



Desert Recreation District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018



**Desert Recreation District
Board of Directors as of June 30, 2018**

Name	Title	Term
Laura McGalliard	President	12/2015 - 12/2019
Rudy Gutierrez	Vice President	12/2015 - 12/2019
Silvia Paz	Director	12/2017 - 12/2021
Joanne Gilbert	Director	12/2015 - 12/2019
Rudy Acosta	Director	12/2017 - 12/2021

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

Desert Recreation District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018

**Desert Recreation District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

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Financial Section

Independent Auditor's Report

Board of Directors
Desert Recreation District
Indio, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Desert Recreation District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District'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; 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 from 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Desert Recreation District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of a Matter

Restatement of Net Position

As discussed in Note 8 to the financial statements, in fiscal year 2018, the District adopted the provisions of GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Consequently, the beginning net OPEB liability was recorded and net position was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, the required supplementary information on pages 41 and 42, 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. 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information schedule, on pages 43 and 44, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information schedule is the responsibility of management and was 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2018, 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 pages 45 and 46.

Fedak & Brown LLP

Cypress, California

November 29, 2018

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Desert Recreation District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018. 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 position increased 5.94% or \$1,280,310, from \$21,545,207 to \$22,825,517, primarily due to an increase from operations in the amount of \$1,315,799 and a decrease from the restatement of net position in the amount of \$35,489 related to the implementation of GASB No. 75. See note 8 for further discussion.
- Total revenues increased by 3.78% or \$477,899 from \$12,641,954 to \$13,119,853.
- Total expenses increased by 1.74% or \$201,908 from \$11,602,146 to \$11,804,054.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. 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 Position 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 Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 position* and changes in them. Think of the District's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors, such as changes in the District's property tax base, to assess the *overall health* of the District.

Desert Recreation District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

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. The notes to the basic financial statements can be found on pages 20 through 40.

Government-wide Financial Analysis

Statement of Net Position

Condensed Statements of Net Position

	Governmental Activities		Business-type Activities		Total District	
	2018	2017	2018	2017	2018	2017
Assets:						
Current assets	\$ 12,816,015	13,801,672	148,489	114,525	12,964,504	13,916,197
Capital assets, net	13,927,955	10,627,464	1,990,617	2,074,717	15,918,572	12,702,181
Total assets	26,743,970	24,429,136	2,139,106	2,189,242	28,883,076	26,618,378
Liabilities:						
Current liabilities	1,617,100	914,145	3,271,874	2,819,596	4,888,974	3,733,741
Non-current liabilities	1,164,387	1,337,154	-	2,276	1,164,387	1,339,430
Total liabilities	2,781,487	2,251,299	3,271,874	2,821,872	6,053,361	5,073,171
Deferred inflows of resources:						
Deferred OPEB inflows	4,198	-	-	-	4,198	-
Total deferred inflows of resources	4,198	-	-	-	4,198	-
Net position:						
Net investment in capital assets	13,149,416	10,627,464	1,990,617	2,074,717	15,140,033	12,702,181
Restrict	868,405	-	-	-	868,405	-
Unrestricted	9,940,464	11,550,373	(3,123,385)	(2,707,347)	6,817,079	8,843,026
Total net position	\$ 23,958,285	22,177,837	(1,132,768)	(632,630)	22,825,517	21,545,207

Desert Recreation District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Government-wide Financial Analysis, continued

Statement of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22,825,517 as of June 30, 2018.

A large portion of the District's net position (66.33% or \$15,140,033) 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 2018, the District shows a positive balance in its unrestricted net position of \$6,817,079 that may be utilized in future years.

Statement of Activities

Condensed Statements of Activities

	Governmental Activities		Business-type Activities		Total District	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 3,949,388	3,507,692	247,177	257,314	4,196,565	3,765,006
Operating grants and contributions	106,660	220,837	255,560	210,916	362,220	431,753
Capital grants and contributions	294,230	430,088	-	-	294,230	430,088
General revenues:						
Property taxes	8,170,362	7,941,395	-	-	8,170,362	7,941,395
Interest earnings	96,476	73,712	-	-	96,476	73,712
Total revenues	12,617,116	12,173,724	502,737	468,230	13,119,853	12,641,954
Expenses:						
Salaries and benefits	6,263,612	6,039,696	300,368	318,311	6,563,980	6,358,007
Facilities and maintenance	2,581,253	2,265,790	424,771	365,075	3,006,024	2,630,865
Materials and services	1,174,502	1,266,268	179,807	37,355	1,354,309	1,303,623
Indio Community Center & Park	-	460,350	-	-	-	460,350
Depreciation expense	756,922	722,620	97,929	96,790	854,851	819,410
Interest expense	24,890	29,891	-	-	24,890	29,891
Total expenses	10,801,179	10,784,615	1,002,875	817,531	11,804,054	11,602,146
Change in net position	1,815,937	1,389,109	(500,138)	(349,301)	1,315,799	1,039,808
Net position, beginning of year, as previously stated	22,177,837	20,788,728	(632,630)	(283,329)	21,545,207	20,505,399
Prior period adjustment	(35,489)	-	-	-	(35,489)	-
Net position, beginning of year, as restated	22,142,348	20,788,728	(632,630)	(283,329)	21,509,718	20,505,399
Net position, end of year	\$ 23,958,285	22,177,837	(1,132,768)	(632,630)	22,825,517	21,545,207

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position increased by \$1,280,310 during the fiscal year ended June 30, 2018, due primarily to an increase of \$1,315,799 from continued operations, which was offset by a decrease of \$35,489 as a result of implementing GASB 75.

