Desert Recreation District

Financial Statements

For the Fiscal Year Ended June 30, 2012

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

Our Mission Statement

The Desert Recreation District maintains quality park and recreation facilities; programs and services; and facilitates leisure opportunities so all residents will receive:

- ***Personal Benefits*** **in the form of physical fitness, enrichment, relaxation, and revitalization;**
- ***Social Benefits*** **in the form of stronger and healthier families; ethnic and cultural harmony; reduced anti-social behavior; and enriched lives for persons with disabilities;**
- ***Economic Benefits*** **in the form of more productive and healthier citizens; increased tourism; and contributions to the quality of life sought by business and industry.**

Desert Recreation District

Board of Directors

Name	Title	Elected/ Appointed	Area
Rudy Acosta	President	Elected	Division 4
Charlie Smith	Vice-President	Elected	Division 1
Laura McGalliard	Director	Elected	Division 5
Francisco Duran	Director	Elected	Division 2
Joanne Gilbert	Director	Elected	Division 3

Desert Recreation District
Kevin Kalman, General Manager
45-305 Oasis Street
Indio, CA 92201 • (760) 347-3484
www.myrecreationdistrict.com

Desert Recreation District

Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Desert Recreation District
Annual Financial Report
For the Fiscal Year Ended June 30, 2012

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Financial Section

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Desert Recreation District
Indio, California

We have audited the accompanying financial statements of the governmental activities and aggregate remaining fund information of the Desert Recreation District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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; and the State Controller's Minimum Audit Requirements for California Special Districts. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and aggregate remaining fund information of the Desert Recreation District as of June 30, 2012 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 34.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Independent Auditor's Report, continued

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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2012

As management of the Desert Recreation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2012. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net assets decreased 0.4% or $62,827, from $15,073,863 to $15,011,036.
- Total revenues increased by 10.5% or $1,052,366 from $10,093,777 to $11,152,143 from the prior year due to increases in registration fees, operating and capital grants, property taxes and redevelopment agency pass-through revenues.
- Total expenses increased by only 0.05% or $5,788 as many expenditure categories did not increase from the prior year.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's reserves and credit worthiness.

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. Think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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 balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary information and funding progress of its retirement plan.

Government-wide Financial Analysis

Statement of Net Assets

Condensed Statement of Net Assets

		2012	2011	Change
Assets:				
Current assets	$	8,269,863	8,195,511	74,352
Non-current assets		208,045	198,769	9,276
Capital assets, net		10,506,499	10,893,011	(386,512)
Total assets		18,984,407	19,287,291	(302,884)
Liabilities:				
Current liabilities		919,230	1,065,996	(146,766)
Non-current liabilities		3,054,141	3,147,432	(93,291)
Total liabilities		3,973,371	4,213,428	(240,057)
Net assets:				
Net investment in capital assets		8,226,499	8,553,011	(326,512)
Restricted		816,162	906,399	(90,237)
Unrestricted		5,968,375	5,614,453	353,922
Total net assets	$	15,011,036	15,073,863	(62,827)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $15,011,036 as of June 30, 2012. A large portion of the District's net assets (55% or $8,226,499) reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets for operations; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2012, the District reflected a positive balance in its unrestricted net assets of $5,968,375 that may be utilized in future years.

Statement of Activities

Condensed Statement of Activities

	2012	2011	Change
Expenses:			
Recreation and park operations	$ 11,214,970	11,209,182	5,788
Total expenses	11,214,970	11,209,182	5,788
Program revenues	6,753,895	6,357,037	396,858
General revenues	4,398,248	3,736,740	661,508
Total revenues	11,152,143	10,093,777	1,058,366
Change in net assets	(62,827)	(1,115,405)	1,052,578
Net assets – beginning of year	15,073,863	16,189,268	(1,115,405)
Net assets – end of year	$ 15,011,036	15,073,863	(62,827)

The statement of activities shows how the government's net assets changed during the fiscal year. In the case of the District, net assets decreased by $62,827 during the fiscal year ended June 30, 2012.

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unassigned fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2012, the District's General Fund reported a fund balance of $8,945,787.

General Fund Budgetary Highlights

Total cost for the District's general fund programs were greater than the 2012 revised budget by $112,570 primarily due to greater than expected expenditures for salaries and benefits and materials and services then budgeted. Actual revenues were greater than the anticipated revised budget by $344,424 primarily due to an increase in redevelopment agency pass-through revenue of $410,848 greater than anticipated.

