     | 871,675      | 2,146,675     |
| 2018                    | 1,365,000     | 779,275      | 2,144,275     |
| 2019                    | 1,460,000     | 680,400      | 2,140,400     |
| 2020-2024               | 8,990,000     | 1,658,300    | 10,648,300    |
| TOTAL                   | \$ 15,395,000 | \$ 5,986,225 | \$ 21,381,225 |

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

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

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

The Series 2008A-2 Bonds agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 135% of the annual debt service requirement each fiscal year, through final maturity of the Series 2008A-2 Bonds on September 1, 2038 or early retirement of the Series 2008A-2 Bonds, whichever occurs first. Revenues received by the Successor Agency from the RPTTF have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$865,773 and total net revenues reported by the Successor Agency was \$3,525,347. The ratio of net revenues to the debt service payments due during the year ended June 30, 2014 was 4.07 (407%).

The amount of Series 2008A-2 Bonds outstanding at June 30, 2014 totaled \$15,870,000 in the Successor Agency Private-Purpose Trust Fund.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Fiduciary Fund (Continued)**

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

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

| Year Ending<br>June 30, | Principal            | Interest             | Total                |
|-------------------------|----------------------|----------------------|----------------------|
| 2015                    | \$ -                 | \$ 865,773           | \$ 865,773           |
| 2016                    | -                    | 865,772              | 865,772              |
| 2017                    | -                    | 865,773              | 865,773              |
| 2018                    | -                    | 865,772              | 865,772              |
| 2019                    | -                    | 865,773              | 865,773              |
| 2020-2024               | 2,610,000            | 4,082,362            | 6,692,362            |
| 2025-2029               | 4,225,000            | 3,144,669            | 7,369,669            |
| 2030-2034               | 5,080,000            | 1,830,928            | 6,910,928            |
| 2035-2038               | 3,955,000            | 567,435              | 4,522,435            |
| <b>TOTAL</b>            | <b>\$ 15,870,000</b> | <b>\$ 13,954,257</b> | <b>\$ 29,824,257</b> |

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

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

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

The bond agreement requires the Successor Agency to pledge its annual tax revenues in an amount equal to at least 125% of the annual debt service requirement each fiscal year, through final maturity of the bonds or early retirement of the bonds, whichever occurs first. RPTTF revenues received by the Successor Agency have been pledged for the payment of principal and interest on these bonds. Principal and interest paid for the current year amounted to \$472,292 and total net revenues reported by the Successor Agency were \$3,525,347. The ratio of net revenues to the debt service payments due during the year ended June 30, 2014 was 7.46 (746%).

The amount of the 2009 Bonds outstanding at June 30, 2014 totaled \$5,290,000 in the Successor Agency Private-Purpose Trust Fund.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

**C. Fiduciary Fund (Continued)**

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

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

| Year Ending<br>June 30, | Principal           | Interest            | Total                |
|-------------------------|---------------------|---------------------|----------------------|
| 2015                    | \$ 110,000          | \$ 362,531          | \$ 472,531           |
| 2016                    | 115,000             | 357,270             | 472,270              |
| 2017                    | 120,000             | 351,419             | 471,419              |
| 2018                    | 130,000             | 344,789             | 474,789              |
| 2019                    | 135,000             | 337,499             | 472,499              |
| 2020-2024               | 805,000             | 1,554,874           | 2,359,874            |
| 2025-2029               | 1,105,000           | 1,236,972           | 2,341,972            |
| 2030-2034               | 1,440,000           | 750,406             | 2,190,406            |
| 2035-2039               | 1,095,000           | 283,753             | 1,378,753            |
| 2040                    | 235,000             | 8,666               | 243,666              |
| <b>TOTAL</b>            | <b>\$ 5,290,000</b> | <b>\$ 5,588,179</b> | <b>\$ 10,878,179</b> |

**D. Assessment District Debt**

In November 1992, the City issued \$975,062 of municipal limited improvement bonds (“Assessment District 92-1”) to provide financing for the acquisition of street, sewer, and water drainage utilities for the proposed residential subdivision known as Arroyo Vista. The bonds are subject to optional redemption prior to maturity at par plus accrued interest and a premium of 3 percent. The outstanding balance was paid off during the fiscal year ended June 30, 2014.

In October 1993, the City issued \$765,320 of municipal limited improvement bonds (“Assessment District 93-2”) for the acquisition of street, sewer, water, drainage and utilities within, or adjacent to, the proposed Arroyo Vista development. The bonds are subject to optional redemption prior to maturity at par plus accrued interest and a premium of 3 percent. The outstanding balance was paid off during the fiscal year ended June 30, 2014.

The City is acting only in an agent capacity for the collection of principal and interest payments by the property owners and remittance of such monies to the bondholders. The City has no obligation or duty to pay any delinquency from any available funds of the City. Neither the full faith and credit nor the taxing power of the City, the County, the State of California or any political subdivision is pledged to the payment of the aforementioned bonds.

**E. Non-City Obligation Debt**

The Desert Hot Springs Public Financing Authority issued the “Health Care Refund and Improvement Certificates of Participation” (the “Certificates”) for the Heritage Hospital Project on August 15, 1998. The Certificates were issued in two series: Series A for \$13,900,000 (tax exempt) and Series B for \$8,430,000 (taxable). The Certificates do not constitute a debt or liability of the City. As of June 30, 2009, the Certificates were in default and have been transferred to the Bank of New York as the successor indenture trustee. The outstanding balance of the Certificates at June 30, 2014 was approximately \$6,000,000.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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

***E. Non-City Obligation Debt (Continued)***

The City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) issued Improvement Area 1 Special Tax Bonds, Series 2008A on October 16, 2008 in the amount of \$2,600,000. The bond proceeds, in conjunction with special tax collections, will be used to finance certain public facilities and fees within the City necessary for the development of property within Improvement Area 1 of the District. The bonds do not constitute a debt or liability of the City. During fiscal year 2010-11, the District issued Special Tax Refunding Bonds, Series 2010 for the principal amount of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Bonds. The outstanding balance at June 30, 2014 was \$2,185,000.

**Note 7 – Risk Management**

***A. Coverage***

The City retains a level of risk for both general liability and worker’s 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 \$250,000 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 \$50,000,000 limit of coverage, including \$2,500,000 for flood, with a \$5,000 deductible per occurrence, except for \$100,000 for flood and \$25,000 for earthquake sprinkler leakage. The City’s auto physical damage insurance has a \$5,000,000 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 \$500,000 for employee theft, \$1,000,000 for forgery and computer and funds transfer fraud, and \$150,000 for inside theft of money and securities, with deductibles of \$2,500, \$5,000, and \$1,000, respectively. 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, 2014**

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**Note 7 – 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, 2014, the amount of these liabilities was \$498,458 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<br>Ending<br>June 30, | Claims<br>Payable<br>July 1 | Claims Incurred<br>during the<br>Fiscal Year | Claims<br>Payments | Year<br>Ended<br>June 30 |
|----------------------------|-----------------------------|--|--------------------|--------------------------|
| 2012                       | \$ 1,213,847                | \$ 18,515                                    | \$ (350,216)       | \$ 882,146               |
| 2013                       | 882,146                     | 111,298                                      | (291,838)          | 701,606                  |
| 2014                       | 701,606                     | 541,471                                      | (744,619)          | 498,458                  |

**C. Adequacy of Protection**

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

**Note 8 – Pension Plans**

**A. California Public Employees’ Retirement System (“CalPERS”)**

Plan Description

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

Funding Policy

Participants are required to contribute 8% for miscellaneous employees, 7% for 2<sup>nd</sup> Tier Plan miscellaneous employees, and 9% for safety employees and 2<sup>nd</sup> Tier Plan safety employees of their annual covered salary. The City pays the employer contribution for the miscellaneous and safety plans. The City is required to contribute at an actuarially determined rate; the rate is 19.480% for miscellaneous employees, and 35.282% for safety employees, of annual covered payroll for year ended June 30, 2014. The contract with CalPERS was amended in April 2012 by adopting 2<sup>nd</sup> Tier Retirement formulas for new hires of 2% at 60 for miscellaneous employees and 3% at 55 for safety employees. The City is required to contribute at an actuarially determined rate; the rate is 8.049% for 2<sup>nd</sup> Tier Plan miscellaneous employees and 23.726% for 2<sup>nd</sup> Tier Plan safety employees.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

**Note 8 – Pension Plans (Continued)**

**A. California Public Employees Retirement System (CalPERS) (Continued)**

The Public Employees’ Pension Reform Act (“PEPRA”) was enacted in January 2013 and requires PEPRA members to contribute 6.25% for miscellaneous employees and 13.50% for safety employees of their annual covered salary. The City’s contribution rate for PEPRA employees is 6.25% for miscellaneous employees and 13.70% for safety employees.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For the current fiscal year, the City’s annual pension cost of \$1,057,155 for CalPERS was equal to the City’s required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.30% to 14.20% depending on age, service, and type of employment, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. CalPERS’ unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2011 was 20 years for the Miscellaneous Plan and 21 years for the Safety Plan for prior and current service unfunded liability.

**THREE-YEAR TREND INFORMATION FOR CalPERS**

| Miscellaneous Employees |                                 |                                     |                           |
|-------------------------|---------------------------------|-------------------------------------|---------------------------|
| Fiscal Year<br>Ending   | Annual<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net Pension<br>Obligation |
| 6/30/2012               | \$ 387,946                      | 100%                                | \$ -                      |
| 6/30/2013               | 370,229                         | 100%                                | -                         |
| 6/30/2014               | 300,806                         | 100%                                | -                         |

| Safety Employees      |                                 |                                     |                           |
|-----------------------|---------------------------------|-------------------------------------|---------------------------|
| Fiscal Year<br>Ending | Annual<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net Pension<br>Obligation |
| 6/30/2012             | \$ 964,107                      | 100%                                | \$ -                      |
| 6/30/2013             | 992,268                         | 100%                                | -                         |
| 6/30/2014             | 756,349                         | 100%                                | -                         |

Funded Status and Funding Progress

In fiscal year ended June 30, 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, stand alone information of the schedules of funding progress for the City’s miscellaneous and safety employees is no longer available nor disclosed.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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**Note 8 – Pension Plans (Continued)**

***B. Deferred Compensation Plan***

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are under the participants control and are held in trust for the exclusive benefit of the participants and their beneficiaries. The plan assets are not included in the accompanying financial statements. At June 30, 2014, the amount held by the trustee for employees is \$1,915,195.

**Note 9 – Jointly Governed Organization**

***Eastern Riverside County Interoperable Communications Authority***

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

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

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

| Year Ending<br>June 30, |    |                  |
|-------------------------|----|------------------|
| 2015                    | \$ | 138,393          |
| 2016                    |    | 138,393          |
| 2017                    |    | 138,393          |
| 2018                    |    | 138,393          |
| 2019                    |    | 138,393          |
| 2020-2024               |    | 691,965          |
|                         | \$ | <u>1,383,930</u> |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

**Note 10 – Classification of Fund Balances**

At June 30, 2014, fund balances are classified as follows:

|                               | Major Funds  |                      | Nonmajor              | Total        |
|-------------------------------|--------------|----------------------|-----------------------|--------------|
|                               | General      | Housing<br>Authority | Governmental<br>Funds |              |
| <b>Nonspendable:</b>          |              |                      |                       |              |
| Prepaid items                 | \$ 109,727   | \$ -                 | \$ -                  | \$ 109,727   |
| Property held for resale      | -            | 207,454              | -                     | 207,454      |
| <b>Total nonspendable</b>     | 109,727      | 207,454              | -                     | 317,181      |
| <b>Restricted:</b>            |              |                      |                       |              |
| Public safety                 | -            | -                    | 15,382                | 15,382       |
| Public works                  | -            | -                    | 1,872,725             | 1,872,725    |
| Culture and leisure           | -            | -                    | 272,056               | 272,056      |
| Park development              | -            | -                    | 103,478               | 103,478      |
| Debt service                  | -            | -                    | 800,997               | 800,997      |
| Air quality                   | -            | -                    | 31,683                | 31,683       |
| Lighting/Landscaping/Drainage | -            | -                    | 1,461,600             | 1,461,600    |
| Assessment District 91-1      | -            | -                    | 112,169               | 112,169      |
| Assessment District 92-1      | -            | -                    | 37,927                | 37,927       |
| Assessment District 93-2      | -            | -                    | 27,153                | 27,153       |
| <b>Total restricted</b>       | -            | -                    | 4,735,170             | 4,735,170    |
| <b>Committed:</b>             |              |                      |                       |              |
| Capital projects              | -            | -                    | 953,401               | 953,401      |
| <b>Total assigned</b>         | -            | -                    | 953,401               | 953,401      |
| <b>Assigned:</b>              |              |                      |                       |              |
| Operations                    | 1,538,017    | -                    | -                     | 1,538,017    |
| <b>Total</b>                  | \$ 1,647,744 | \$ 207,454           | \$ 5,688,571          | \$ 7,543,769 |

The assigned fund balance totaling \$1,538,017 is being held in the General Fund to fund the operations of the City for the fiscal year ending 2014-2015. 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.