Desert Recreation District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Government-wide Financial Analysis, continued

Statement of Activities, continued

Total revenues increased by 3.78% or \$477,899 from \$12,641,954 to \$13,119,853, due primarily to increases of \$431,559 in charges for services and \$228,967 in property taxes; which were offset by decreases of \$135,858 in capital grant contributions and \$69,533 in operating grants and contributions.

Total expenses increased by 1.74% or \$201,908 from \$11,602,146 to \$11,804,054, due primarily to increases of \$375,159 in facilities and maintenance, \$205,973 in salaries and benefits, \$50,686 in materials and services, and \$35,441 in depreciation expense; which were offset by a decrease of \$460,350 in Indio Community Center & Park expenditures.

Governmental Funds Financial Analysis

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2018:

Condensed Changes in Fund Balance – Governmental Funds

		<u>General</u>	<u>Special Assessment</u>	<u>Total Fund Balance</u>
Fund balance, beginning of year	\$	12,840,990	397,391	13,238,381
Changes in fund balance		<u>(2,126,090)</u>	<u>471,014</u>	<u>(1,655,076)</u>
Fund balance, end of year	\$	<u><u>10,714,900</u></u>	<u><u>868,405</u></u>	<u><u>11,583,305</u></u>

In 2018, total fund balance decreased by 12.50% or \$1,655,076 to \$11,583,305. The General fund decreased by 16.56% or \$2,126,090 to \$10,714,900; and the Special Assessment fund increased 118.53% or \$471,014 to \$868,405.

General Fund Budgetary Highlights

Actual expenditures for the District's General fund and Special Assessment fund were \$131,826 more than budget. The variance is due primarily to the effects of capital outlay of \$502,338 more than budgeted; which was offset by actual salaries and benefits of \$235,500 and facilities and maintenance of \$124,764 less than budgeted. Actual revenues for the District's General fund and Special Assessment fund were more than the anticipated budget by \$207,644. The variance is due primarily to the effects of actual registration and other fees of \$106,442, operating grants and contributions of \$56,161, and redevelopment agency taxes of \$49,152 more than budgeted.

Capital Asset Administration

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Capital assets:						
Non-depreciable assets	\$ 6,208,819	2,343,497	961,613	961,613	7,170,432	3,305,110
Depreciable assets	16,953,847	16,822,379	1,644,252	1,630,423	18,598,099	18,452,802
Total capital assets	23,162,666	19,165,876	2,605,865	2,592,036	25,768,531	21,757,912
Accumulated depreciation	<u>(9,234,711)</u>	<u>(8,538,412)</u>	<u>(615,248)</u>	<u>(517,319)</u>	<u>(9,849,959)</u>	<u>(9,055,731)</u>
Total capital assets, net	<u><u>\$ 13,927,955</u></u>	<u><u>10,627,464</u></u>	<u><u>1,990,617</u></u>	<u><u>2,074,717</u></u>	<u><u>15,918,572</u></u>	<u><u>12,702,181</u></u>

Desert Recreation District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Capital Asset Administration, continued

At the end of fiscal year 2018, the District's investment in capital assets amounted to \$15,918,572 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-process, land improvements, buildings and structures, machinery and equipment, and vehicles. See note 3 for further information.

Debt Administration

	Balance 2017	Additions	Principal Payment	Balance 2018
Certificate-of-participation	\$ 1,077,046	-	(298,507)	778,539

At the end of fiscal year 2018, the District's debt consists of a certificate-of-participation with an outstanding balance of \$778,539. See note 5 further information.

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 position 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 there are 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 Position
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 9,176,364	300	9,176,664
Accrued interest receivable	23,693	-	23,693
Accounts receivable	155,788	144,811	300,599
Property taxes and assessments receivable	229,374	-	229,374
Prepaid expenses	26,867	3,378	30,245
Internal balances (note 7)	3,203,929	-	3,203,929
Total current assets	<u>12,816,015</u>	<u>148,489</u>	<u>12,964,504</u>
Non-current assets:			
Capital assets – not being depreciated (note 3)	6,208,819	961,613	7,170,432
Capital assets – being depreciated, net (note 3)	7,719,136	1,029,004	8,748,140
Total non-current assets	<u>13,927,955</u>	<u>1,990,617</u>	<u>15,918,572</u>
Total assets	<u>\$ 26,743,970</u>	<u>2,139,106</u>	<u>28,883,076</u>

Continued on next page

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Net Position, continued
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,005,268	59,575	1,064,843
Accrued interest payable	8,975	-	8,975
Accrued wages and related payables	130,167	6,191	136,358
Deposits and unearned revenue	97,275	-	97,275
Internal balance (note 7)	-	3,203,929	3,203,929
Long-term liabilities – due within one year:			
Compensated absences (note 4)	69,398	2,179	71,577
Certificate-of-participation (note 5)	306,017	-	306,017
Total current liabilities	<u>1,617,100</u>	<u>3,271,874</u>	<u>4,888,974</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)	46,265	-	46,265
Certificate-of-participation (note 5)	472,522	-	472,522
Net OPEB liability (note 6)	645,600	-	645,600
Total non-current liabilities	<u>1,164,387</u>	<u>-</u>	<u>1,164,387</u>
Total liabilities	<u>2,781,487</u>	<u>3,271,874</u>	<u>6,053,361</u>
Deferred inflows of resources:			
Deferred OPEB inflows (note 6)	4,198	-	4,198
Total deferred inflows of resources	<u>4,198</u>	<u>-</u>	<u>4,198</u>
Net position: (note 9)			
Net investment in capital assets	13,149,416	1,990,617	15,140,033
Restricted	868,405	-	868,405
Unrestricted	9,940,464	(3,123,385)	6,817,079
Total net position	<u>\$ 23,958,285</u>	<u>(1,132,768)</u>	<u>22,825,517</u>