Capital Asset Administration

Changes in capital assets for the year were as follows:

		Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-depreciable capital assets	$	1,865,566	60,392	(226,949)	1,699,009
Depreciable capital assets		14,928,917	390,305	(52,485)	15,266,737
Total capital assets		16,794,483	450,697	(279,434)	16,965,746
Accumulated depreciation		(5,901,472)	(610,260)	52,485	(6,459,247)
Total capital assets, net	$	10,893,011	(159,563)	(226,949)	10,506,499

At the end of fiscal year 2012, the District's investment in capital assets amounted to $10,506,499 (net of accumulated depreciation). This investment in capital assets includes structures and improvements, playground equipment, equipment and construction-in-process. Major capital asset additions during the year include various improvements and equipment purchases totaling $223,748. See note 4 for further information on the District's capital assets.

Debt Administration

Changes in long-term debt for the year was as follows:

		Balance 2011	Additions	Principal Payments	Balance 2012
Certificates-of-participation	$	2,340,000	-	(60,000)	2,280,000

In 2012, long-term debt decreased by $60,000 due to principal payments on the District's certificates-of-participation. See further detail at note 6.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's General Manager, Kevin Kalman, at the Desert Recreation District, 45-305 Oasis Street, Indio, California 92201 or (760) -347-3484.

Basic Financial Statements

Desert Recreation District
Statement of Net Assets
June 30, 2012
With Comparative Amounts as of June 30, 2011

		2012	2011
Assets:			
Cash and cash equivalents (note 2)	$	6,970,082	6,751,120
Restricted – cash and cash equivalents (note 2)		715,869	711,860
Accrued interest receivable		2,142	3,244
Accounts receivable		195,450	179,421
Property taxes receivable		66,168	170,035
Restricted – special assessments receivable		137,302	232,279
Redevelopment agencies receivable		5,558	91,262
Prepaid expenses and other assets		177,292	56,290
Note receivable – property tax from state (note 3)		208,045	198,769
Capital assets – not being depreciated (note 4)		1,699,009	1,861,241
Capital assets – being depreciated, net (note 4)		8,807,490	9,031,770
Total assets		18,984,407	19,287,291
Liabilities:			
Accounts payable and accrued expenses		484,616	537,452
Accrued salaries and benefits		149,053	195,236
Deferred revenue and customer deposits		104,210	145,604
Accrued interest payable		37,009	37,740
Long-term liabilities – due in one year:			
Compensated absences (note 5)		79,342	89,964
Certificates-of-participation (note 6)		65,000	60,000
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)		238,027	269,893
Other post-employment benefits payable (note 7)		601,114	597,539
Certificates-of-participation (note 6)		2,215,000	2,280,000
Total liabilities		3,973,371	4,213,428
Net assets: (note 9)			
Net investment in capital assets		8,226,499	8,553,011
Restricted for debt service		138,819	138,088
Restricted for specified facilities		677,343	768,311
Unrestricted		5,968,375	5,614,453
Total net assets	$	15,011,036	15,073,863

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Activities
For the Fiscal Year Ended June 30, 2012
With Comparative Amounts for the Fiscal Year Ended June 30, 2011

Governmental Activities:		2012	2011
Expenses:			
Recreation and park operations:			
Salaries and benefits	$	6,549,188	6,577,422
Facilities and maintenance		2,343,485	2,312,551
Materials and services		1,124,221	1,014,029
Indio Community Center & Park project (note 8)		469,423	465,009
Claims and settlements		7,000	171,943
Interest on long-term debt		111,393	114,314
Depreciation		610,260	553,914
Total expenses		11,214,970	11,209,182
Program revenues:			
Charges for services:			
Registration and other fees		3,005,230	2,742,425
Facility and other rental fees		124,548	157,266
Intergovernmental service fees		333,001	330,740
Special assessments		2,435,746	2,573,190
Total charges for services		5,898,525	5,803,621
Operating grants and contributions		197,400	30,278
Capital grants and contributions		657,970	523,138
Total program revenues		6,753,895	6,357,037
Net program expense		4,461,075	4,852,145
General revenues:			
Property taxes		2,067,706	1,643,342
Redevelopment agency pass-through		2,296,022	2,026,684
Interest earnings		34,520	66,714
Total general revenues		4,398,248	3,736,740
Change in net assets		(62,827)	(1,115,405)
Net assets – beginning of year – as restated		15,073,863	16,189,268
Net assets – end of year	$	15,011,036	15,073,863