Going forward the City will continue to assign the General Fund's fund balance in the amount of \$1.5 million in fiscal years 2015-2016 and 2016-2017 until such time as the City is able to build up the reserves through future revenue streams and become more fiscally solvent.

At June 30, 2014, outstanding encumbrances by major fund are as follows:

| Fund   | Amount     |
|--|------------|
| General Fund                                 | \$ 181,620 |
| Public Safety Special Revenue Fund           | 30,115     |
| Capital Improvement Capital Projects Fund    | 1,157      |
| Health & Wellness Foundation Enterprise Fund | 16,733     |
| Nonmajor Governmental Funds                  | 353,821    |
| <b>Total</b>                                 | \$ 583,446 |

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

**Note 11 – Prior Period Adjustments**

The City and the Successor Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended June 30, 2014. Bond issuance costs are recognized as expenses in the year they are incurred. Prior to the implementation, these items were deferred and amortized over the life of the existing debt. The unamortized deferred charges on bond issuance costs at July 1, 2013 were in the amounts of \$223,836, \$1,356,826, and \$906,354 for the City’s governmental activities, business-type activities, and the Successor Agency, respectively. The beginning net position at July 1, 2013 was restated as follows:

|   | Governmental<br>Activities | Business-Type<br>Activities | Health & Wellness             |                        |
|---|----------------------------|-----------------------------|-------------------------------|------------------------|
|   |                            |                             | Foundation<br>Enterprise Fund | Successor<br>Agency    |
| Net position at July 1, 2013,<br>as previously reported | \$ 38,929,326              | \$ 13,925,240               | \$ 13,925,240                 | \$ (26,237,409)        |
| Bond issuance costs                                     | (223,836)                  | (1,356,826)                 | (1,356,826)                   | (906,354)              |
| Net position at July 1, 2013, as restated               | <u>\$ 38,705,490</u>       | <u>\$ 12,568,414</u>        | <u>\$ 12,568,414</u>          | <u>\$ (27,143,763)</u> |

**Note 12 – Contingencies and Commitments**

**A. Lawsuits**

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

**B. Federal and State Grant Programs**

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

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

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

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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**Note 13 – Related Party Transactions**

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

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

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

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

**Note 14 – Other Fund Disclosures**

Deficit Net Position

The following fund had deficit net position at June 30, 2014:

| Fund  | Amount                 |
|---|------------------------|
| <b>Fiduciary Funds:</b>                     |                        |
| Successor Agency Private-Purpose Trust Fund | \$ (25,195,106)        |
| <b>Total</b>                                | <b>\$ (25,195,106)</b> |

This deficit net position is expected to be eliminated with future payments from the Redevelopment Property Tax Trust Fund to the Successor Agency for its long-term debt.

In addition, the Health & Wellness Foundation Enterprise Fund had a deficit net investment in capital assets in the amount of (\$782,918), which is presented as zero in the Statement of Net Position. The deficit in net investment in capital assets in the amount of (\$782,918) reduced the fund’s unrestricted net position to \$10,066,689. The deficit was created by the accumulated depreciation for the completed Health & Wellness Center project while the debt is not expected to be repaid until the year ending June 30, 2020.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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**Note 15 – Desert Valley Disposal, Inc. Franchise Agreement**

In March 2014, the City entered into an exclusive franchise agreement with the Desert Valley Disposal, Inc. (“DVD”) for solid waste and recyclable materials collection and diversion services. The City received from DVD a one-time investment payment of \$1,000,000 during the year ended June 30, 2014, which was recorded as unearned revenue at June 30, 2014. The investment payment was received by the City prior to the agreement becoming effective on July 1, 2014. Each year starting from the year ending June 30, 2015, DVD will pay the City a re-investment payment of \$100,000 for the initial year, with \$10,000 increases for each payment thereafter. The term of the agreement is 15 years, with options for extensions.

**Note 16 – City’s Financial Condition**

For the year ended June 30, 2014, the City had continuously decreased its net position by \$(2,350,957) for the governmental activities. In addition, the City has depleted its business-type activities net position by \$(1,427,564), which raises uncertainties regarding the City’s ability to conduct future operations.

The City made significant cuts to expenses including: pension reform, salary and benefit concessions between 22% and 35%; and some contracts have been terminated or suspended. Many vendors and contractors have been willing to assist the City during this fiscal crisis by reducing their billing rates by 10%, or more. City Hall staff has been reduced by 74% over the last several years; non-safety personnel consist of only twenty-four employees.

The overall financial condition of the City has weakened over the course of the last two years, based on the worst recession in decades, in the economy of the United States, the State of California and the local area. These factors have resulted in declines in revenues to the City, and are reflected in three primary areas:

1. General Fund Reserves, as well as cash, have been significantly depleted.
2. Deficit operations are anticipated for the Health and Wellness Center as of June 30, 2015 totaling an estimated \$76,000 which will require a transfer in from the general fund for that amount. The Health and Wellness Center was relying on one-time funding and interest reimbursements for the new market tax credit in years ended June 30, 2013 and 2014. Going forward in fiscal year 2015-2016 it is estimated that there will be deficit operational expenses totaling \$360,000, which will be funded from the General Fund until additional revenue sources are identified.
3. The City’s General Fund subsidized the City’s Public Safety Fund in the amount of \$5.0 million in the year ended June 30, 2014 and is on track to subsidize the City’s Public Safety Fund in the amount of 5.3 million as budgeted in the year ending June 30, 2015.
4. The City’s Administrative Services Department staff set up budgeted General Fund Operating Capital in the amount of \$1.5 million in fiscal year 2014-2015, which will be continued in the next fiscal year budget for 2015-2016 so that there will be sufficient Operating Capital to start the fiscal year 2016-2017.

General Fund Reserves

The General Fund is typically the focal point in analyzing the health of the City because it is assumed that the General Fund will be able to cover both its costs and act as a financial backstop for other funds. For the year ended June 30, 2014, the General Fund has a net loss of \$(1,559,770) which reduces the fund balance to \$1,647,744. It is important to know that going forward into the fiscal year 2015-2016 that the City will need this funding for cash flow purposes for payroll and essential services and that the City should continue to make cuts on non-essential services and develop new revenue through taxes or other revenue streams. If any of the \$1.5 million for cash flow contingency is expensed in the fiscal year 2015-2016, the City financial situation will continue to decline in the fiscal year 2016-2017.

**City of Desert Hot Springs**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2014**

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**Note 17 – Subsequent Event**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Management is evaluating the impact of the adoption of this Standard on the financial statements and believes that its impact, when adopted, may be substantial to the City. GASB Statement No. 68 will be implemented effective with the fiscal year 2014-2015 financial statements.

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**REQUIRED SUPPLEMENTARY  
INFORMATION (Unaudited)**

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**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited)**  
**For the Year Ended June 30, 2014**

*Budgetary Comparison Schedule, General Fund*

|   | Budget Amounts      |                       | Actual<br>Amounts   | Variance with<br>Final Budget |
|---|---------------------|-----------------------|---------------------|-------------------------------|
|   | Original            | Final                 |                     |                               |
| <b>REVENUES:</b>                            |                     |                       |                     |                               |
| Taxes                                       | \$ 6,661,324        | \$ 6,594,936          | \$ 6,548,605        | \$ (46,331)                   |
| Permits and fees                            | 992,306             | 19,912                | 1,344,109           | 1,324,197                     |
| Licenses                                    | 805,862             | 864,435               | 169,906             | (694,529)                     |
| Interest                                    | 26,000              | 41,917                | 41,560              | (357)                         |
| Miscellaneous                               | 1,618,495           | 1,031,714             | 1,450,300           | 418,586                       |
| <b>Total revenues</b>                       | <u>10,103,987</u>   | <u>8,552,914</u>      | <u>9,554,480</u>    | <u>1,001,566</u>              |
| <b>EXPENDITURES:</b>                        |                     |                       |                     |                               |
| Current:                                    |                     |                       |                     |                               |
| General government                          | 3,225,518           | 3,267,695             | 2,805,110           | 462,585                       |
| Public safety                               | -                   | 20,015                | 13,660              | 6,355                         |
| Public works                                | 571,845             | 608,148               | 444,827             | 163,321                       |
| Economic development                        | 1,458,338           | 1,329,591             | 1,113,841           | 215,750                       |
| Culture and leisure                         | 1,079,608           | 916,555               | 764,276             | 152,279                       |
| Capital outlay                              | -                   | 65,000                | 947,536             | (882,536)                     |
| <b>Total expenditures</b>                   | <u>6,335,309</u>    | <u>6,207,004</u>      | <u>6,089,250</u>    | <u>117,754</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>3,768,678</u>    | <u>2,345,910</u>      | <u>3,465,230</u>    | <u>1,119,320</u>              |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                     |                       |                     |                               |
| Transfers in                                | 200,000             | 1,386,538             | 713,264             | (673,274)                     |
| Transfers out                               | (309,504)           | (5,737,018)           | (5,738,264)         | (1,246)                       |
| <b>Total other financing sources (uses)</b> | <u>(109,504)</u>    | <u>(4,350,480)</u>    | <u>(5,025,000)</u>  | <u>(674,520)</u>              |
| <b>Net change in fund balance</b>           | <u>\$ 3,659,174</u> | <u>\$ (2,004,570)</u> | <u>(1,559,770)</u>  | <u>\$ 444,800</u>             |
| <b>FUND BALANCE:</b>                        |                     |                       |                     |                               |
| Beginning of year                           |                     |                       | <u>3,207,514</u>    |                               |
| End of year                                 |                     |                       | <u>\$ 1,647,744</u> |                               |

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited) (Continued)**  
**For the Year Ended June 30, 2014**

*Budgetary Comparison Schedule, Public Safety Special Revenue Fund*

|   | Budget Amounts        |                    | Actual<br>Amounts  | Variance with<br>Final Budget |
|---|-----------------------|--------------------|--------------------|-------------------------------|
|   | Original              | Final              |                    |                               |
| <b>REVENUES:</b>                            |                       |                    |                    |                               |
| Taxes                                       | \$ 4,055,744          | \$ 4,023,222       | \$ 4,028,098       | \$ 4,876                      |
| Permits and fees                            | 1,724,850             | 990,634            | 404,794            | (585,840)                     |
| Intergovernmental                           | 50,000                | 113,587            | 66,772             | (46,815)                      |
| Miscellaneous                               | 360,828               | 327,255            | 244,498            | (82,757)                      |
| <b>Total revenues</b>                       | <u>6,191,422</u>      | <u>5,454,698</u>   | <u>4,744,162</u>   | <u>(710,536)</u>              |
| <b>EXPENDITURES:</b>                        |                       |                    |                    |                               |
| Current:                                    |                       |                    |                    |                               |
| Public safety                               | 11,806,753            | 10,384,126         | 9,869,664          | 514,462                       |
| Capital outlay                              | -                     | 10,000             | -                  | 10,000                        |
| <b>Total expenditures</b>                   | <u>11,806,753</u>     | <u>10,394,126</u>  | <u>9,869,664</u>   | <u>524,462</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>(5,615,331)</u>    | <u>(4,939,428)</u> | <u>(5,125,502)</u> | <u>(186,074)</u>              |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                       |                    |                    |                               |
| Transfers in                                | 100,000               | 5,144,272          | 5,145,516          | 1,244                         |
| Transfers out                               | (200,000)             | (257,252)          | (20,016)           | 237,236                       |
| <b>Total other financing sources (uses)</b> | <u>(100,000)</u>      | <u>4,887,020</u>   | <u>5,125,500</u>   | <u>238,480</u>                |
| <b>Net change in fund balance</b>           | <u>\$ (5,715,331)</u> | <u>\$ (52,408)</u> | (2)                | <u>\$ 52,406</u>              |
| <b>FUND BALANCE:</b>                        |                       |                    |                    |                               |
| Beginning of year                           |                       |                    | <u>2</u>           |                               |
| End of year                                 |                       |                    | <u>\$ -</u>        |                               |