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
Recreation and park operations	\$ 7,815,578	3,942,189	106,660	294,230	(3,472,499)	-	(3,472,499)
Assessment districts operations	2,960,711	7,199	-	-	(2,953,512)	-	(2,953,512)
Interest expense on long-term debt	24,890	-	-	-	(24,890)	-	(24,890)
Total governmental activities	<u>10,801,179</u>	<u>3,949,388</u>	<u>106,660</u>	<u>294,230</u>	<u>(6,450,901)</u>	<u>-</u>	<u>(6,450,901)</u>
Business-type activities:							
Golf center operations	1,002,875	247,177	255,560	-	-	(500,138)	(500,138)
Total business-type activities	<u>1,002,875</u>	<u>247,177</u>	<u>255,560</u>	<u>-</u>	<u>-</u>	<u>(500,138)</u>	<u>(500,138)</u>
Total	<u>\$ 11,804,054</u>	<u>4,196,565</u>	<u>362,220</u>	<u>294,230</u>	<u>(6,450,901)</u>	<u>(500,138)</u>	<u>(6,951,039)</u>
General revenues:							
Property taxes and special assessments					\$ 5,546,362	-	5,546,362
Redevelopment agency taxes					2,624,000	-	2,624,000
Interest earnings					96,476	-	96,476
Total general revenues					<u>8,266,838</u>	<u>-</u>	<u>8,266,838</u>
Change in net position					1,815,937	(500,138)	1,315,799
Net position, beginning of year, as restated (note 8)					<u>22,142,348</u>	<u>(632,630)</u>	<u>21,509,718</u>
Net position, end of year					<u>\$ 23,958,285</u>	<u>(1,132,768)</u>	<u>22,825,517</u>

See accompanying notes to the basic financial statements

Desert Recreation District
Balance Sheet – Governmental Funds
June 30, 2018

	General	Special Assessment	Total Governmental Activities
Assets:			
Cash and cash equivalents	\$ 9,176,364	-	9,176,364
Accrued interest receivable	23,693	-	23,693
Accounts receivable	155,788	-	155,788
Property taxes and assessments receivable	124,951	104,423	229,374
Prepaid expenses	26,867	-	26,867
Due from other funds	2,339,446	864,483	3,203,929
Total assets	\$ 11,847,109	968,906	12,816,015
Liabilities:			
Accounts payable and accrued expenses	\$ 904,767	100,501	1,005,268
Accrued wages and related payables	130,167	-	130,167
Deposits and unearned revenue	97,275	-	97,275
Total liabilities	1,132,209	100,501	1,232,710
Fund balance (note 10):			
Nonspendable	26,867	-	26,867
Restricted	-	868,405	868,405
Committed	645,600	-	645,600
Assigned	9,557,391	-	9,557,391
Unassigned	485,042	-	485,042
Total fund balance	10,714,900	868,405	11,583,305
Total liabilities and fund balance	\$ 11,847,109	968,906	12,816,015

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See accompanying notes to the basic financial statements

Desert Recreation District
Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Assets
June 30, 2018

Reconciliation:

Total Fund Balances of Governmental Funds	\$	11,583,305
<p>Amounts reported for governmental activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole.</p>		13,927,955
<p>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 position recognizes accrued interest on long-term debt based on the period of accrual.</p>		(8,975)
<p>Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities' both current and long-term, are reported in the statement of net position as follows:</p>		
Compensated absences		(115,663)
Net other post-employment benefits obligations		(645,600)
Certificates-of-participation		(778,539)
<p>Deferred inflows of resources applicable to the acquisition of resources to be used in future periods.</p>		(4,198)
Net Position of Governmental Activities	\$	<u>23,958,285</u>

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Revenues, Expenditures, and Change in Fund Balance –
Governmental Type Funds
For the Fiscal Year Ended June 30, 2018

	<u>General</u>	<u>Special Assessment</u>	<u>Total Governmental Activities</u>
Revenues:			
Property taxes and special assessments:			
Property taxes	\$ 2,667,037	-	2,667,037
Redevelopment agency taxes	2,624,000	-	2,624,000
Special assessments	-	2,879,325	2,879,325
Charges for services:			
Registration and other fees	1,743,554	-	1,743,554
Intergovernmental service fees	1,721,868	-	1,721,868
Facility and other rental revenues	423,874	-	423,874
Other revenues	52,893	7,199	60,092
Operating grants and contributions	106,660	-	106,660
Capital grants and contributions	8,230	-	8,230
Investment earnings	96,476	-	96,476
Total revenues	<u>9,444,592</u>	<u>2,886,524</u>	<u>12,331,116</u>
Expenditures:			
Salaries and benefits	4,837,318	1,298,309	6,135,627
Facilities and maintenance	1,272,616	1,308,637	2,581,253
Materials and services	820,737	353,765	1,174,502
Capital outlay	3,765,136	6,277	3,771,413
Debt service:			
Principal	298,507	-	298,507
Interest	24,890	-	24,890
Total expenditures	<u>11,019,204</u>	<u>2,966,988</u>	<u>13,986,192</u>
Deficiency of revenues over expenditures	(1,574,612)	(80,464)	(1,655,076)
Other financing sources(uses):			
Operating transfers in(out) (note 7)	(551,478)	551,478	-
Net change in fund balance	(2,126,090)	471,014	(1,655,076)
Fund balance, beginning of year	<u>12,840,990</u>	<u>397,391</u>	<u>13,238,381</u>
Fund balance, end of year	<u>\$ 10,714,900</u>	<u>868,405</u>	<u>11,583,305</u>

Continued on next page

See accompanying notes to the basic financial statements.