Desert Recreation District
Balance Sheet – Governmental Funds
June 30, 2012

		General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Assets:					
Cash and cash equivalents	$	6,796,890	-	173,192	6,970,082
Restricted – cash and cash equivalents		175,828	540,041	-	715,869
Accrued interest receivable		2,142	-	-	2,142
Accounts receivable		195,450	-	-	195,450
Property taxes receivable		66,168	-	-	66,168
Restricted – special assessments receivable		-	137,302	-	137,302
Redevelopment agencies receivable		5,558	-	-	5,558
Due from other funds (note 11)		2,222,836	-	-	2,222,836
Prepaid expenses and other assets		172,882	-	4,410	177,292
Note receivable – property tax from state		208,045	-	-	208,045
Total assets		9,845,799	677,343	177,602	10,700,744
Liabilities:					
Accounts payable and accrued expenses		448,860	-	35,756	484,616
Accrued salaries and benefits		138,897	-	10,156	149,053
Due to other funds (note 11)		-	1,717,335	505,501	2,222,836
Deferred revenue and customer deposits		312,255	-	-	312,255
Total liabilities		900,012	1,717,335	551,413	3,168,760
Fund balance: (note 10)					
Nonspendable		172,882	-	4,410	177,292
Restricted		175,828	677,343	-	853,171
Committed		710,438	-	-	710,438
Assigned		5,791,083	-	-	5,791,083
Unassigned		2,095,556	(1,717,335)	(378,221)	-
Total fund balance		8,945,787	(1,039,992)	(373,811)	7,531,984
Total liabilities and fund balance	$	9,845,799	677,343	177,602	10,700,744

See accompanying notes to the basic financial statements

Desert Recreation District
Reconciliation of the Balance Sheet of Governmental Type Funds to the Statement of Net Assets
June 30, 2012

Reconciliation:

Fund balance of governmental funds	$	7,531,984
Amounts reported for governmental activities in the statement of net assets is different because:		
Certain deferred revenue liabilities are recognized as revenue in the government-wide presentation; however, those revenue are not considered current financial resources and deferred in the governmental funds balance sheet.		208,045
Capitalized assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the Statement of Net Assets includes those assets as capital assets.		10,506,499
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. However, the Statement of Net Assets recognizes accrued interest on long-term debt based on the period of accrual.		(37,009)
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities' both current and long-term, are reported in the Statement of Net Assets as follows:		
Compensated absences		(317,369)
Other post-employment benefits payable		(601,114)
Certificates-of-participation		(2,280,000)
Net assets of governmental activities	$	15,011,036

Desert Recreation District
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Type Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	$ 2,067,706	-	-	2,067,706
Redevelopment agency pass-through	2,296,022	-	-	2,296,022
Charges for services:				
Registration and other fees	2,737,622	-	267,608	3,005,230
Facility and other rental fees	116,470	-	8,078	124,548
Intergovernmental service fees	333,001	-	-	333,001
Special assessments	-	2,435,746	-	2,435,746
Operating grants and contributions	26,000	-	171,400	197,400
Capital grants and contributions	657,970	-	-	657,970
Investment earnings	25,244	-	-	25,244
Total revenues	8,260,035	2,435,746	447,086	11,142,867
Expenditures:				
Salaries and benefits	5,066,347	1,224,596	297,158	6,588,101
Facilities and maintenance	1,121,597	874,336	347,552	2,343,485
Materials and services	786,851	272,061	65,309	1,124,221
Indio Community Center & Park project (note 8)	-	469,423	-	469,423
Claims and settlements	7,000	-	-	7,000
Capital outlay	149,935	-	73,813	223,748
Principal paid	60,000	-	-	60,000
Interest paid	112,124	-	-	112,124
Total expenditures	7,303,854	2,840,416	783,832	10,928,102
Excess of revenues over expenditures	956,181	(404,670)	(336,746)	214,765
Other financing sources(uses):				
Transfers (note 11)	-	-	-	-
Change in fund balance	956,181	(404,670)	(336,746)	214,765
Fund balance – beginning of year - as restated	7,989,606	(635,322)	(37,065)	7,317,219
Fund balance – end of year	$ 8,945,787	(1,039,992)	(373,811)	7,531,984

See accompanying notes to the basic financial statements

Desert Recreation District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Reconciliation:

Net changes in fund balance of governmental fund	$	214,765
Amounts reported for governmental activities in the statement of activities is different because:		
Some revenues reported in the statement of activities are not current financial resources, and, therefore, are not reported as revenues in governmental funds as follows: Interest on property taxes from state		9,276
Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, those expenses are not reported as expenditures in governmental funds as follows:		
Net change in compensated absences		42,488
Net change in other post-employment benefits payable		(3,575)
Net change in accrued interest payable		731
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those capitalized assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay		223,748
Depreciation expense		(610,260)
Principal repayment of long-term debt is reported as an expenditure in governmental funds. However, principal repayments reduce liabilities in the Statement of Net Assets and do not result in expenses in the Statement of Activities.		60,000
Change in net assets of governmental activities	$	(62,827)