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited) (Continued)**  
**For the Year Ended June 30, 2014**

*Budgetary Comparison Schedule, Housing Authority Special Revenue Fund*

|   | Budget Amounts |             | Actual<br>Amounts | Variance with<br>Final Budget |
|---|----------------|-------------|-------------------|-------------------------------|
|   | Original       | Final       |                   |                               |
| <b>REVENUES:</b>                          |                |             |                   |                               |
| Interest                                  | \$ -           | \$ 1        | \$ -              | \$ (1)                        |
| <b>Total revenues</b>                     | <b>-</b>       | <b>1</b>    | <b>-</b>          | <b>(1)</b>                    |
| <b>EXPENDITURES:</b>                      |                |             |                   |                               |
| Current:                                  |                |             |                   |                               |
| Economic development                      | -              | -           | -                 | -                             |
| <b>Total expenditures</b>                 | <b>-</b>       | <b>-</b>    | <b>-</b>          | <b>-</b>                      |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <b>-</b>       | <b>1</b>    | <b>-</b>          | <b>(1)</b>                    |
| <b>Net change in fund balance</b>         | <b>\$ -</b>    | <b>\$ 1</b> | <b>-</b>          | <b>\$ (1)</b>                 |
| <b>FUND BALANCE:</b>                      |                |             |                   |                               |
| Beginning of year                         |                |             | 207,454           |                               |
| End of year                               |                |             | <u>\$ 207,454</u> |                               |

**City of Desert Hot Springs**  
**Required Supplementary Information (Unaudited) (Continued)**  
**For the Year Ended June 30, 2014**

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**Budgetary Information**

***A. General Budget Policies***

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

***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) (Continued)**  
**For the Year Ended June 30, 2014**

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**Schedule of Funding Progress – Defined Benefit Plan**

In fiscal year ended June 30, 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, stand alone information of the schedules of the funding progress for the City's miscellaneous and safety employees are no longer available, nor disclosed.

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# **SUPPLEMENTARY INFORMATION**

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# NONMAJOR GOVERNMENTAL FUNDS

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## SPECIAL REVENUE FUNDS:

*Traffic Safety Special Revenue Fund* - To account for resources specifically designated for traffic safety. Financing is provided through grants. Expenditures are utilized for traffic safety purposes.

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

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

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

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

*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.

*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.

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# NONMAJOR

## GOVERNMENTAL FUNDS (CONTINUED)

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### SPECIAL REVENUE FUNDS (Continued):

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

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

*Bicycle / Pedestrian Grant Special Revenue Fund* - To account for a grant funded by the Riverside County Transportation Commission to offset costs for various infrastructure projects in the vicinity of the schools located in the City of Desert Hot Springs.

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

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

### DEBT SERVICE FUND:

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

### CAPITAL PROJECTS FUNDS:

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

*Assessment District 91-1 Capital Projects Fund* - To account for improvements to the Assessment District 91-1, which are financed from bond proceeds. Liabilities are paid from tax revenues.

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

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

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**City of Desert Hot Springs**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

|  | Special Revenue   |                    |                                    |  |                  |
|--|-------------------|--------------------|------------------------------------|--|------------------|
|  | Traffic<br>Safety | Special<br>Gas Tax | Capital<br>Improvement<br>Deposits | Municipal<br>Lighting /<br>Landscaping<br>Assessment<br>District | Measure A        |
| <b>ASSETS</b>  |                   |                    |                                    |  |                  |
| Cash and investments   | \$ -              | \$ 52,015          | \$ 1,525,321                       | \$ 842,273   | \$ -             |
| Cash and investments with fiscal agent   | -                 | -                  | -                                  | -  | -                |
| Receivables:   |                   |                    |                                    |  |                  |
| Accounts   | -                 | -                  | -                                  | -  | -                |
| Interest   | -                 | -                  | 346                                | 133  | 20               |
| Due from other governments   | -                 | 85,824             | -                                  | 58,601   | 89,251           |
| <b>Total assets</b>  | <b>\$ -</b>       | <b>\$ 137,839</b>  | <b>\$ 1,525,667</b>                | <b>\$ 901,007</b>  | <b>\$ 89,271</b> |
| <b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b>   |                   |                    |                                    |  |                  |
| <b>Liabilities:</b>  |                   |                    |                                    |  |                  |
| Accounts payable   | \$ -              | \$ 15,720          | \$ -                               | \$ 27,548  | \$ -             |
| Accrued liabilities  | -                 | 7,089              | -                                  | 2,686  | -                |
| Due to other funds   | -                 | -                  | -                                  | -  | 35,101           |
| Due to other governments   | -                 | -                  | -                                  | -  | -                |
| Advances from other funds  | -                 | -                  | 631,269                            | -  | -                |
| <b>Total liabilities</b>   | <b>-</b>          | <b>22,809</b>      | <b>631,269</b>                     | <b>30,234</b>  | <b>35,101</b>    |
| <b>Deferred Inflows of Resources:</b>  |                   |                    |                                    |  |                  |
| Unavailable revenue  | -                 | -                  | -                                  | 38,991   | -                |
| <b>Fund Balances:</b>  |                   |                    |                                    |  |                  |
| Restricted   | -                 | 115,030            | -                                  | 831,782  | 54,170           |
| Committed  | -                 | -                  | 894,398                            | -  | -                |
| Unassigned   | -                 | -                  | -                                  | -  | -                |
| <b>Total fund balances</b>   | <b>-</b>          | <b>115,030</b>     | <b>894,398</b>                     | <b>831,782</b>   | <b>54,170</b>    |
| <b>Total liabilities, deferred inflows<br/>of resources, and fund balances</b> | <b>\$ -</b>       | <b>\$ 137,839</b>  | <b>\$ 1,525,667</b>                | <b>\$ 901,007</b>  | <b>\$ 89,271</b> |

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

|  | Special Revenue        |                            |                   |                                    |                               |
|--|------------------------|----------------------------|-------------------|------------------------------------|-------------------------------|
|  | Air Quality<br>Control | Art in<br>Public<br>Places | Quimby<br>Act     | Drainage<br>Assessment<br>District | County<br>Service<br>Area 152 |
| <b>ASSETS</b>  |                        |                            |                   |                                    |                               |
| Cash and investments   | \$ 38,773              | \$ 58,990                  | \$ 103,456        | \$ 611,369                         | \$ 4,545                      |
| Cash and investments with fiscal agent   | -                      | -                          | -                 | -                                  | -                             |
| Receivables:   |                        |                            |                   |                                    |                               |
| Accounts   | -                      | -                          | -                 | 15,000                             | -                             |
| Interest   | 6                      | 13                         | 22                | 139                                | -                             |
| Due from other governments   | 8,965                  | -                          | -                 | 8,163                              | -                             |
| <b>Total assets</b>  | <b>\$ 47,744</b>       | <b>\$ 59,003</b>           | <b>\$ 103,478</b> | <b>\$ 634,671</b>                  | <b>\$ 4,545</b>               |
| <b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b>   |                        |                            |                   |                                    |                               |
| <b>Liabilities:</b>  |                        |                            |                   |                                    |                               |
| Accounts payable   | \$ 16,061              | \$ -                       | \$ -              | \$ 4,853                           | \$ -                          |
| Accrued liabilities  | -                      | -                          | -                 | -                                  | -                             |
| Due to other funds   | -                      | -                          | -                 | -                                  | -                             |
| Due to other governments   | -                      | -                          | -                 | -                                  | -                             |
| Advances from other funds  | -                      | -                          | -                 | -                                  | -                             |
| <b>Total liabilities</b>   | <b>16,061</b>          | <b>-</b>                   | <b>-</b>          | <b>4,853</b>                       | <b>-</b>                      |
| <b>Deferred Inflows of Resources:</b>  |                        |                            |                   |                                    |                               |
| Unavailable revenue  | -                      | -                          | -                 | -                                  | -                             |
| <b>Fund Balances:</b>  |                        |                            |                   |                                    |                               |
| Restricted   | 31,683                 | -                          | 103,478           | 629,818                            | 4,545                         |
| Committed  | -                      | 59,003                     | -                 | -                                  | -                             |
| Unassigned   | -                      | -                          | -                 | -                                  | -                             |
| <b>Total fund balances</b>   | <b>31,683</b>          | <b>59,003</b>              | <b>103,478</b>    | <b>629,818</b>                     | <b>4,545</b>                  |
| <b>Total liabilities, deferred inflows<br/>of resources, and fund balances</b> | <b>\$ 47,744</b>       | <b>\$ 59,003</b>           | <b>\$ 103,478</b> | <b>\$ 634,671</b>                  | <b>\$ 4,545</b>               |

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

|  | Special Revenue                  |                   |                                  |                  |                                   |
|--|----------------------------------|-------------------|----------------------------------|------------------|-----------------------------------|
|  | Parks and<br>Recreation<br>Grant | Cabot's<br>Museum | Bicycle /<br>Pedestrian<br>Grant | SLESF            | Abandoned<br>Vehicle<br>Abatement |
| <b>ASSETS</b>  |                                  |                   |                                  |                  |                                   |
| Cash and investments   | \$ 271,999                       | \$ 967            | \$ 3,091                         | \$ -             | \$ 6,364                          |
| Cash and investments with fiscal agent   | -                                | -                 | -                                | -                | -                                 |
| Receivables:   |                                  |                   |                                  |                  |                                   |
| Accounts   | 432,484                          | -                 | -                                | 16,667           | 19,669                            |
| Interest   | 57                               | -                 | -                                | 2                | -                                 |
| Due from other governments   | -                                | -                 | -                                | -                | -                                 |
| <b>Total assets</b>  | <b>\$ 704,540</b>                | <b>\$ 967</b>     | <b>\$ 3,091</b>                  | <b>\$ 16,669</b> | <b>\$ 26,033</b>                  |
| <b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b>   |                                  |                   |                                  |                  |                                   |
| <b>Liabilities:</b>  |                                  |                   |                                  |                  |                                   |
| Accounts payable   | \$ -                             | \$ 967            | \$ -                             | \$ -             | \$ -                              |
| Accrued liabilities  | -                                | -                 | -                                | -                | -                                 |
| Due to other funds   | -                                | -                 | -                                | 16,669           | -                                 |
| Due to other governments   | -                                | -                 | 3,091                            | -                | -                                 |
| Advances from other funds  | -                                | -                 | -                                | -                | -                                 |
| <b>Total liabilities</b>   | <b>-</b>                         | <b>967</b>        | <b>3,091</b>                     | <b>16,669</b>    | <b>-</b>                          |
| <b>Deferred Inflows of Resources:</b>  |                                  |                   |                                  |                  |                                   |
| Unavailable revenue  | 432,484                          | -                 | -                                | -                | 10,651                            |
| <b>Fund Balances:</b>  |                                  |                   |                                  |                  |                                   |
| Restricted   | 272,056                          | -                 | -                                | -                | 15,382                            |
| Committed  | -                                | -                 | -                                | -                | -                                 |
| Unassigned   | -                                | -                 | -                                | -                | -                                 |
| <b>Total fund balances</b>   | <b>272,056</b>                   | <b>-</b>          | <b>-</b>                         | <b>-</b>         | <b>15,382</b>                     |
| <b>Total liabilities, deferred inflows<br/>of resources, and fund balances</b> | <b>\$ 704,540</b>                | <b>\$ 967</b>     | <b>\$ 3,091</b>                  | <b>\$ 16,669</b> | <b>\$ 26,033</b>                  |