Desert Recreation District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance – Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Reconciliation:

Net Change in Fund Balance – Total Governmental Fund	\$	(1,655,076)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:</p>		
Capital outlay		3,771,413
Capital contributions		286,000
Depreciation expense		(756,922)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental funds as follows:</p>		
Compensated absences		(43,376)
Net other post-employment benefits obligations		(80,411)
<p>Principal repayment of long-term debt is reported as an expenditure in governmental funds; however, principal repayments reduce liabilities in the statement of net position and do not result in expenses in the statement of activities.</p>		
		298,507
<p>Amortization and additions to deferred inflows of resources are are not current financial resources and, therefore, are not reported as revenues in the governmental funds.</p>		
		<u>(4,198)</u>
Change in Net Position of Governmental Activities	\$	<u><u>1,815,937</u></u>

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Net Position – Enterprise Fund
June 30, 2018

		<u>Golf Center</u>
Current assets:		
Cash and cash equivalents	\$	300
Accounts receivable		144,811
Prepaid expenses		3,378
Total current assets		<u>148,489</u>
Non-current assets:		
Capital assets – not being depreciated		961,613
Capital assets – being depreciated, net		1,029,004
Total non-current assets		<u>1,990,617</u>
Total assets		<u>2,139,106</u>
Current liabilities:		
Accounts payable and accrued expenses		59,575
Accrued salaries and benefits		6,191
Compensated absences		2,179
Advances from the governmental fund		3,203,929
Total current liabilities		<u>3,271,874</u>
Total liabilities		<u>3,271,874</u>
Net position:		
Net investment in capital assets		1,990,617
Unrestricted		(3,123,385)
Total net position	\$	<u><u>(1,132,768)</u></u>

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Revenues, Expenses, and Change in Fund Net Position –
Enterprise Fund
For the Fiscal Year Ended June 30, 2018

	Golf Center
Operating revenues:	
Charge for services:	
Registration fees	\$ 224,909
Facilities and other rental revenues	13,144
Other revenues	9,124
Operating grants and contributions	255,560
Total operating revenues	502,737
Operating expenses:	
Salaries and benefits	300,368
Facilities and maintenance	424,771
Materials and services	179,807
Total operating expenses	904,946
Operating loss before depreciation expense	(402,209)
Depreciation expense	(97,929)
Change in net position	(500,138)
Net position, beginning of year	(632,630)
Net position, end of year	\$ (1,132,768)

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Cash Flows – Enterprise Fund
For the Fiscal Year Ended June 30, 2018

	2018
Cash flows from operating activities:	
Cash received from customers	\$ 206,119
Cash received from operating grants	255,560
Cash paid to suppliers for goods and services	(567,264)
Cash paid to employees for salaries and wages	(302,005)
Net cash used in operating activities	(407,590)
Cash flows from non-capital financing activities:	
Operating transfers in	421,419
Net cash provided by non-capital financing activities	421,419
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(13,829)
Net cash used in capital and related financing activities	(13,829)
Net increase(decrease) in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	300
Cash and cash equivalents, end of year	\$ 300
Reconciliation of cash and cash equivalents to statement of net position:	
	2018
Cash and cash equivalents	\$ 300
Total cash and cash equivalents	\$ 300

Continued on next page

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Cash Flows – Enterprise Fund, continued
For the Fiscal Year Ended June 30, 2018

	2018
Reconciliation of change in net position to net cash used in operating activities:	
Change in net position	\$ (500,138)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	97,929
Change in assets and liabilities:	
Increase(decrease) in assets:	
Accounts receivable	(41,058)
Prepaid expenses	7,094
Increases in liabilities:	
Accounts payable and accrued expenses	30,220
Accrued salaries and benefits	1,875
Compensated absences	(3,512)
Net cash used in operating activities	\$ (407,590)

See accompanying notes to the basic financial statements

Desert Recreation District
Notes to the Basic Financial Statements
June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Desert Recreation District, formerly the Coachella Valley Recreation and Parks District, was formed on December 18, 1950, established under authority of the California Public Resources Code Sections 5780 et seq. The purpose of the District was to administer park facilities and provide recreation program services including sports leagues, aquatics, preschool, park maintenance, referral services, community center usage, parks, trips, and education activities.