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Coachella Valley Recreation and Parks District was formed on December 18, 1950, for the purpose of providing recreation facilities and services in the Coachella Valley under Section 5780 of the Public Resources Code. On January 1, 2009, the District was renamed as the Desert Recreation District (District). The District's services include recreational programs, sports leagues, aquatics, preschool, park maintenance, referral services, community center usage, parks, trips and education activities. The District encompasses approximately 1,800 square miles with the headquarters located in Indio, California. General administration and management of the District is under the direction of a five-member Board of Directors and a General Manager.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity,* and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Because the governing bodies are substantially the same as that of the District, the District has six component units, which are considered blended component units, as follows:

California Special District Finance Corporation (Corporation)

The Corporation is a non-profit, public benefit corporation incorporated under the laws of the State of California. The Corporation was formed to provide financing assistance to the District for the construction and acquisition of major capital facilities. Upon completion of the subject transactions, the District occupies the Corporation's facilities under a lease-purchase agreement effective through 2032. At the end of the lease term, title of the Corporation's property will pass to the District for no additional compensation. There are no individual financial statements issued for the Corporation.

Assessment District 97-1, Thousand Palms Landscape and Lighting

On July 23, 1997, the District formed the Thousand Palms Landscape and Lighting Assessment District to provide improvements and continue to levy special assessments previously provided and levied by the County of Riverside. The District levied and collected annual assessments beginning in fiscal year 1998. Assessments are used to maintain and operate the Thousand Palms Community Center, recreation facilities, landscaping and lighting maintenance.

Assessment District 02-1, Coachella Landscape and Lighting

On June 25, 2003, the District formed the Coachella Landscape and Lighting Assessment District No. 02-1. Assessments began collection in fiscal year 2004.

Assessment District 03-1, Mecca Landscape and Lighting

On June 25, 2003, the District formed the Mecca Landscape and Lighting Assessment District No. 03-1. Assessments began collection in fiscal year 2004.

Assessment District 03-2, Thousand Palms Landscape and Lighting

On June 25, 2003, the District formed the Thousand Palms Landscape and Lighting Assessment District No. 03-2. Assessments began collection in fiscal year 2004.

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity, continued

Assessment District 06-1, Coachella Drainage Benefit Assessment

On April 26, 2006, the District formed the Coachella Drainage Benefit Assessment District No. 06-1. Assessments began collection in fiscal year 2008.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

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 liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the district are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due. The District reports the following major governmental funds:

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Governmental Funds

General Fund – is a government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary

Special Assessment Fund – accounts for funds received from a special assessment for specific park and recreation facilities and operations.

Golf Fund – accounts for the funds received and expended for golfing operations at the District's golf course.

C. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of District's cash is invested in interest bearing cash accounts. The District considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Property Taxes and Special Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and special assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and special assessments receivable at year-end are related to property taxes collected by the County of Riverside which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

5. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities and Net Assets, continued

6. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, land improvements, buildings, buildings and improvements, machinery and equipment and vehicles. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Class	Useful Lives
Land improvements	10-20 years
Buildings and structures	5-50 years
Machinery and equipment	3-20 years
Vehicles	6-8 years

7. Compensated Absences

The District's policy is to permit full time employees to accumulate earned vacation time, sick leave, and compensating time. Earned vacation time shall be earned by each employee subject to the accrual limitations and policies.

8. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Assets – This component of net assets consists of constraints on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets.*

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities, Net Assets, continued

9. Fund Balance

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s special revenue funds.

Unassigned fund balance – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

Cash and cash equivalents as June 30, are classified in the accompanying financial statements as follows:

		2012
Cash and cash equivalents	$	6,970,082
Restricted - cash and cash equivalents		715,869
Total	$	7,685,951

Cash and cash equivalents as of June 30, consist of the following:		**2012**
Cash on hand	$	800
Deposits held with bond trustee		175,828
Deposits held with financial institutions		4,263,209
Deposits held with California Local Agency Investment Fund (LAIF)		2,244,131
Deposits held with Riverside County Pooled Investment Fund (RCPIF)		1,001,983
Total	$	7,685,951

As of June 30, the District's authorized deposits had the following maturities:	**2012**
Deposits held with California Local Agency Investment Fund (LAIF)	268 days
Deposits held with Riverside County Pooled Investment Fund (RCPIF)	429 days

Authorized Deposits and Investments

Under provisions of the District’s investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as prescribed by its investment policy. The following are two investment pools where the District has invested its funds:

Local Agency Investment Fund

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer’s Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District’s position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District’s deposits with the bank in accordance with the Code.