(Continued)

**City of Desert Hot Springs**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

|  | Debt Service            |                        | Capital Projects               |                                |                                | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-------------------------|------------------------|--------------------------------|--------------------------------|--------------------------------|--|
|  | City<br>Debt<br>Service | 2012<br>Street<br>Bond | Assessment<br>District<br>91-1 | Assessment<br>District<br>92-1 | Assessment<br>District<br>93-2 |  |
| <b>ASSETS</b>  |                         |                        |                                |                                |                                |  |
| Cash and investments   | \$ 433,062              | \$ 3                   | \$ 111,574                     | \$ 37,919                      | \$ 27,147                      | \$ 4,128,868                               |
| Cash and investments with fiscal agent   | 267,401                 | 1,698,977              | -                              | -                              | -                              | 1,966,378                                  |
| Receivables:   |                         |                        |                                |                                |                                |  |
| Accounts   | 100,458                 | -                      | -                              | -                              | -                              | 584,278                                    |
| Interest   | 76                      | -                      | 24                             | 8                              | 6                              | 852  |
| Due from other governments   | -                       | -                      | 571                            | -                              | -                              | 251,375                                    |
| <b>Total assets</b>  | <b>\$ 800,997</b>       | <b>\$ 1,698,980</b>    | <b>\$ 112,169</b>              | <b>\$ 37,927</b>               | <b>\$ 27,153</b>               | <b>\$ 6,931,751</b>                        |
| <b>LIABILITIES,<br/>DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b>   |                         |                        |                                |                                |                                |  |
| <b>Liabilities:</b>  |                         |                        |                                |                                |                                |  |
| Accounts payable   | \$ -                    | \$ -                   | \$ -                           | \$ -                           | \$ -                           | \$ 65,149                                  |
| Accrued liabilities  | -                       | -                      | -                              | -                              | -                              | 9,775                                      |
| Due to other funds   | -                       | -                      | -                              | -                              | -                              | 51,770                                     |
| Due to other governments   | -                       | -                      | -                              | -                              | -                              | 3,091                                      |
| Advances from other funds  | -                       | -                      | -                              | -                              | -                              | 631,269                                    |
| <b>Total liabilities</b>   | <b>-</b>                | <b>-</b>               | <b>-</b>                       | <b>-</b>                       | <b>-</b>                       | <b>761,054</b>                             |
| <b>Deferred Inflows of Resources:</b>  |                         |                        |                                |                                |                                |  |
| Unavailable revenue  | -                       | -                      | -                              | -                              | -                              | 482,126                                    |
| <b>Fund Balances:</b>  |                         |                        |                                |                                |                                |  |
| Restricted   | 800,997                 | 1,698,980              | 112,169                        | 37,927                         | 27,153                         | 4,735,170                                  |
| Committed  | -                       | -                      | -                              | -                              | -                              | 953,401                                    |
| Unassigned   | -                       | -                      | -                              | -                              | -                              | -  |
| <b>Total fund balances</b>   | <b>800,997</b>          | <b>1,698,980</b>       | <b>112,169</b>                 | <b>37,927</b>                  | <b>27,153</b>                  | <b>5,688,571</b>                           |
| <b>Total liabilities, deferred inflows<br/>of resources, and fund balances</b> | <b>\$ 800,997</b>       | <b>\$ 1,698,980</b>    | <b>\$ 112,169</b>              | <b>\$ 37,927</b>               | <b>\$ 27,153</b>               | <b>\$ 6,931,751</b>                        |

(Concluded)

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2014**

|   | Special Revenue   |                    |                                    |  |                  |
|---|-------------------|--------------------|------------------------------------|--|------------------|
|   | Traffic<br>Safety | Special<br>Gas Tax | Capital<br>Improvement<br>Deposits | Municipal<br>Lighting /<br>Landscaping<br>Assessment<br>District | Measure A        |
| <b>REVENUES:</b>                            |                   |                    |                                    |  |                  |
| Taxes                                       | \$ -              | \$ -               | \$ -                               | \$ 796,449   | \$ -             |
| Permits and fees                            | -                 | -                  | 98,543                             | -  | -                |
| Intergovernmental                           | -                 | 873,481            | -                                  | -  | 462,570          |
| Interest                                    | 3                 | -                  | 1,826                              | 656  | 43               |
| Miscellaneous                               | -                 | -                  | -                                  | 250  | -                |
| <b>Total revenues</b>                       | <u>3</u>          | <u>873,481</u>     | <u>100,369</u>                     | <u>797,355</u>   | <u>462,613</u>   |
| <b>EXPENDITURES:</b>                        |                   |                    |                                    |  |                  |
| Current:                                    |                   |                    |                                    |  |                  |
| General government                          | -                 | -                  | -                                  | -  | -                |
| Public safety                               | 2,811             | -                  | -                                  | -  | -                |
| Public works                                | -                 | 556,490            | -                                  | 564,453  | -                |
| Culture and leisure                         | -                 | -                  | -                                  | -  | -                |
| Capital outlay                              | -                 | 780                | 11,120                             | -  | 157,592          |
| Debt service:                               |                   |                    |                                    |  |                  |
| Principal retirement                        | -                 | -                  | -                                  | -  | -                |
| Interest and fiscal charges                 | -                 | -                  | -                                  | -  | -                |
| <b>Total expenditures</b>                   | <u>2,811</u>      | <u>557,270</u>     | <u>11,120</u>                      | <u>564,453</u>   | <u>157,592</u>   |
| <b>REVENUES OVER (UNDER)</b>                |                   |                    |                                    |  |                  |
| <b>EXPENDITURES</b>                         | <u>(2,808)</u>    | <u>316,211</u>     | <u>89,249</u>                      | <u>232,902</u>   | <u>305,021</u>   |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                   |                    |                                    |  |                  |
| Transfers in                                | -                 | -                  | -                                  | 100,000  | -                |
| Transfers out                               | -                 | (200,496)          | -                                  | -  | (268,542)        |
| <b>Total other financing sources (uses)</b> | <u>-</u>          | <u>(200,496)</u>   | <u>-</u>                           | <u>100,000</u>   | <u>(268,542)</u> |
| <b>NET CHANGES IN FUND BALANCES</b>         | <u>(2,808)</u>    | <u>115,715</u>     | <u>89,249</u>                      | <u>332,902</u>   | <u>36,479</u>    |
| <b>FUND BALANCES:</b>                       |                   |                    |                                    |  |                  |
| Beginning of year                           | 2,808             | (685)              | 805,149                            | 498,880  | 17,691           |
| End of year                                 | <u>\$ -</u>       | <u>\$ 115,030</u>  | <u>\$ 894,398</u>                  | <u>\$ 831,782</u>  | <u>\$ 54,170</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, 2014**

|   | Special Revenue        |                            |                   |                                    |                               |
|---|------------------------|----------------------------|-------------------|------------------------------------|-------------------------------|
|   | Air Quality<br>Control | Art in<br>Public<br>Places | Quimby<br>Act     | Drainage<br>Assessment<br>District | County<br>Service<br>Area 152 |
| <b>REVENUES:</b>                            |                        |                            |                   |                                    |                               |
| Taxes                                       | \$ 34,282              | \$ -                       | \$ -              | \$ 166,726                         | \$ -                          |
| Permits and fees                            | -                      | -                          | -                 | -                                  | -                             |
| Intergovernmental                           | -                      | -                          | -                 | -                                  | 15,048                        |
| Interest                                    | 22                     | 78                         | 120               | 722                                | 2                             |
| Miscellaneous                               | -                      | -                          | -                 | -                                  | -                             |
| <b>Total revenues</b>                       | <u>34,304</u>          | <u>78</u>                  | <u>120</u>        | <u>167,448</u>                     | <u>15,050</u>                 |
| <b>EXPENDITURES:</b>                        |                        |                            |                   |                                    |                               |
| Current:                                    |                        |                            |                   |                                    |                               |
| General government                          | 72,993                 | -                          | -                 | -                                  | -                             |
| Public safety                               | -                      | -                          | -                 | -                                  | -                             |
| Public works                                | -                      | 10,500                     | -                 | 173,186                            | 36,465                        |
| Culture and leisure                         | -                      | -                          | -                 | -                                  | -                             |
| Capital outlay                              | -                      | -                          | -                 | -                                  | -                             |
| Debt service:                               |                        |                            |                   |                                    |                               |
| Principal retirement                        | -                      | -                          | -                 | -                                  | -                             |
| Interest and fiscal charges                 | -                      | -                          | -                 | -                                  | -                             |
| <b>Total expenditures</b>                   | <u>72,993</u>          | <u>10,500</u>              | <u>-</u>          | <u>173,186</u>                     | <u>36,465</u>                 |
| <b>REVENUES OVER (UNDER)</b>                |                        |                            |                   |                                    |                               |
| <b>EXPENDITURES</b>                         | <u>(38,689)</u>        | <u>(10,422)</u>            | <u>120</u>        | <u>(5,738)</u>                     | <u>(21,415)</u>               |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                        |                            |                   |                                    |                               |
| Transfers in                                | 60,600                 | -                          | -                 | -                                  | 33,485                        |
| Transfers out                               | -                      | -                          | -                 | -                                  | -                             |
| <b>Total other financing sources (uses)</b> | <u>60,600</u>          | <u>-</u>                   | <u>-</u>          | <u>-</u>                           | <u>33,485</u>                 |
| <b>NET CHANGES IN FUND BALANCES</b>         | 21,911                 | (10,422)                   | 120               | (5,738)                            | 12,070                        |
| <b>FUND BALANCES:</b>                       |                        |                            |                   |                                    |                               |
| Beginning of year                           | 9,772                  | 69,425                     | 103,358           | 635,556                            | (7,525)                       |
| End of year                                 | <u>\$ 31,683</u>       | <u>\$ 59,003</u>           | <u>\$ 103,478</u> | <u>\$ 629,818</u>                  | <u>\$ 4,545</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, 2014**

|   | Special Revenue                  |                   |                                  |                  |                                   |
|---|----------------------------------|-------------------|----------------------------------|------------------|-----------------------------------|
|   | Parks and<br>Recreation<br>Grant | Cabot's<br>Museum | Bicycle /<br>Pedestrian<br>Grant | SLESF            | Abandoned<br>Vehicle<br>Abatement |
| <b>REVENUES:</b>                            |                                  |                   |                                  |                  |                                   |
| Taxes                                       | \$ -                             | \$ -              | \$ -                             | \$ -             | \$ -                              |
| Permits and fees                            | -                                | -                 | -                                | -                | -                                 |
| Intergovernmental                           | 271,724                          | -                 | -                                | 125,000          | 23,182                            |
| Interest                                    | 245                              | -                 | -                                | 4                | -                                 |
| Miscellaneous                               | -                                | -                 | -                                | -                | -                                 |
| <b>Total revenues</b>                       | <u>271,969</u>                   | <u>-</u>          | <u>-</u>                         | <u>125,004</u>   | <u>23,182</u>                     |
| <b>EXPENDITURES:</b>                        |                                  |                   |                                  |                  |                                   |
| Current:                                    |                                  |                   |                                  |                  |                                   |
| General government                          | -                                | -                 | -                                | -                | -                                 |
| Public safety                               | -                                | -                 | -                                | -                | 1,305                             |
| Public works                                | -                                | -                 | 3,091                            | -                | -                                 |
| Culture and leisure                         | -                                | 99,650            | -                                | -                | -                                 |
| Capital outlay                              | -                                | -                 | -                                | -                | -                                 |
| Debt service:                               |                                  |                   |                                  |                  |                                   |
| Principal retirement                        | -                                | -                 | -                                | -                | -                                 |
| Interest and fiscal charges                 | -                                | -                 | -                                | -                | -                                 |
| <b>Total expenditures</b>                   | <u>-</u>                         | <u>99,650</u>     | <u>3,091</u>                     | <u>-</u>         | <u>1,305</u>                      |
| <b>REVENUES OVER (UNDER)</b>                |                                  |                   |                                  |                  |                                   |
| <b>EXPENDITURES</b>                         | <u>271,969</u>                   | <u>(99,650)</u>   | <u>(3,091)</u>                   | <u>125,004</u>   | <u>21,877</u>                     |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                                  |                   |                                  |                  |                                   |
| Transfers in                                | -                                | 99,998            | -                                | -                | -                                 |
| Transfers out                               | -                                | (348)             | -                                | (125,004)        | (21,876)                          |
| <b>Total other financing sources (uses)</b> | <u>-</u>                         | <u>99,650</u>     | <u>-</u>                         | <u>(125,004)</u> | <u>(21,876)</u>                   |
| <b>NET CHANGES IN FUND BALANCES</b>         | 271,969                          | -                 | (3,091)                          | -                | 1                                 |
| <b>FUND BALANCES:</b>                       |                                  |                   |                                  |                  |                                   |
| Beginning of year                           | 87                               | -                 | 3,091                            | -                | 15,381                            |
| End of year                                 | <u>\$ 272,056</u>                | <u>\$ -</u>       | <u>\$ -</u>                      | <u>\$ -</u>      | <u>\$ 15,382</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, 2014**