The Cortese-Knox-Hertzberg Act (Act) of the State of California requires public services to be logical, coordinated and orderly in development. The Local Agency Formation Commission (LAFCO) of Riverside County assisted the District in establishing an 1,800 square-mile service sphere of influence and in complying with the Act. Twelve years later the District was expanded and 30 square-miles were annexed into the District's jurisdiction. The District is governed by five elected members of the Board of Directors, each serving one electoral division.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board No. 61, *The Financial Reporting Entity*. 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. The District has six blended component units based the governing bodies that are substantially the same as that of the District. The District's six blended component units are as follows:

- **California Special District Finance Corporation (Corporation)** – 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 and the Corporation is inactive as of June 30, 2014 due to the debt refinancing.
- **Assessment District 97-1, Thousand Palms Landscape and Lighting** – formed on July 23, 1997, the Thousand Palms Landscape and Lighting Assessment District provides improvements and continues 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 93-1, Coachella Valley Landscape and Lighting** – formed in 1993, pursuant to the Landscaping and Lighting Act of 1972, Part 2 of Division 15 of the Streets and Highways Code (1972 Act), the Coachella Valley Landscape and Lighting District No. 93-1 authorizes the District to annually levy and collect assessments to maintain the services and improvements related hereto in the Coachella Valley area.
- **Assessment District 02-1, Coachella Landscape and Lighting** – form on June 25, 2003, the Coachella Landscape and Lighting Assessment District No. 02-1 began collecting assessments in fiscal year 2004.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

A. Organization and Operations of the Reporting Entity, continued

- **Assessment District 03-1, Mecca Landscape and Lighting** - formed on June 25, 2003, the Mecca Landscape and Lighting Assessment District No. 03-1 began collecting assessments in fiscal year 2004.
- **Assessment District 03-2, Thousand Palms Landscape and Lighting** – formed on June 25, 2003, the Thousand Palms Landscape and Lighting Assessment District No. 03-2 began collecting assessments in fiscal year 2004. During the year, Assessment District 03-2 was dissolved.

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, 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 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. Grants 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.

Fund Financial Statements

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

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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 Balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the 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:

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.

Proprietary enterprise fund financial statements include a Statement of Fund Net Position and Statement of Revenues, Expenses, changes in Fund Net Position for all proprietary funds. Proprietary funds are accounted for under the accrual basis of accounting, and revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses. The District reports the following major proprietary fund:

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

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities, or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District, or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or
- c) The entity has determined that a fund is important to the financial statement user.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance

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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District net position 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 maturities of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following areas:

- California Local Agency Investment Fund (LAIF)
- Riverside County Pooled Investment Fund (RCTPIF)
- Checking and savings account at local 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.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued

6. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, land improvements, buildings and structures, 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:

- Land improvements – 10 to 20 years
- Buildings and structures – 5 to 50 years
- Machinery and equipment – 3 to 20 years
- Vehicles – 6 to 8 years

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

8. Compensated Absences

The District's policy permits full-time and part-time employees to accumulate earned vacation time. Earned vacation time is accrued by each employee based on the years of employment, subject to the accrual limitations.

9. Deposits and Unearned Revenues

Deposits and unearned revenues consist of customer payment for future goods or services to be provided by the District.

10. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

11. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted net position** – consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued

12. 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. The categories of fund balance are defined as follows:

- **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 or 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.

Fund Balance Policy

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.

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.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified as follows:

	2018
Governmental activity funds:	
General fund	\$ 9,176,364
Business-type activity funds:	
Golf Center fund	300
Total cash and investments	\$ 9,176,664

Cash and cash equivalents as of June 30, consisted of the following:

	2018
Cash on hand	\$ 800
Deposits with financial institutions	3,398,343
Deposits held with the County of Riverside	
Treasurer's Pooled Investment Fund	88,812
Deposits held with the California Local Agency	
Investment Fund	5,688,709
Total cash and investments	\$ 9,176,664

As of June 30, the District's authorized deposits had the following maturities:

	2018
Deposits held with the County of Riverside	
Treasurer's Pooled Investment Fund	428 days
Deposits held with the California Local Agency	
Investment Fund (LAIF)	193 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 listed in Noted 1(D)(3) to the financial statements.

California Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(2) Cash and Cash Equivalents, continued

California Local Agency Investment Fund, continued

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Riverside County Pooled Investment Fund

The Riverside County 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 – 4800 Lemon Street, 4th Floor – Capital Markets – Riverside, CA 92506, or the Treasurer and Tax Collector's Office website at www.countytreasurer.org.

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 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).

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.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(2) Cash and Cash Equivalents, continued

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. The District's investment in LAIF is not rated and investment in 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 issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments as of June 30, 2018.

(3) Capital Assets

Governmental Activities

Changes in capital assets for 2018, were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land	\$ 1,593,247	286,000	-	1,879,247
Construction-in-process	750,250	3,579,322	-	4,329,572
Total non-depreciable assets	<u>2,343,497</u>	<u>3,865,322</u>	<u>-</u>	<u>6,208,819</u>
Depreciable assets:				
Land improvements	3,116,686	32,049	-	3,148,735
Buildings and structures	11,941,453	90,139	-	12,031,592
Machinery and equipment	1,252,044	14,295	(60,623)	1,205,716
Vehicles	512,196	55,608	-	567,804
Total depreciable assets	<u>16,822,379</u>	<u>192,091</u>	<u>(60,623)</u>	<u>16,953,847</u>
Accumulated depreciation:				
Land improvements	(2,105,847)	(174,312)	-	(2,280,159)
Buildings and structures	(5,322,114)	(415,655)	-	(5,737,769)
Machinery and equipment	(716,476)	(133,052)	60,623	(788,905)
Vehicles	(393,975)	(33,903)	-	(427,878)
Total accumulated depreciation	<u>(8,538,412)</u>	<u>(756,922)</u>	<u>60,623</u>	<u>(9,234,711)</u>
Total depreciable assets, net	<u>8,283,967</u>	<u>(564,831)</u>	<u>-</u>	<u>7,719,136</u>
Total capital assets, net	<u>\$ 10,627,464</u>			<u>13,927,955</u>