Riverside County Treasury – Pooled Investment Fund

The Riverside County Treasury Pooled Investment Fund (RCPIF) is a pooled investment fund program governed by the County of Riverside Board of Supervisors, and administered by the County of Riverside Treasurer and Tax Collector. Investments in RCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty. RCPIF does not impose a maximum investment limit.

The County of Riverside’s bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the County of Riverside Administrative Office – 4080 Lemon Street, 4th Floor – Capital Markets – Riverside, CA 92506 or the Treasurer and Tax Collector’s office website at www.countytreasurer.org.

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and 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 investment in securities through the use of mutual funds or government investment pools (such as LAIF or RCPIF)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

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; however, LAIF is not rated and the RCPIF has been rated AAA-bf by Moody's.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 29% and RCPIF is 13% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was $198,769 plus accrued interest at a rate of 2.00% per annum of $9,276 for a total of $208,045 as of June 30, 2012. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements as follows:

The balance consists of the following:	Amount
Property tax from state	$ 198,769
Accrued interest receivable	9,276
Total	$ 208,045

(4) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-depreciable capital assets:				
Land – golf	$ 961,613	-	-	961,613
Land – parks	677,004	-	-	677,004
Construction-in-process – golf	4,325	-	(4,325)	-
Construction-in-process – parks	222,624	60,392	(222,624)	60,392
Total non-depreciable capital assets	1,865,566	60,392	(226,949)	1,699,009
Depreciable capital assets:				
Land improvements – golf	394,331	34,913	(8,132)	421,112
Land improvements – parks	2,181,340	-	-	2,181,340
Buildings and structures – golf	116,083	43,226	-	159,309
Buildings and structures – parks	10,782,126	299,384	-	11,081,510
Machinery and equipment – golf	154,499	-	-	154,499
Machinery and equipment – parks	822,334	12,782	(44,353)	790,763
Vehicles – parks	478,204	-	-	478,204
Total depreciable capital assets	14,928,917	390,305	(52,485)	15,266,737
Accumulated depreciation:				
Land improvements – golf	(215,631)	(18,616)	8,132	(226,115)
Land improvements – parks	(1,506,883)	(81,137)	-	(1,588,020)
Buildings and structures – golf	(73,354)	(7,491)	-	(80,845)
Buildings and structures – parks	(3,267,012)	(382,371)	-	(3,649,383)
Machinery and equipment – golf	(76,016)	(12,894)	-	(88,910)
Machinery and equipment – parks	(482,631)	(60,854)	44,353	(499,132)
Vehicles – parks	(279,945)	(46,897)	-	(326,842)
Total accumulated depreciation	(5,901,472)	(610,260)	52,485	(6,459,247)
Total depreciable capital assets, net	9,027,445	(219,955)	-	8,807,490
Total capital assets, net	$ 10,893,011			10,506,499

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, were as follows:

Balance 2011	Additions	Deletions	Balance 2012	Current Portion	Long-term Portion
$ 359,857	297,852	(340,340)	317,369	79,342	238,027

(6) Certificates-of-Participation – Series 2002

On September 10, 2002, the District issued $2,710,000 in Certificates-of-Participation – Series 2002 under a 30-year lease agreement with the California Special District Finance Corporation (Corporation).

Interest is payable semi-annually on March 1st and September 1st of each year while principal payments are made on September 1st of each year, commencing September 1, 2003 with interest rates ranging from 3.650% to 5.000%. A reserve fund is required to be held by the bond trustee, as defined in the bond indenture. The amount held in reserve as of June 30, 2012, was $175,828. Annual debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 65,000	111,028	176,028
2014	65,000	108,656	173,656
2015	70,000	105,406	175,406
2016	75,000	101,906	176,906
2017	75,000	98,156	173,156
2018-2022	450,000	429,649	879,649
2023-2027	575,000	307,123	882,123
2028-2032	735,000	152,097	887,097
2033	170,000	8,287	178,287
Total	2,280,000	1,422,308	3,702,308
Current	(65,000)		
Long-term	$ 2,215,000		

(7) Other Post Employment Benefits Payable

During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility and Benefits

The District pays a portion of the cost of medical and dental insurance for eligible retirees. The District will pay medical and dental insurance premiums for employees that are sixty-two or more years of age and retire from District service with a minimum of ten years of service with the District.

(7) Other Post Employment Benefits Payable, continued

Funding Policy

The District is required to identify the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 13.0% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (by recording a liability) for the difference between the annual pay-as-you-go amount and the actuarially determined ARC cost.

Annual Cost

For the year ended June 30, 2012, the District's ARC cost is $301,277. The District's net OPEB payable obligation amounted to $601,114 for the year ended June 30, 2012. The District contributed $2,107 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2012 and contributed $295,595 to the District's Public Agencies Post-Retirement Health Care Plan Trust administered by PARS.