|   | Debt Service            | Capital Projects       |                                |                                | Total<br>Nonmajor<br>Governmental<br>Funds |                                |
|---|-------------------------|------------------------|--------------------------------|--------------------------------|--|--------------------------------|
|   | City<br>Debt<br>Service | 2012<br>Street<br>Bond | Assessment<br>District<br>91-1 | Assessment<br>District<br>92-1 |  | Assessment<br>District<br>93-2 |
| <b>REVENUES:</b>                              |                         |                        |                                |                                |  |                                |
| Taxes   | \$ 1,014,594            | \$ -                   | \$ 571                         | \$ -                           | \$ -                                       | \$ 2,012,622                   |
| Permits and fees                              | -                       | -                      | -                              | -                              | -  | 98,543                         |
| Intergovernmental                             | -                       | -                      | -                              | -                              | -  | 1,771,005                      |
| Interest                                      | 384                     | 6,959                  | 130                            | 8                              | 6  | 11,208                         |
| Miscellaneous                                 | -                       | -                      | -                              | 37,919                         | 27,147                                     | 65,316                         |
| <b>Total revenues</b>                         | <b>1,014,978</b>        | <b>6,959</b>           | <b>701</b>                     | <b>37,927</b>                  | <b>27,153</b>                              | <b>3,958,694</b>               |
| <b>EXPENDITURES:</b>                          |                         |                        |                                |                                |  |                                |
| Current:                                      |                         |                        |                                |                                |  |                                |
| General government                            | -                       | -                      | -                              | -                              | -  | 72,993                         |
| Public safety                                 | -                       | -                      | -                              | -                              | -  | 4,116                          |
| Public works                                  | -                       | -                      | -                              | -                              | -  | 1,344,185                      |
| Culture and leisure                           | -                       | -                      | -                              | -                              | -  | 99,650                         |
| Capital outlay                                | -                       | 313,096                | -                              | -                              | -  | 482,588                        |
| Debt service:                                 |                         |                        |                                |                                |  |                                |
| Principal retirement                          | 165,000                 | 115,000                | -                              | -                              | -  | 280,000                        |
| Interest and fiscal charges                   | 580,088                 | 288,657                | -                              | -                              | -  | 868,745                        |
| <b>Total expenditures</b>                     | <b>745,088</b>          | <b>716,753</b>         | <b>-</b>                       | <b>-</b>                       | <b>-</b>                                   | <b>3,152,277</b>               |
| <b>REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>269,890</b>          | <b>(709,794)</b>       | <b>701</b>                     | <b>37,927</b>                  | <b>27,153</b>                              | <b>806,417</b>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>        |                         |                        |                                |                                |  |                                |
| Transfers in                                  | -                       | 773,094                | -                              | -                              | -  | 1,067,177                      |
| Transfers out                                 | (200,000)               | (1,004,240)            | -                              | -                              | -  | (1,820,506)                    |
| <b>Total other financing sources (uses)</b>   | <b>(200,000)</b>        | <b>(231,146)</b>       | <b>-</b>                       | <b>-</b>                       | <b>-</b>                                   | <b>(753,329)</b>               |
| <b>NET CHANGES IN FUND BALANCES</b>           | <b>69,890</b>           | <b>(940,940)</b>       | <b>701</b>                     | <b>37,927</b>                  | <b>27,153</b>                              | <b>53,088</b>                  |
| <b>FUND BALANCES:</b>                         |                         |                        |                                |                                |  |                                |
| Beginning of year                             | 731,107                 | 2,639,920              | 111,468                        | -                              | -  | 5,635,483                      |
| End of year                                   | \$ 800,997              | \$ 1,698,980           | \$ 112,169                     | \$ 37,927                      | \$ 27,153                                  | \$ 5,688,571                   |

(Concluded)

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Traffic Safety Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|-------------------|-------------------|-------------------------------|
|   | Original         | Final             |                   |                               |
| <b>REVENUES:</b>                          |                  |                   |                   |                               |
| Interest                                  | \$ -             | \$ 3              | \$ 3              | \$ -                          |
| <b>Total revenues</b>                     | <u>-</u>         | <u>3</u>          | <u>3</u>          | <u>-</u>                      |
| <b>EXPENDITURES:</b>                      |                  |                   |                   |                               |
| Current:                                  |                  |                   |                   |                               |
| Public safety                             | 2,806            | 5,617             | 2,811             | 2,806                         |
| <b>Total expenditures</b>                 | <u>2,806</u>     | <u>5,617</u>      | <u>2,811</u>      | <u>2,806</u>                  |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(2,806)</u>   | <u>(5,614)</u>    | <u>(2,808)</u>    | <u>2,806</u>                  |
| <b>Net change in fund balance</b>         | (2,806)          | (5,614)           | (2,808)           | 2,806                         |
| <b>FUND BALANCE:</b>                      |                  |                   |                   |                               |
| Beginning of year                         | 2,808            | 2,808             | 2,808             | -                             |
| End of year                               | <u>\$ 2</u>      | <u>\$ (2,806)</u> | <u>\$ -</u>       | <u>\$ 2,806</u>               |