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(3) Capital Assets, continued

Business-Type Activities

	<u>Balance 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Non-depreciable assets:				
Land	\$ 961,613	-	-	961,613
Total non-depreciable assets	<u>961,613</u>	<u>-</u>	<u>-</u>	<u>961,613</u>
Depreciable assets:				
Land improvements	676,921	-	-	676,921
Buildings and structures	886,351	6,370	-	892,721
Machinery and equipment	67,151	7,459	-	74,610
Total depreciable assets	<u>1,630,423</u>	<u>13,829</u>	<u>-</u>	<u>1,644,252</u>
Accumulated depreciation:				
Land improvements	(309,891)	(47,094)		(356,985)
Buildings and structures	(167,661)	(43,131)		(210,792)
Machinery and equipment	(39,767)	(7,704)		(47,471)
Total accumulated depreciation	<u>(517,319)</u>	<u>(97,929)</u>	<u>-</u>	<u>(615,248)</u>
Total depreciable assets, net	<u>1,113,104</u>	<u>(84,100)</u>	<u>-</u>	<u>1,029,004</u>
Total capital assets, net	\$ <u>2,074,717</u>			<u>1,990,617</u>

(4) Compensated Absences

Changes in compensated absence for 2018, were as follows:

	<u>Balance 2017</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2018</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>77,978</u>	<u>161,307</u>	<u>(121,443)</u>	<u>117,842</u>	<u>71,577</u>	<u>46,265</u>

(5) Long-term Debt

Changes in long-term debt for 2018, were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2018</u>
Certificate-of-participation – Series 2013	\$ 1,077,046	<u>-</u>	<u>(298,507)</u>	778,539
Less current portion	<u>(298,507)</u>			<u>(306,017)</u>
Total non-current	\$ <u>778,539</u>			<u>472,522</u>

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(5) Long-term Debt

Certificates-of-Participation – Series 2013

In September 2013, the District advanced refunded the Certificates-of-Participation – Series 2002 to reduce the years of debt service by twelve-years and reduce the amount of interest expense by \$1,053,880. Principal and interest are payable semi-annually on March 1st and September 1st of each year, commencing March 1, 2014 and maturing in September 1, 2020, with an interest rate of 2.50% as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 306,017	17,575	323,592
2020	313,716	9,877	323,593
2021	158,806	1,985	160,791
Total	778,539	<u>29,437</u>	<u>807,976</u>
Current	<u>(306,017)</u>		
Non-current	\$ <u>472,522</u>		

(6) Other Post-Employment Benefits Payable

Plan Description

The District’s defined benefit OPEB plan (Plan) provides OPEB for all permanent full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District’s Board of Directors has the authority to establish and amend the benefit terms and financing requirements of the Plan.

Benefits Provided

The District pays a portion of the cost of medical and dental insurance for eligible retirees. Employees are eligible for benefits at the age of 62 or more years of age and retire from the District with a minimum of ten years of service with the District.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	<u>18</u>
Total plan membership	<u>21</u>

Contributions

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.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(6) Other Post-Employment Benefits Payable

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Investment rate of return	5.00%, net of OPEB plan investment expense
Salary increases	3.00%
Discount rate	5.00%
Healthcare cost trend rate	Medical – 6.00% for 2017; 5.00% for 2018 and later years
	Dental – 4.00%
Age adjustment factor	4.00%
Percent married	50.00%

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-1014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Discount Rate

To determine discount rate, the amount of the plan’s projected fiduciary net position and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District’s total OPEB liability is based on these requirements and the following information:

Reporting date	June 30, 2018
Measurement date	June 30, 2017
Long-term expected return of Plan investments	5.00%
Municipal Bond 20 Year High Grade rate index	3.13%
Discount rate	5.00%

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(6) Other Post-Employment Benefits Payable, continued

Changes in the Net OPEB Liability

Changes in the net OPEB liability for the year were as follows:

	<u>Total OPEB Liability</u>	<u>Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at July 1, 2017	\$ 1,206,074	640,885	565,189
Changes for the year:			
Service cost	57,398	-	57,398
Interest	60,104	-	60,104
Net investment income	-	42,465	(42,465)
Benefit payments	(8,106)	(8,106)	-
Administrative expense	-	(5,374)	5,374
Net changes	<u>109,396</u>	<u>28,985</u>	<u>80,411</u>
Balance at June 30, 2018	<u>\$ 1,315,470</u>	<u>669,870</u>	<u>645,600</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease (4.0%)</u>	<u>Discount Rate (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net OPEB liability \$	<u>909,649</u>	<u>645,600</u>	<u>436,048</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease (5.0% decreasing to 4.0%)</u>	<u>Healthcare Cost Trend Rates (6.0% decreasing to 5.0%)</u>	<u>1% Increase (7.0% increasing to 6.0%)</u>
Net OPEB liability \$	<u>409,958</u>	<u>645,600</u>	<u>950,892</u>

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(6) Other Post-Employment Benefits Payable, continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized an OPEB expense of \$84,609. At June 30, 2018, the District reported deferred inflows of resources related to OPEB from the follow source:

Description	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB investments	\$ <u><u>(4,198)</u></u>

Amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Net Deferred Outflow/ (Inflow)
2019	\$ (1,049)
2020	(1,049)
2021	(1,049)
2022	(1,051)

(7) Internal Balances and Transfers

Inter-fund transfers are used to move financial resources from the General fund to the Golf Center fund and the Assessment fund, to absorb the operating deficit and to support the operations of each respective fund.