The balance at June 30, consists of the following:		2012	2011	2010
Annual OPEB expense:				
Annual required contribution (ARC)	$	295,595	295,595	295,595
Interest on net OPEB obligation		29,877	14,590	-
Interest earned on irrevocable trust balance		(10,688)	-	-
Adjustment to annual required contribution		(13,507)	-	-
Total annual OPEB expense		301,277	310,185	295,595
Change in net OPEB payable obligation:				
Contributions made to irrevocable trust		(295,595)	-	-
Age adjusted (contributions)/distributions, net		(2,107)	(4,451)	(3,790)
Total change in net OPEB payable obligation		3,575	305,734	291,805
OPEB payable – beginning of year		597,539	291,805	-
OPEB payable – end of year	$	601,114	597,539	291,805

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Age & Other Contributions	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2012	$	301,277	297,702	98.81%	$	601,114
2011		310,185	4,451	0.00%		597,539
2010		295,595	3,790	0.00%		291,805

(7) Other Post Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2009) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $1,156,747. There are no plan assets because the District funds on a pay-as-you-go basis. No trend information is reported because the year ended June 30, 2010, is the first year that the District implemented GASB 45. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2010 was $2,271,613. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 50.92%. (See Schedule at page 31)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2009
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Individual salary growth	District annual COLA

(8) Debt Without Government Commitment

On July 11, 2001, the District created Reassessment District No. 01-1 (Indio Community Center and Park project). On August 27, 2001, the District issued limited obligation refunding bonds in the amount of $5,105,000, pursuant to the Refunding Act of 1984. Proceeds of the bonds were used to refund (defease) Reassessment District No. 94-1 bonds, originally issued in the principal amount of $6,420,000, of which $5,350,000 was outstanding when refunded. The outstanding principal of these bonds as of June 30, 2012 was $2,085,000

The bonds are payable from annual installments collected on regular property tax bills sent to owners of property having unpaid assessments levied against land benefited by the projects. Neither the faith, credit, nor taxing power of the District is pledged to the repayment of the bonds. Accordingly, no liability has been recorded in the financial statements.

(9) Net Assets

Calculation of net assets as of June 30, were as follows:		**2012**
Net investment in capital assets:		
Capital assets – not being depreciated	$	1,699,009
Capital assets – being depreciated, net		8,807,490
Certificates-of-participation – current portion		(65,000)
Certificates-of-participation – noncurrent portion		(2,215,000)
Total net investment in capital assets		8,226,499
Restricted net assets:		
Restricted – cash and cash equivalents		715,869
Restricted – special assessments receivable		137,302
Accrued interest payable		(37,009)
Total restricted net assets		816,162
Restricted for debt service		138,819
Restricted for specified facilities		677,343
Total restricted net assets		816,162
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses and other assets		177,292
Total non-spendable net assets		177,292
Spendable net assets are designated as follows:		
Six-month operating reserve		5,500,000
Contingency reserve		291,083
Total spendable net assets		5,791,083
Total unrestricted net assets		5,968,375
Total net assets	$	15,011,036

(10) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.C.9 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2012 is as follows:

Description		General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Nonspendable:					
Prepaid expenditures	$	172,882	-	4,410	177,292
Restricted:					
Restricted for debt service		138,819	-	-	138,819
Restricted for specified facilities		-	677,343	-	677,343
Total		138,819	677,343	-	816,162
Committed:					
Note receivable – property tax from state		(208,045)	-	-	(208,045)
Compensated absences		317,369	-	-	317,369
Other post-employment benefits payable		601,114	-	-	601,114
Total		710,438	-	-	710,438
Assigned:					
Six-month operating reserve		5,500,000	-	-	5,500,000
Contingency reserve		291,083	-	-	291,083
Total		5,791,083	-	-	5,791,083
Unassigned:					
Compensating balance reserve		2,095,556	(1,717,335)	(378,221)	-
Total fund balance	$	8,908,778	(1,039,992)	(373,811)	7,494,975

(11) Due To/From Other Funds and Transfers

Interfund Balances and Activities

Due from	Due to		Amount
General Fund	Spacial Assess.	$	1,717,335
General Fund	Golf Fund		505,501
	Total	$	2,222,836

The General Fund has loaned cash to the Special Assessment Fund to cover the costs of operating specific facilities that are above the special assessments revenues received.

The General Fund has loaned cash to the Golf Fund to assist in the ongoing operations of the Golf Center and Golf Course.