**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, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                            |                  |                  |                   |                               |
| Intergovernmental                           | \$ 808,919       | \$ 878,837       | \$ 873,481        | \$ (5,356)                    |
| <b>Total revenues</b>                       | <u>808,919</u>   | <u>878,837</u>   | <u>873,481</u>    | <u>(5,356)</u>                |
| <b>EXPENDITURES:</b>                        |                  |                  |                   |                               |
| Current:                                    |                  |                  |                   |                               |
| Public works                                | 608,640          | 606,907          | 556,490           | 50,417                        |
| Capital outlay                              | -                | -                | 780               | (780)                         |
| <b>Total expenditures</b>                   | <u>608,640</u>   | <u>606,907</u>   | <u>557,270</u>    | <u>49,637</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>200,279</u>   | <u>271,930</u>   | <u>316,211</u>    | <u>44,281</u>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                  |                  |                   |                               |
| Transfers out                               | (200,497)        | (200,497)        | (200,496)         | 1                             |
| <b>Total other financing sources (uses)</b> | <u>(200,497)</u> | <u>(200,497)</u> | <u>(200,496)</u>  | <u>1</u>                      |
| <b>Net change in fund balance</b>           | (218)            | 71,433           | 115,715           | 44,282                        |
| <b>FUND BALANCE:</b>                        |                  |                  |                   |                               |
| Beginning of year                           | (685)            | (685)            | (685)             | -                             |
| End of year                                 | <u>\$ (903)</u>  | <u>\$ 70,748</u> | <u>\$ 115,030</u> | <u>\$ 44,282</u>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Capital Improvement Deposits Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Permits and fees                          | \$ 2,602,980     | \$ 2,630,930     | \$ 98,543         | \$ (2,532,387)                |
| Interest                                  | -                | 1,832            | 1,826             | (6)                           |
| <b>Total revenues</b>                     | <u>2,602,980</u> | <u>2,632,762</u> | <u>100,369</u>    | <u>(2,532,393)</u>            |
| <b>EXPENDITURES:</b>                      |                  |                  |                   |                               |
| Capital outlay                            | 3,408,038        | 3,408,038        | 11,120            | 3,396,918                     |
| <b>Total expenditures</b>                 | <u>3,408,038</u> | <u>3,408,038</u> | <u>11,120</u>     | <u>3,396,918</u>              |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(805,058)</u> | <u>(775,276)</u> | <u>89,249</u>     | <u>864,525</u>                |
| <b>Net change in fund balance</b>         | (805,058)        | (775,276)        | 89,249            | 864,525                       |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | 805,149          | 805,149          | 805,149           | -                             |
| End of year                               | <u>\$ 91</u>     | <u>\$ 29,873</u> | <u>\$ 894,398</u> | <u>\$ 864,525</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Municipal Lighting / Landscaping Assessment District Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>REVENUES:</b>                            |                   |                   |                   |                               |
| Taxes                                       | \$ 773,123        | \$ 805,912        | \$ 796,449        | \$ (9,463)                    |
| Interest                                    | -                 | 521               | 656               | 135                           |
| Miscellaneous                               | -                 | 250               | 250               | -                             |
| <b>Total revenues</b>                       | <u>773,123</u>    | <u>806,683</u>    | <u>797,355</u>    | <u>(9,328)</u>                |
| <b>EXPENDITURES:</b>                        |                   |                   |                   |                               |
| Current:                                    |                   |                   |                   |                               |
| Public works                                | 1,270,204         | 1,231,965         | 564,453           | 667,512                       |
| <b>Total expenditures</b>                   | <u>1,270,204</u>  | <u>1,231,965</u>  | <u>564,453</u>    | <u>667,512</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>(497,081)</u>  | <u>(425,282)</u>  | <u>232,902</u>    | <u>658,184</u>                |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                   |                   |                   |                               |
| Transfers in                                | 100,000           | 107,302           | 100,000           | (7,302)                       |
| Transfers out                               | -                 | (3,651)           | -                 | 3,651                         |
| <b>Total other financing sources (uses)</b> | <u>100,000</u>    | <u>103,651</u>    | <u>100,000</u>    | <u>(3,651)</u>                |
| <b>Net change in fund balance</b>           | (397,081)         | (321,631)         | 332,902           | 654,533                       |
| <b>FUND BALANCE:</b>                        |                   |                   |                   |                               |
| Beginning of year                           | 498,880           | 498,880           | 498,880           | -                             |
| End of year                                 | <u>\$ 101,799</u> | <u>\$ 177,249</u> | <u>\$ 831,782</u> | <u>\$ 654,533</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Measure A Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                            |                  |                  |                   |                               |
| Intergovernmental                           | \$ 437,000       | \$ 462,570       | \$ 462,570        | \$ -                          |
| Interest                                    | -                | 44               | 43                | (1)                           |
| <b>Total revenues</b>                       | <b>437,000</b>   | <b>462,614</b>   | <b>462,613</b>    | <b>(1)</b>                    |
| <b>EXPENDITURES:</b>                        |                  |                  |                   |                               |
| Capital outlay                              | 337,000          | 336,000          | 157,592           | 178,408                       |
| <b>Total expenditures</b>                   | <b>337,000</b>   | <b>336,000</b>   | <b>157,592</b>    | <b>178,408</b>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <b>100,000</b>   | <b>126,614</b>   | <b>305,021</b>    | <b>178,407</b>                |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                  |                  |                   |                               |
| Transfers out                               | (200,497)        | (268,543)        | (268,542)         | 1                             |
| <b>Total other financing sources (uses)</b> | <b>(200,497)</b> | <b>(268,543)</b> | <b>(268,542)</b>  | <b>1</b>                      |
| <b>Net change in fund balance</b>           | <b>(100,497)</b> | <b>(141,929)</b> | <b>36,479</b>     | <b>178,408</b>                |
| <b>FUND BALANCE:</b>                        |                  |                  |                   |                               |
| Beginning of year                           | 17,691           | 17,691           | 17,691            | -                             |
| End of year                                 | \$ (82,806)      | \$ (124,238)     | \$ 54,170         | \$ 178,408                    |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Air Quality Control Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Taxes                                     | \$ 33,200        | \$ 34,283        | \$ 34,282         | \$ (1)                        |
| Interest                                  | -                | 21               | 22                | 1                             |
| <b>Total revenues</b>                     | <u>33,200</u>    | <u>34,304</u>    | <u>34,304</u>     | <u>-</u>                      |
| <b>EXPENDITURES:</b>                      |                  |                  |                   |                               |
| Current:                                  |                  |                  |                   |                               |
| General government                        | 93,800           | 93,800           | 72,993            | 20,807                        |
| <b>Total expenditures</b>                 | <u>93,800</u>    | <u>93,800</u>    | <u>72,993</u>     | <u>20,807</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(60,600)</u>  | <u>(59,496)</u>  | <u>(38,689)</u>   | <u>20,807</u>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                  |                  |                   |                               |
| Transfers in                              | 60,600           | 60,600           | 60,600            | -                             |
| <b>Net change in fund balance</b>         | -                | 1,104            | 21,911            | 20,807                        |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | 9,772            | 9,772            | 9,772             | -                             |
| End of year                               | <u>\$ 9,772</u>  | <u>\$ 10,876</u> | <u>\$ 31,683</u>  | <u>\$ 20,807</u>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Art in Public Places Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                 | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|-----------------|-------------------|-------------------------------|
|   | Original         | Final           |                   |                               |
| <b>REVENUES:</b>                          |                  |                 |                   |                               |
| Interest                                  | \$ -             | \$ 78           | \$ 78             | \$ -                          |
| <b>Total revenues</b>                     | <u>-</u>         | <u>78</u>       | <u>78</u>         | <u>-</u>                      |
| <b>EXPENDITURES:</b>                      |                  |                 |                   |                               |
| Current:                                  |                  |                 |                   |                               |
| Public works                              | -                | 69,412          | 10,500            | 58,912                        |
| <b>Total expenditures</b>                 | <u>-</u>         | <u>69,412</u>   | <u>10,500</u>     | <u>58,912</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>-</u>         | <u>(69,334)</u> | <u>(10,422)</u>   | <u>58,912</u>                 |
| <b>Net change in fund balance</b>         | -                | (69,334)        | (10,422)          | 58,912                        |
| <b>FUND BALANCE:</b>                      |                  |                 |                   |                               |
| Beginning of year                         | 69,425           | 69,425          | 69,425            | -                             |
| End of year                               | <u>\$ 69,425</u> | <u>\$ 91</u>    | <u>\$ 59,003</u>  | <u>\$ 58,912</u>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Quimby Act Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>REVENUES:</b>                          |                   |                   |                   |                               |
| Intergovernmental                         | \$ 89,440         | \$ 89,440         | \$ -              | \$ (89,440)                   |
| Interest                                  | -                 | 121               | 120               | (1)                           |
| <b>Total revenues</b>                     | <u>89,440</u>     | <u>89,561</u>     | <u>120</u>        | <u>(89,441)</u>               |
| <b>EXPENDITURES:</b>                      |                   |                   |                   |                               |
| Capital outlay                            | 89,638            | 89,638            | -                 | 89,638                        |
| <b>Total expenditures</b>                 | <u>89,638</u>     | <u>89,638</u>     | <u>-</u>          | <u>89,638</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(198)</u>      | <u>(77)</u>       | <u>120</u>        | <u>197</u>                    |
| <b>Net change in fund balance</b>         | (198)             | (77)              | 120               | 197                           |
| <b>FUND BALANCE:</b>                      |                   |                   |                   |                               |
| Beginning of year                         | 103,358           | 103,358           | 103,358           | -                             |
| End of year                               | <u>\$ 103,160</u> | <u>\$ 103,281</u> | <u>\$ 103,478</u> | <u>\$ 197</u>                 |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Drainage Assessment District Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>REVENUES:</b>                          |                   |                   |                   |                               |
| Taxes                                     | \$ 167,237        | \$ 168,736        | \$ 166,726        | \$ (2,010)                    |
| Interest                                  | -                 | 730               | 722               | (8)                           |
| <b>Total revenues</b>                     | <u>167,237</u>    | <u>169,466</u>    | <u>167,448</u>    | <u>(2,018)</u>                |
| <b>EXPENDITURES:</b>                      |                   |                   |                   |                               |
| Current:                                  |                   |                   |                   |                               |
| Public works                              | 568,149           | 568,149           | 173,186           | 394,963                       |
| <b>Total expenditures</b>                 | <u>568,149</u>    | <u>568,149</u>    | <u>173,186</u>    | <u>394,963</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(400,912)</u>  | <u>(398,683)</u>  | <u>(5,738)</u>    | <u>392,945</u>                |
| <b>Net change in fund balance</b>         | (400,912)         | (398,683)         | (5,738)           | 392,945                       |
| <b>FUND BALANCE:</b>                      |                   |                   |                   |                               |
| Beginning of year                         | 635,556           | 635,556           | 635,556           | -                             |
| End of year                               | <u>\$ 234,644</u> | <u>\$ 236,873</u> | <u>\$ 629,818</u> | <u>\$ 392,945</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**County Service Area 152 Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Intergovernmental                         | \$ 21,395        | \$ 21,395        | \$ 15,048         | \$ (6,347)                    |
| Interest                                  | -                | 2                | 2                 | -                             |
| <b>Total revenues</b>                     | <u>21,395</u>    | <u>21,397</u>    | <u>15,050</u>     | <u>(6,347)</u>                |
| <b>EXPENDITURES:</b>                      |                  |                  |                   |                               |
| Current:                                  |                  |                  |                   |                               |
| Public works                              | 34,924           | 36,466           | 36,465            | 1                             |
| <b>Total expenditures</b>                 | <u>34,924</u>    | <u>36,466</u>    | <u>36,465</u>     | <u>1</u>                      |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | (13,529)         | (15,069)         | (21,415)          | (6,346)                       |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                  |                  |                   |                               |
| Transfers in                              | 33,485           | 33,485           | 33,485            | -                             |
| <b>Net change in fund balance</b>         | 19,956           | 18,416           | 12,070            | (6,346)                       |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | (7,525)          | (7,525)          | (7,525)           | -                             |
| End of year                               | <u>\$ 12,431</u> | <u>\$ 10,891</u> | <u>\$ 4,545</u>   | <u>\$ (6,346)</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Park and Recreation Grant Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts    |                     | Actual<br>Amounts | Variance with<br>Final Budget |
|---|---------------------|---------------------|-------------------|-------------------------------|
|   | Original            | Final               |                   |                               |
| <b>REVENUES:</b>                          |                     |                     |                   |                               |
| Intergovernmental                         | \$ -                | \$ -                | \$ 271,724        | \$ 271,724                    |
| Interest                                  | -                   | 246                 | 245               | (1)                           |
| <b>Total revenues</b>                     | <u>-</u>            | <u>246</u>          | <u>271,969</u>    | <u>271,723</u>                |
| <b>EXPENDITURES:</b>                      |                     |                     |                   |                               |
| Current:                                  |                     |                     |                   |                               |
| Culture and leisure                       | 102,260             | 102,260             | -                 | 102,260                       |
| <b>Total expenditures</b>                 | <u>102,260</u>      | <u>102,260</u>      | <u>-</u>          | <u>102,260</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(102,260)</u>    | <u>(102,014)</u>    | <u>271,969</u>    | <u>373,983</u>                |
| <b>Net change in fund balance</b>         | (102,260)           | (102,014)           | 271,969           | 373,983                       |
| <b>FUND BALANCE:</b>                      |                     |                     |                   |                               |
| Beginning of year                         | 87                  | 87                  | 87                | -                             |
| End of year                               | <u>\$ (102,173)</u> | <u>\$ (101,927)</u> | <u>\$ 272,056</u> | <u>\$ 373,983</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Cabot's Museum Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts   |                    | Actual<br>Amounts | Variance with<br>Final Budget |
|---|--------------------|--------------------|-------------------|-------------------------------|
|   | Original           | Final              |                   |                               |
| <b>EXPENDITURES:</b>                        |                    |                    |                   |                               |
| Current:                                    |                    |                    |                   |                               |
| Culture and leisure                         | 117,000            | 117,000            | 99,650            | 17,350                        |
| <b>Total expenditures</b>                   | <b>117,000</b>     | <b>117,000</b>     | <b>99,650</b>     | <b>17,350</b>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <b>(117,000)</b>   | <b>(117,000)</b>   | <b>(99,650)</b>   | <b>17,350</b>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                    |                    |                   |                               |
| Transfers in                                | 94,498             | 100,000            | 99,998            | (2)                           |
| Transfers out                               | -                  | (349)              | (348)             | 1                             |
| <b>Total other financing sources (uses)</b> | <b>94,498</b>      | <b>99,651</b>      | <b>99,650</b>     | <b>(1)</b>                    |
| <b>Net change in fund balance</b>           | <b>(22,502)</b>    | <b>(17,349)</b>    | <b>-</b>          | <b>17,349</b>                 |
| <b>FUND BALANCE:</b>                        |                    |                    |                   |                               |
| Beginning of year                           | -                  | -                  | -                 | -                             |
| End of year                                 | <b>\$ (22,502)</b> | <b>\$ (17,349)</b> | <b>\$ -</b>       | <b>\$ 17,349</b>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Bicycle / Pedestrian Grant Special Revenue Fund**  
**For the Year Ended June 30, 2014**