As of June 30, 2018, inter-fund receivables/payables between the District's funds were as follows:

Due from	Due to	Amount
Golf Center	General	\$ 3,203,929
General	Assessment	<u>864,483</u>
Transfer to General, net		<u><u>\$ 2,339,446</u></u>

For the year ended June 30, 2018, inter-fund transfers consist of the following:

Transfer from	Transfer to	Amount
General	Assessment	\$ <u><u>551,478</u></u>

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(8) Restatement of Net Position

Net OPEB Liability – GASB 75 Implementation

In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, to recognize its net OPEB liability. Following the implementation, the District recorded a prior period adjustment of \$35,489 at June 30, 2017. Previously recorded net position of \$22,177,837 has been restated to \$22,142,348 as of June 30, 2017. The effect of the above changes is summarized as follows:

	Net Position
Net position at June 30, 2017, as previously stated	\$ 22,177,837
Effect of adjustment to net OPEB liability	(35,489)
Net position at June 30, 2017, as restated	\$ 22,142,348

(9) Net Position

Net position as of June 30, is categorized as follows:

	Governmental Activities	Business-type Activities	2018
Net investments in capital assets:			
Capital assets – not being depreciated	\$ 6,208,819	961,613	7,170,432
Capital assets – being depreciated, net	7,719,136	1,029,004	8,748,140
Certificate-of-participation	(778,539)	-	(778,539)
Total net investment in capital assets	13,149,416	1,990,617	15,140,033
Restricted:			
Assessment districts	868,405	-	868,405
Unrestricted	9,940,464	(3,123,385)	6,817,079
Total net position	\$ 23,958,285	(1,132,768)	22,825,517

(10) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.D.12 for a description of these categories).

The District's policy assigns fund balance into the following categories:

- Minimum fund balance – a minimum reserve for operations from 40% to 50% of discretionary General Fund revenues to ensure that the District has sufficient cash on hand for the first six months of the fiscal year prior to the receipt of property taxes.
- Capital asset replacement – a long-term goal to accumulate and maintain a reserve equal 100% of accumulated depreciation.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(10) Fund Balance, continued

A detailed schedule of fund balances and their funding composition at June 30, 2018, is as follows:

<u>Description</u>	<u>General Fund</u>	<u>Assessment Fund</u>	<u>Governmental Total</u>
Nonspendable:			
Prepaid expenses	\$ 26,867	-	26,867
Restricted:			
Assessment districts	-	868,405	868,405
Committed:			
Net OPEB obligations	645,600	-	645,600
Assigned:			
Compensated absences	115,663	-	115,663
Minimum operating reserve	3,777,837	-	3,777,837
Capital replacement reserve	5,663,891	-	5,663,891
Total assigned	<u>9,557,391</u>	<u>-</u>	<u>9,557,391</u>
Unassigned:			
Operations	485,042	-	485,042
Total fund balance	<u>\$ 10,714,900</u>	<u>868,405</u>	<u>11,583,305</u>

(11) Pension Plans

Full-time Team Member

The District's full-time employees are eligible to participate in the Desert Recreation District Defined Contribution Plan (Plan) upon completion of at least three months of service with the District, commencing on the entry date concurrent with or immediately following the satisfaction of the eligibility requirements specified in the Plan. The District contributes, on an annual basis, to a separate retirement account established for each Plan participant. The District contributes 7.5% of each participant's salary and 9.5% of the General Manager's and Assistant General Manager's salary.

The District's full-time employees are eligible to participate in a voluntary 457(b) deferred compensation plan. Eligible employees can contribute up to 2.5% of their salary; whereas the District matches 100% of the employee's contributions. Any contributions in excess of plan limits, based on laws and regulations, are rolled over into the employee's 401(a) defined contribution plan.

Employer contributions for the fiscal year ending June 30, 2018, totaled \$193,997.

Part-time, Seasonal, and Temporary Employees

The District's part-time, seasonal, and temporary employees are eligible to participate in the Public Agency Retirement Services Alternate Retirement System 457 Plan (PARS), which is compliant with the Omnibus Budget Reconciliation Act of 1990 (OBRA 90) requiring that governmental employees who are not members of the District's retirement plan to be covered by Social Security or an alternate plan. PARS participants contribute 3.75% of their salary and the District contributes 3.75% of each participant's salary. Employer contributions for the fiscal year ending June 30, 2018, totaled \$114,582.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(12) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the California Joint Powers Insurance Authority (Authority), has purchased various insurance policies to manage the potential liabilities that may occur. The Authority arranges and administers programs of self-insured losses and purchases insurance coverage.

Workers' compensation and employer liability coverage are provided by the California Association for Parks & Recreation Indemnity (CAPRI), and through CAPRI, maintains excess insurance coverage. CAPRI is a joint powers authority comprised of California special districts providing coverage in return for the payment of premiums.