(12) Pension Plans

Full-time Employees

As of June 30, 2011, all regular full-time employees who meet the eligibility requirements are covered under the Coachella Valley Recreation and Park District Retirement Plan (Plan) administered by the District. This plan is a defined contribution deferred compensation pension plan under Code Section 401(a) of the Internal Revenue Code of 1986 (Code). The plan is fully funded by the District with a contribution rate of 10% of eligible compensation, net of non-vested portions of contributions of terminated employees (forfeitures). Charles Schwab serves as Trustee for the Plan. The employer's contributions to this plan for the fiscal year ending June 30, 2012, totaled $155,756. Regular full-time employees are eligible for the Plan when they have been employed by the District for six months. Full-time employees are also covered under Social Security, funded equally by the District and the employees. Effective July 1, 2011, the District adopted the Public Agency Retirement Services (PARS) Defined Contribution Plan, replacing the Plan in full.

Part-time, Seasonal and Temporary Employees

As of June 30, 2011, part-time, seasonal and temporary employees participate in a mandatory social security replacement plan (FICA Plan), which is a non-qualified defined contribution plan under Code Section 457(b). Each member employee contributes 3.75 percent of his/her gross wages. This amount is matched by the District. The total 7.5 percent is deposited into a retirement account on behalf of each employee at Lincoln National Life Insurance Company. Employees are 100% vested in all contributions at all times. Upon termination of employment, the employee may withdraw his/her money, subject to applicable fees and penalties, or leave the balance in the FICA Plan to collect interest, subject to certain requirements. The District's contributions to this plan for the fiscal years ended June 30, 2012 totaled $112,927. Effective July 1, 2011, the District adopted the PARS FICA Alternative Retirement Plan, replacing the Plan in full.

(13) Risk Management

Self-Insurance Pool Pursuant to Joint Powers Agreement

The Desert Recreation District is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

(13) Risk Management, continued

Self-Insurance Programs of the Authority

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is $5.5 million. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies. The overall coverage limit for each member including all layers of coverage is $50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of $35 million per occurrence. This $35 million subsidence sub-limit is composed of (a) $5 million retained within the pool's SIR, (b) $10 million in reinsurance and (c) $20 million in excess insurance. The excess insurance layer has a $20 million annual aggregate.

Purchased Insurance

Pollution Legal Liability Insurance

The Desert Recreation District participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the Desert Recreation District. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a $10 million sub-limit during the 3-year term of the policy.

Property Insurance

The Desert Recreation District participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. Desert Recreation District property is currently insured according to a schedule of covered property submitted by the Desert Recreation District to the Authority. Desert Recreation District property currently has all-risk property insurance protection in the amount of $15,797,463. There is a $5,000 deductible per occurrence except for non-emergency vehicle insurance which has a $1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

(13) Risk Management, continued

Earthquake and Flood Insurance

The Desert Recreation District purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. Desert Recreation District property currently has earthquake protection in the amount of $0. There is a deductible of 5% per unit of value with a minimum deductible of $100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The Desert Recreation District purchases crime insurance coverage in the amount of $1,000,000 with a $2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

Special Event Tenant User Liability Insurance

The Desert Recreation District further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the Desert Recreation District according to a schedule. The Desert Recreation District then pays for the insurance. The insurance is arranged by the Authority.

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2011-12.

Workers' Compensation

The District is a participant in the California Association for Park and Recreation Insurance (CAPRI). CAPRI is governed by a separate board of directors, which is comprised of seven directors elected from the member districts. The board controls the operations of CAPRI, including selection of management and approval of operating budgets. The purpose of CAPRI is to arrange and administer programs of insurance and to purchase excess insurance coverage. At June 30, 2012, the District participated in the workers' compensation and of CAPRI as follows:

- Workers' compensation and employer liability insurance up to $250,000 limits.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*s. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus.* This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain* items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(17) Prior Period Adjustment

Prior Period Adjustment		**Balance**
Government-wide net assests – June 30, 2011	$	15,123,412
Over-accrual of revenues		(49,549)
Government-wide net assests – June 30, 2011 – as restated	$	15,073,863
Governmental fund balance – June 30, 2011	$	7,311,795
Under-accrual of revenues		42,489
Governmental fund balance – June 30, 2011 – as restated	$	7,354,284
General fund	$	7,989,606
Special assessment funds		(635,322)
Total governmental funds	$	7,354,284
Golf fund net assets – June 30, 2011	$	1,228,784
Convert to fund balance from net assets:		
Remove capital assets, net		(1,265,849)
Golf fund balance – June 30, 2011 – as reststed	$	(37,065)

In fiscal year 2012, the District had the above noted prior period adjustments and converted the golf fund from a business-type activity to a governmental activity due to the continued support from the general fund to the golf fund to fund operations because of competition from surrounding golf courses.

(16) Contingencies

Litigation

In the ordinary course of operations, the District is subject to other claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, other than the matter discussed above, will not materially affect its financial condition.