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|   | Budgeted Amounts |                | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|----------------|-------------------|-------------------------------|
|   | Original         | Final          |                   |                               |
| <b>EXPENDITURES:</b>                      |                  |                |                   |                               |
| Current:                                  |                  |                |                   |                               |
| Public works                              | \$ 3,091         | \$ 3,091       | \$ 3,091          | \$ -                          |
| <b>Total expenditures</b>                 | <u>3,091</u>     | <u>3,091</u>   | <u>3,091</u>      | <u>-</u>                      |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(3,091)</u>   | <u>(3,091)</u> | <u>(3,091)</u>    | <u>-</u>                      |
| <b>Net changes in fund balance</b>        | (3,091)          | (3,091)        | (3,091)           | -                             |
| <b>FUND BALANCE:</b>                      |                  |                |                   |                               |
| Beginning of year                         | 3,091            | 3,091          | 3,091             | -                             |
| End of year                               | <u>\$ -</u>      | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$ -</u>                   |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**SLESF Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                            |                  |                  |                   |                               |
| Intergovernmental                           | \$ 100,000       | \$ 125,000       | \$ 125,000        | \$ -                          |
| Interest                                    | -                | 5                | 4                 | (1)                           |
| <b>Total revenues</b>                       | <u>100,000</u>   | <u>125,005</u>   | <u>125,004</u>    | <u>(1)</u>                    |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>100,000</u>   | <u>125,005</u>   | <u>125,004</u>    | <u>(1)</u>                    |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                  |                  |                   |                               |
| Transfers out                               | (100,000)        | (125,005)        | (125,004)         | 1                             |
| <b>Total other financing sources (uses)</b> | <u>(100,000)</u> | <u>(125,005)</u> | <u>(125,004)</u>  | <u>1</u>                      |
| <b>Net changes in fund balance</b>          | -                | -                | -                 | -                             |
| <b>FUND BALANCE:</b>                        |                  |                  |                   |                               |
| Beginning of year                           | -                | -                | -                 | -                             |
| End of year                                 | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>       | <u>\$ -</u>                   |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Abandoned Vehicle Abatement Special Revenue Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts  |                    | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|--------------------|-------------------|-------------------------------|
|   | Original          | Final              |                   |                               |
| <b>REVENUES:</b>                            |                   |                    |                   |                               |
| Intergovernmental                           | \$ 66,917         | \$ 66,917          | \$ 23,182         | \$ (43,735)                   |
| <b>Total revenues</b>                       | <u>66,917</u>     | <u>66,917</u>      | <u>23,182</u>     | <u>(43,735)</u>               |
| <b>EXPENDITURES:</b>                        |                   |                    |                   |                               |
| Current:                                    |                   |                    |                   |                               |
| Public safety                               | 84,015            | 84,015             | 1,305             | 82,710                        |
| <b>Total expenditures</b>                   | <u>84,015</u>     | <u>84,015</u>      | <u>1,305</u>      | <u>82,710</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>(17,098)</u>   | <u>(17,098)</u>    | <u>21,877</u>     | <u>38,975</u>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                   |                    |                   |                               |
| Transfers out                               | -                 | (21,877)           | (21,876)          | 1                             |
| <b>Total other financing sources (uses)</b> | <u>-</u>          | <u>(21,877)</u>    | <u>(21,876)</u>   | <u>1</u>                      |
| <b>Net changes in fund balance</b>          | (17,098)          | (38,975)           | 1                 | 38,976                        |
| <b>FUND BALANCE:</b>                        |                   |                    |                   |                               |
| Beginning of year                           | 15,381            | 15,381             | 15,381            | -                             |
| End of year                                 | <u>\$ (1,717)</u> | <u>\$ (23,594)</u> | <u>\$ 15,382</u>  | <u>\$ 38,976</u>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**City Debt Service Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>REVENUES:</b>                            |                   |                   |                   |                               |
| Taxes                                       | \$ 1,000,000      | \$ 1,014,595      | \$ 1,014,594      | \$ (1)                        |
| Interest                                    | -                 | -                 | 384               | 384                           |
| <b>Total revenues</b>                       | <u>1,000,000</u>  | <u>1,014,595</u>  | <u>1,014,978</u>  | <u>383</u>                    |
| <b>EXPENDITURES:</b>                        |                   |                   |                   |                               |
| Current:                                    |                   |                   |                   |                               |
| General government                          | 332,200           | 210,644           | -                 | 210,644                       |
| Debt service:                               |                   |                   |                   |                               |
| Principal retirement                        | 165,000           | 165,000           | 165,000           | -                             |
| Interest and fiscal charges                 | 576,038           | 576,038           | 580,088           | (4,050)                       |
| <b>Total expenditures</b>                   | <u>1,073,238</u>  | <u>951,682</u>    | <u>745,088</u>    | <u>206,594</u>                |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>(73,238)</u>   | <u>62,913</u>     | <u>269,890</u>    | <u>206,977</u>                |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                   |                   |                   |                               |
| Transfers out                               | (200,000)         | (200,000)         | (200,000)         | -                             |
| <b>Total other financing sources (uses)</b> | <u>(200,000)</u>  | <u>(200,000)</u>  | <u>(200,000)</u>  | <u>-</u>                      |
| <b>Net changes in fund balance</b>          | (273,238)         | (137,087)         | 69,890            | 206,977                       |
| <b>FUND BALANCE:</b>                        |                   |                   |                   |                               |
| Beginning of year                           | 731,107           | 731,107           | 731,107           | -                             |
| End of year                                 | <u>\$ 457,869</u> | <u>\$ 594,020</u> | <u>\$ 800,997</u> | <u>\$ 206,977</u>             |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**2012 Street Bond Capital Projects Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts    |                    | Actual<br>Amounts   | Variance with<br>Final Budget |
|---|---------------------|--------------------|---------------------|-------------------------------|
|   | Original            | Final              |                     |                               |
| <b>REVENUES:</b>                            |                     |                    |                     |                               |
| Interest                                    | \$ 3,500            | \$ 6,960           | \$ 6,959            | \$ (1)                        |
| <b>Total revenues</b>                       | <u>3,500</u>        | <u>6,960</u>       | <u>6,959</u>        | <u>(1)</u>                    |
| <b>EXPENDITURES:</b>                        |                     |                    |                     |                               |
| Current:                                    |                     |                    |                     |                               |
| General government                          | -                   | 564,125            | -                   | 564,125                       |
| Capital outlay                              | 3,500               | 758,712            | 313,096             | 445,616                       |
| Debt service:                               |                     |                    |                     |                               |
| Principal retirement                        | 115,000             | 115,000            | 115,000             | -                             |
| Interest and fiscal charges                 | 285,994             | 285,994            | 288,657             | (2,663)                       |
| <b>Total expenditures</b>                   | <u>404,494</u>      | <u>1,723,831</u>   | <u>716,753</u>      | <u>1,007,078</u>              |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <u>(400,994)</u>    | <u>(1,716,871)</u> | <u>(709,794)</u>    | <u>1,007,077</u>              |
| <b>OTHER FINANCING SOURCES (USES):</b>      |                     |                    |                     |                               |
| Transfers in                                | 400,994             | 773,094            | 773,094             | -                             |
| Transfers out                               | -                   | (1,179,397)        | (1,004,240)         | 175,157                       |
| <b>Total other financing sources (uses)</b> | <u>400,994</u>      | <u>(406,303)</u>   | <u>(231,146)</u>    | <u>175,157</u>                |
| <b>Net changes in fund balance</b>          | -                   | (2,123,174)        | (940,940)           | 1,182,234                     |
| <b>FUND BALANCE:</b>                        |                     |                    |                     |                               |
| Beginning of year                           | 2,639,920           | 2,639,920          | 2,639,920           | -                             |
| End of year                                 | <u>\$ 2,639,920</u> | <u>\$ 516,746</u>  | <u>\$ 1,698,980</u> | <u>\$ 1,182,234</u>           |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Assessment District 91-1 Capital Projects Fund**  
**For the Year Ended June 30, 2014**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Taxes                                     | \$ -             | \$ 572           | \$ 571            | \$ (1)                        |
| Interest                                  | 100              | 130              | 130               | -                             |
| <b>Total revenues</b>                     | <u>100</u>       | <u>702</u>       | <u>701</u>        | <u>(1)</u>                    |
| <b>EXPENDITURES:</b>                      |                  |                  |                   |                               |
| Current:                                  |                  |                  |                   |                               |
| Public works                              | 51,578           | 51,578           | -                 | 51,578                        |
| <b>Total expenditures</b>                 | <u>51,578</u>    | <u>51,578</u>    | <u>-</u>          | <u>51,578</u>                 |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>(51,478)</u>  | <u>(50,876)</u>  | <u>701</u>        | <u>51,577</u>                 |
| <b>Net changes in fund balance</b>        | (51,478)         | (50,876)         | 701               | 51,577                        |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | 111,468          | 111,468          | 111,468           | -                             |
| End of year                               | <u>\$ 59,990</u> | <u>\$ 60,592</u> | <u>\$ 112,169</u> | <u>\$ 51,577</u>              |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Assessment District 92-1 Capital Projects Fund**  
**For the Year Ended June 30, 2014**

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|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Interest                                  | \$ -             | \$ 8             | \$ 8              | \$ -                          |
| Miscellaneous                             | -                | 37,920           | 37,919            | (1)                           |
| <b>Total revenues</b>                     | <u>-</u>         | <u>37,928</u>    | <u>37,927</u>     | <u>(1)</u>                    |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>-</u>         | <u>37,928</u>    | <u>37,927</u>     | <u>(1)</u>                    |
| <b>Net changes in fund balance</b>        | -                | 37,928           | 37,927            | (1)                           |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | -                | -                | -                 | -                             |
| End of year                               | <u>\$ -</u>      | <u>\$ 37,928</u> | <u>\$ 37,927</u>  | <u>\$ (1)</u>                 |

**City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Assessment District 93-2 Capital Projects Fund**  
**For the Year Ended June 30, 2014**

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|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
|   | Original         | Final            |                   |                               |
| <b>REVENUES:</b>                          |                  |                  |                   |                               |
| Interest                                  | \$ -             | \$ -             | \$ 6              | \$ 6                          |
| Miscellaneous                             | -                | 27,147           | 27,147            | -                             |
| <b>Total revenues</b>                     | <u>-</u>         | <u>27,147</u>    | <u>27,153</u>     | <u>6</u>                      |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b> | <u>-</u>         | <u>27,147</u>    | <u>27,153</u>     | <u>6</u>                      |
| <b>Net changes in fund balance</b>        | -                | 27,147           | 27,153            | 6                             |
| <b>FUND BALANCE:</b>                      |                  |                  |                   |                               |
| Beginning of year                         | -                | -                | -                 | -                             |
| End of year                               | <u>\$ -</u>      | <u>\$ 27,147</u> | <u>\$ 27,153</u>  | <u>\$ 6</u>                   |

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# INTERNAL SERVICE FUNDS

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

**Internal Service Funds include:**

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

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

**City of Desert Hot Springs**  
**Combining Statement of Net Position**  
**All Internal Service Funds**  
**June 30, 2014**

|   | Risk<br>Management | Equipment<br>Replacement | Total             |
|---|--------------------|--------------------------|-------------------|
| <b>ASSETS</b>                                     |                    |                          |                   |
| Current assets:                                   |                    |                          |                   |
| Cash and investments                              | \$ 559,733         | \$ 164,021               | \$ 723,754        |
| Interest receivable                               | 188                | 8                        | 196               |
| Total current assets                              | <u>559,921</u>     | <u>164,029</u>           | <u>723,950</u>    |
| Capital assets:                                   |                    |                          |                   |
| Depreciable, net                                  | -                  | 905,968                  | 905,968           |
| Total capital assets                              | <u>-</u>           | <u>905,968</u>           | <u>905,968</u>    |
| <b>Total assets</b>                               | <u>559,921</u>     | <u>1,069,997</u>         | <u>1,629,918</u>  |
| <b>LIABILITIES</b>                                |                    |                          |                   |
| Current liabilities:                              |                    |                          |                   |
| Capital lease payable - due within one year       | -                  | 106,748                  | 106,748           |
| Claims payable - due within one year              | 174,328            | -                        | 174,328           |
| Total current liabilities                         | <u>174,328</u>     | <u>106,748</u>           | <u>281,076</u>    |
| Noncurrent liabilities:                           |                    |                          |                   |
| Capital lease payable - due in more than one year | -                  | 230,436                  | 230,436           |
| Claims payable - due in more than one year        | 324,130            | -                        | 324,130           |
| Total noncurrent liabilities                      | <u>324,130</u>     | <u>230,436</u>           | <u>554,566</u>    |
| <b>Total liabilities</b>                          | <u>498,458</u>     | <u>337,184</u>           | <u>835,642</u>    |
| <b>NET POSITION</b>                               |                    |                          |                   |
| Net investment in capital assets                  | -                  | 568,784                  | 568,784           |
| Unrestricted                                      | 61,463             | 164,029                  | 225,492           |
| <b>Total net position</b>                         | <u>\$ 61,463</u>   | <u>\$ 732,813</u>        | <u>\$ 794,276</u> |

**City of Desert Hot Springs**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**All Internal Service Funds**  
**For the Year Ended June 30, 2014**

|  | Risk<br>Management | Equipment<br>Replacement | Total             |
|--|--------------------|--------------------------|-------------------|
| <b>OPERATING REVENUES:</b>               |                    |                          |                   |
| Charges for services                     | \$ -               | \$ 250,000               | \$ 250,000        |
| Insurance recovery                       | 95,479             | -                        | 95,479            |
| Other                                    | 64,951             | -                        | 64,951            |
| <b>Total operating revenues</b>          | <b>160,430</b>     | <b>250,000</b>           | <b>410,430</b>    |
| <b>OPERATING EXPENSES:</b>               |                    |                          |                   |
| Insurance and claims                     | 181,739            | -                        | 181,739           |
| Depreciation                             | -                  | 269,213                  | 269,213           |
| <b>Total operating expenses</b>          | <b>181,739</b>     | <b>269,213</b>           | <b>450,952</b>    |
| <b>OPERATING INCOME (LOSS)</b>           | <b>(21,309)</b>    | <b>(19,213)</b>          | <b>(40,522)</b>   |
| <b>NONOPERATING REVENUES (EXPENSES):</b> |                    |                          |                   |
| Interest income                          | 1,031              | 15                       | 1,046             |
| Gain on sale of capital assets           | -                  | 38,296                   | 38,296            |
| <b>Total nonoperating revenues</b>       | <b>1,031</b>       | <b>38,311</b>            | <b>39,342</b>     |
| <b>INCOME (LOSS) BEFORE TRANSFERS</b>    | <b>(20,278)</b>    | <b>19,098</b>            | <b>(1,180)</b>    |
| <b>TRANSFERS:</b>                        |                    |                          |                   |
| Transfer out                             | (418,000)          | -                        | (418,000)         |
| <b>Total transfers</b>                   | <b>(418,000)</b>   | <b>-</b>                 | <b>(418,000)</b>  |
| <b>Changes in net position</b>           | <b>(438,278)</b>   | <b>19,098</b>            | <b>(419,180)</b>  |
| <b>NET POSITION:</b>                     |                    |                          |                   |
| Beginning of year                        | 499,741            | 713,715                  | 1,213,456         |
| End of year                              | <u>\$ 61,463</u>   | <u>\$ 732,813</u>        | <u>\$ 794,276</u> |

**City of Desert Hot Springs**  
**Combining Statement of Cash Flows**  
**All Internal Service Funds**  
**For the Year Ended June 30, 2014**

|  | Risk<br>Management  | Equipment<br>Replacement | Total             |
|--|---------------------|--------------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                          |                   |
| Receipts from claims recoveries  | \$ 95,479           | \$ -                     | \$ 95,479         |
| Receipts from interfund charges for equipment replacement  | -                   | 250,000                  | 250,000           |
| Receipts from others   | 120,066             | 39,963                   | 160,029           |
| Payments to supplies for goods and services  | -                   | (11,184)                 | (11,184)          |
| Payments for insurance claims  | (384,887)           | -                        | (384,887)         |
| <b>Net cash provided by (used in) operating activities</b>   | <u>(169,342)</u>    | <u>278,779</u>           | <u>109,437</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>  |                     |                          |                   |
| Payment to other funds   | -                   | (28,779)                 | (28,779)          |
| Transfers in/(to) other funds  | (418,000)           | -                        | (418,000)         |
| <b>Net cash provided by (used in) noncapital financing activities</b>                                    | <u>(418,000)</u>    | <u>(28,779)</u>          | <u>(446,779)</u>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>   |                     |                          |                   |
| Proceeds from sale of capital assets   | -                   | 38,296                   | 38,296            |
| Payment on capital leases  | -                   | (124,282)                | (124,282)         |
| <b>Net cash (used in) capital and related financing activities</b>                                       | <u>-</u>            | <u>(85,986)</u>          | <u>(85,986)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                          |                   |
| Interest received  | 854                 | 7                        | 861               |
| <b>Net cash provided by investing activities</b>   | <u>854</u>          | <u>7</u>                 | <u>861</u>        |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | (586,488)           | 164,021                  | (422,467)         |
| <b>CASH AND CASH EQUIVALENTS:</b>  |                     |                          |                   |
| Beginning of year  | 1,146,221           | -                        | 1,146,221         |
| End of year  | <u>\$ 559,733</u>   | <u>\$ 164,021</u>        | <u>\$ 723,754</u> |
| <b>NONCASH CAPITAL RELATED FINANCING ACTIVITIES</b>  |                     |                          |                   |
| Issuance of capital lease  | <u>\$ -</u>         | <u>\$ 461,466</u>        | <u>\$ 461,466</u> |
| <b>RECONCILIATION OF OPERATING (LOSS) TO NET</b>   |                     |                          |                   |
| <b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>  |                     |                          |                   |
| Operating (loss)   | \$ (21,309)         | \$ (19,213)              | \$ (40,522)       |
| Depreciation   | -                   | 269,213                  | 269,213           |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                     |                          |                   |
| (Increase) decrease in accounts receivable   | 55,115              | 39,963                   | 95,078            |
| Increase (decrease) in accounts payable  | -                   | (11,184)                 | (11,184)          |
| Increase (decrease) in claims payable  | (203,148)           | -                        | (203,148)         |
| <b>Total adjustments</b>   | <u>(148,033)</u>    | <u>28,779</u>            | <u>(119,254)</u>  |
| <b>Net cash provided by (used in) operating activities</b>   | <u>\$ (169,342)</u> | <u>\$ 278,779</u>        | <u>\$ 109,437</u> |

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## AGENCY FUNDS

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

*Assessment District 92-1 Fund* - this fund was established to account for payments of principal and interest for the Assessment District 92-1 municipal bonds.

*Assessment District 93-2 Fund* - this fund was established to account for payments of principal and interest for the Assessment District 93-2 municipal bonds.

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

**City of Desert Hot Springs**  
**Combining Statement of Fiduciary Net Position**  
**Agency Funds**  
**June 30, 2014**

|                          | Agency Funds                  |                                     |                                     |  | Totals            |
|--------------------------|-------------------------------|-------------------------------------|-------------------------------------|--|-------------------|
|                          | Community<br>Services<br>Fund | Assessment<br>District 92-1<br>Fund | Assessment<br>District 93-2<br>Fund | Community<br>Facilities<br>District<br>Skyborne Fund |                   |
| <b>ASSETS</b>            |                               |                                     |                                     |  |                   |
| Cash and investments     | \$ 12,823                     | \$ -                                | \$ -                                | \$ 463,365   | \$ 476,188        |
| Cash with fiscal agent   | -                             | -                                   | -                                   | 180,985  | 180,985           |
| Accounts receivable      | -                             | -                                   | -                                   | 2,446  | 2,446             |
| Interest receivable      | -                             | -                                   | -                                   | 85   | 85                |
| <b>Total assets</b>      | <b>\$ 12,823</b>              | <b>\$ -</b>                         | <b>\$ -</b>                         | <b>\$ 646,881</b>                                    | <b>\$ 659,704</b> |
| <b>LIABILITIES</b>       |                               |                                     |                                     |  |                   |
| Accounts payable         | -                             | -                                   | -                                   | 2,915  | 2,915             |
| Deposits payable         | 12,823                        | -                                   | -                                   | -  | 12,823            |
| Due to bondholders       | -                             | -                                   | -                                   | 643,966  | 643,966           |
| <b>Total liabilities</b> | <b>\$ 12,823</b>              | <b>\$ -</b>                         | <b>\$ -</b>                         | <b>\$ 646,881</b>                                    | <b>\$ 659,704</b> |

**City of Desert Hot Springs**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2014**

|   | Balance<br>July 1, 2013 | Additions         | Deletions           | Balance<br>June 30, 2014 |
|---|-------------------------|-------------------|---------------------|--------------------------|
| <b><u>Community Services Fund</u></b>                     |                         |                   |                     |                          |
| <b>Assets:</b>  |                         |                   |                     |                          |
| Cash and investments                                      | \$ 14,218               | \$ 100,841        | \$ (102,236)        | \$ 12,823                |
| <b>Total assets</b>                                       | <b>\$ 14,218</b>        | <b>\$ 100,841</b> | <b>\$ (102,236)</b> | <b>\$ 12,823</b>         |
| <b>Liabilities:</b>                                       |                         |                   |                     |                          |
| Deposits payable  | \$ 14,218               | \$ 100,841        | \$ (102,236)        | \$ 12,823                |
| <b>Total liabilities</b>                                  | <b>\$ 14,218</b>        | <b>\$ 100,841</b> | <b>\$ (102,236)</b> | <b>\$ 12,823</b>         |
| <b><u>Assessment District 92-1 Fund</u></b>               |                         |                   |                     |                          |
| <b>Assets:</b>  |                         |                   |                     |                          |
| Cash and investments                                      | \$ 22,335               | \$ 25,549         | \$ (47,884)         | \$ -                     |
| Cash with fiscal agent                                    | 108,285                 | 3                 | (108,288)           | -                        |
| Accounts receivable                                       | 358                     | -                 | (358)               | -                        |
| Interest receivable                                       | 2                       | -                 | (2)                 | -                        |
| <b>Total assets</b>                                       | <b>\$ 130,980</b>       | <b>\$ 25,552</b>  | <b>\$ (156,532)</b> | <b>\$ -</b>              |
| <b>Liabilities:</b>                                       |                         |                   |                     |                          |
| Accounts payable  | \$ 490                  | \$ -              | \$ (490)            | \$ -                     |
| Due to bondholders  | 130,490                 | 79,018            | (209,508)           | -                        |
| <b>Total liabilities</b>                                  | <b>\$ 130,980</b>       | <b>\$ 79,018</b>  | <b>\$ (209,998)</b> | <b>\$ -</b>              |
| <b><u>Assessment District 93-2 Fund</u></b>               |                         |                   |                     |                          |
| <b>Assets:</b>  |                         |                   |                     |                          |
| Cash and investments                                      | \$ 11,399               | \$ 24,437         | \$ (35,836)         | \$ -                     |
| Cash with fiscal agent                                    | 266,662                 | 235,000           | (501,662)           | -                        |
| Accounts receivable                                       | 1,307                   | -                 | (1,307)             | -                        |
| Interest receivable                                       | 1                       | -                 | (1)                 | -                        |
| <b>Total assets</b>                                       | <b>\$ 279,369</b>       | <b>\$ 259,437</b> | <b>\$ (538,806)</b> | <b>\$ -</b>              |
| <b>Liabilities:</b>                                       |                         |                   |                     |                          |
| Accounts payable  | \$ 490                  | \$ -              | \$ (490)            | \$ -                     |
| Due to bondholders  | 278,879                 | 94,103            | (372,982)           | -                        |
| <b>Total liabilities</b>                                  | <b>\$ 279,369</b>       | <b>\$ 94,103</b>  | <b>\$ (373,472)</b> | <b>\$ -</b>              |
| <b><u>Community Facilities District Skyborne Fund</u></b> |                         |                   |                     |                          |
| <b>Assets:</b>  |                         |                   |                     |                          |
| Cash and investments                                      | \$ 400,655              | \$ 242,692        | \$ (179,982)        | \$ 463,365               |
| Cash with fiscal agent                                    | 180,985                 | -                 | -                   | 180,985                  |
| Accounts receivable                                       | 3,329                   | 2,446             | (3,329)             | 2,446                    |
| Interest receivable                                       | 36                      | 85                | (36)                | 85                       |
| <b>Total assets</b>                                       | <b>\$ 585,005</b>       | <b>\$ 245,223</b> | <b>\$ (183,347)</b> | <b>\$ 646,881</b>        |
| <b>Liabilities:</b>                                       |                         |                   |                     |                          |
| Accounts payable  | \$ 2,717                | \$ 117,525        | \$ (117,327)        | \$ 2,915                 |
| Due to bondholders  | 582,288                 | 246,114           | (184,436)           | 643,966                  |
| <b>Total liabilities</b>                                  | <b>\$ 585,005</b>       | <b>\$ 363,639</b> | <b>\$ (301,763)</b> | <b>\$ 646,881</b>        |

**City of Desert Hot Springs**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)**  
**Agency Funds**  
**For the Year Ended June 30, 2014**

|                                      | Balance<br>July 1, 2013    | Additions                | Deletions                  | Balance<br>June 30, 2014 |
|--------------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|
| <b><u>Total All Agency Funds</u></b> |                            |                          |                            |                          |
| <b>Assets:</b>                       |                            |                          |                            |                          |
| Cash and investments                 | \$ 448,607                 | \$ 393,519               | \$ (365,938)               | \$ 476,188               |
| Cash with fiscal agent               | 555,932                    | 235,003                  | (609,950)                  | 180,985                  |
| Accounts receivable                  | 4,994                      | 2,446                    | (4,994)                    | 2,446                    |
| Interest receivable                  | 39                         | 85                       | (39)                       | 85                       |
| <b>Total assets</b>                  | <b><u>\$ 1,009,572</u></b> | <b><u>\$ 631,053</u></b> | <b><u>\$ (980,921)</u></b> | <b><u>\$ 659,704</u></b> |
| <b>Liabilities:</b>                  |                            |                          |                            |                          |
| Accounts payable                     | \$ 3,697                   | \$ 117,525               | \$ (118,307)               | \$ 2,915                 |
| Deposits payable                     | 14,218                     | 100,841                  | (102,236)                  | 12,823                   |
| Due to bondholders                   | 991,657                    | 419,235                  | (766,926)                  | 643,966                  |
| <b>Total liabilities</b>             | <b><u>\$ 1,009,572</u></b> | <b><u>\$ 637,601</u></b> | <b><u>\$ (987,469)</u></b> | <b><u>\$ 659,704</u></b> |