(17) Subsequent Events

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2012, which is the date the financial statements were available to be issued.

(18) Schedule of Special Assessment Funds

		Special Assessment Funds							
		97-1	02-1	03-1	03-2	06-1	93-1	01-1	Total
Balance Sheets									
Assets:									
Restricted – cash and cash equivalents	$	-	-	285,556	145,226	740	108,519	-	540,041
Restricted – special assessments receivable		28,561	3,393	325	293	-	38,736	65,994	137,302
Total assets		28,561	3,393	285,881	145,519	740	147,255	65,994	677,343
Liabilities:									
Due to other funds		168,474	74,634	-	-	-	-	1,474,227	1,717,335
Fund balance:									
Restricted		28,561	3,393	285,881	145,519	740	147,255	65,994	677,343
Unassigned		(168,474)	(74,634)	-	-	-	-	(1,474,227)	(1,717,335)
Total liabilities and fund balance	$	28,561	3,393	285,881	145,519	740	147,255	65,994	677,343
Statement of Revenues, Expenditures and Changes in Fund Balance									
Revenues:									
Special assessments	$	290,016	95,199	87,962	293	-	781,749	1,180,527	2,435,746
Expenditures:									
Salaries and benefits		111,326	3,728	30,026	313	-	452,292	626,911	1,224,596
Facilities and maintenance		237,002	129,378	25,197	-	-	246,584	236,175	874,336
Materials and services		23,302	7,578	6,380	-	-	100,261	134,540	272,061
Indio Community Center & Park project		-	-	-	-	-	-	469,423	469,423
Total expenditures		371,630	140,684	61,603	313	-	799,137	1,467,049	2,840,416
Excess (deficiency) of revenues over(under) expenditures		(81,614)	(45,485)	26,359	(20)	-	(17,388)	(286,522)	(404,670)
Fund balance – beginning of the year		(58,299)	(25,756)	259,522	145,539	740	164,643	(1,121,711)	(635,322)
Fund balance – end of the year	$	(139,913)	(71,241)	285,881	145,519	740	147,255	(1,408,233)	(1,039,992)

Required Supplementary Information

Desert Recreation District
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Taxes:					
Property taxes	$ 2,261,132	5,428	2,266,560	2,067,706	(198,854)
Redevelopment agency pass-through	1,890,753	(5,579)	1,885,174	2,296,022	410,848
Charges for services:					
Registration and other fees	2,697,622	40,000	2,737,622	2,737,622	-
Facility and other rental fees	139,320	(30,036)	109,284	116,470	7,186
Intergovernmental service fees	303,001	30,000	333,001	333,001	-
Operating grants and contributions	26,000	-	26,000	26,000	-
Capital grants and contributions	120,000	412,970	532,970	657,970	125,000
Investment earnings	44,077	(19,077)	25,000	25,244	244
Total revenues	7,481,905	433,706	7,915,611	8,260,035	344,424
Expenditures:					
Salaries and benefits	5,036,980	(216,012)	4,820,968	5,066,347	(245,379)
Facilities and maintenance	1,553,906	(386,971)	1,166,935	1,121,597	45,338
Materials and services	693,162	(3,837)	689,325	786,851	(97,526)
Claims and settlements	-	7,000	7,000	7,000	-
Capital outlay	935,900	(600,968)	334,932	149,935	184,997
Principal paid	60,000	-	60,000	60,000	-
Interest paid	115,000	(2,876)	112,124	112,124	-
Total expenditures	8,394,948	(1,203,664)	7,191,284	7,303,854	(112,570)
Excess(Deficiency) of revenues over(under) expenditures	(913,043)	1,637,370	724,327	956,181	231,854
Other financing sources(uses):					
Transfers	-	-	-	-	-
Net change in fund balance	(913,043)	1,637,370	724,327	956,181	231,854
Fund balance - beginning of year	7,989,606		7,989,606	7,989,606	
Fund balance - end of year	$ 7,076,563		8,713,933	8,945,787	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District prepares and submits an operating budget to the Board of Directors for the General Fund, Special Assessment Fund and the Golf Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts. The District's annual budget is presented as a balanced budget (inflows and reserves equal outflows and reserves) adopted for the General Fund, Special Assessment Fund and the Golf Fund at the detailed expenditure-type level.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget with approved supplemental changes. The budgeted revenue amounts represent the adopted budget as originally approved.

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	$ -	1,156,747	1,156,747	0.00%	$ 2,271,613	50.92%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2013 based on the year ending June 30, 2012.

Report on Compliance and Internal Controls

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Desert Recreation District
Indio, California

We have audited the basic financial statements of the Desert Recreation District (District) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 30, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2012