Pollution legal liability insurance, all risk property insurance, and crime insurance are purchased from commercial insurance companies on behalf of the District. Claims administration for the liability program is provided by Carl Warren & Company. Claims administration for the workers' compensation program is provided by York Risk Services Group. At June 30, 2018, the District participated in the liability and property programs of the Authority as follows:

- Comprehensive general and automobile liability coverage up to a combined single limit of \$50 million per occurrence.
- Worker's compensation coverage up to statutory benefits; employer liability coverage of \$5 million.
- Pollution legal liability insurance coverage up to \$10 million per member with a \$50,000 per occurrence self-insured retention.
- All risk property insurance maintains a deductible of (a) \$10,000 for building and contents, (b) 5% for optional earthquake and flood, and (c) \$5,000 for optional mechanical breakdown.
- Crime insurance maintains a deductible of \$2,500 for fidelity, forgery, theft, and computer fraud.

The Authority investigates, values, reserves, defends and/or settles all claims in accordance with generally accepted insurance industry practices. The Authority is not aware of any existing claims which would exceed the District's applicable coverage. For the past three years, the District had no claim that exceeded coverage limits for any of the programs indicated above. Contributions made for pooled self-insurance programs include amounts for claims which may have been incurred but not reported (IBNR).

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that has effective dates that may impact future financial presentations.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Desert Recreation District
Notes to the Basic Financial Statements, continued
June 30, 2018

(14) Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of November 29, 2018, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Desert Recreation District
Budgetary Comparison Schedule – General Fund & Special Assessment Fund
For the Fiscal Year Ended June 30, 2018

Budgets and Budgetary Data

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Vairance Positive (Negative)</u>
Revenues:					
Property taxes and special assessments					
Property taxes	\$ 2,484,537	158,449	2,642,986	2,667,037	24,051
Redevelopment agency taxes	2,483,408	91,440	2,574,848	2,624,000	49,152
Special assessments	2,861,147	11,107	2,872,254	2,879,325	7,071
Charges for services					
Registration and other fees	1,756,374	(119,262)	1,637,112	1,743,554	106,442
Intergovernmental service fees	1,744,539	(20,873)	1,723,666	1,721,868	(1,798)
Facilities and other rental revenues	64,108	359,388	423,496	423,874	378
Other revenues	265,065	(136,654)	128,411	60,092	(68,319)
Operating grants and contributions	33,413	17,086	50,499	106,660	56,161
Capital grants and contributions	13,174,994	(13,174,994)	-	8,230	8,230
Investment earnings	42,200	28,000	70,200	96,476	26,276
Total revenues	<u>24,909,785</u>	<u>(12,786,313)</u>	<u>12,123,472</u>	<u>12,331,116</u>	<u>207,644</u>
Expenditures:					
Salaries and benefits	6,425,935	(54,808)	6,371,127	6,135,627	235,500
Facilities and maintenance	2,651,187	54,830	2,706,017	2,581,253	124,764
Materials and services	1,239,896	(62,664)	1,177,232	1,174,502	2,730
Capital outlay	13,554,180	(10,285,105)	3,269,075	3,771,413	(502,338)
Debt service:					
Principal	291,182	7,325	298,507	298,507	-
Interest	32,408	-	32,408	24,890	7,518
Total expenditures	<u>24,194,788</u>	<u>(10,340,422)</u>	<u>13,854,366</u>	<u>13,986,192</u>	<u>(131,826)</u>
Net change in fund balance	714,997	<u>(2,445,891)</u>	<u>(1,730,894)</u>	(1,655,076)	<u>75,818</u>
Fund balance, beginning of year	<u>13,238,381</u>			<u>13,238,381</u>	
Fund balance, end of year	\$ <u>13,953,378</u>			<u>11,583,305</u>	

Notes to Required Supplementary Information

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 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.

Desert Recreation District
Schedule of Change in District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018
Last Ten Years*

Other Post-Employment Benefits Payable

	2018
Total OPEB liability	
Service cost	\$ 57,398
Interest	60,104
Benefit payments	(8,106)
Net change in total OPEB liability	109,396
Total OPEB liability – beginning	1,206,074
Total OPEB liability – ending	\$ 1,315,470
Plan fiduciary net position	
Net investment income	\$ 42,465
Benefit payments	(8,106)
Administrative expense	(5,374)
Net change in plan fiduciary net position	28,985
Total fiduciary net position – beginning	640,885
Total fiduciary net position – ending	\$ 669,870
District's net OPEB liability – ending	\$ 645,600
Covered-employee payroll	1,187,724
District's net OPEB liability as a percentage of covered-employee payroll	54.36%

Note to Schedule

Changes in Benefit Terms – There were no changes to benefit terms for the measurement period ended June 30, 2018.

Changes of Assumptions – There were no changes of assumption for the measurement period ended June 30, 2018.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Supplementary Information

Desert Recreation District
Schedule of Special Assessment Fund—
Combining Balance Sheet
June 30, 2018

	<u>Assessment Districts</u>						<u>2018</u>
	<u>97-1</u>	<u>02-1</u>	<u>03-1</u>	<u>03-2</u>	<u>93-1</u>	<u>01-1</u>	
Assets:							
Property taxes and assessments receivable	\$ 16,937	2,413	-	-	26,464	58,609	104,423
Due from other funds	(1,674)	(2,385)	452,080	-	32,312	384,150	864,483
Total assets	<u>\$ 15,263</u>	<u>28</u>	<u>452,080</u>	<u>-</u>	<u>58,776</u>	<u>442,759</u>	<u>968,906</u>
Liabilities:							
Accounts payable and accrued expenses	\$ 15,263	28	2,519	-	58,776	23,915	100,501
Total liabilities	<u>15,263</u>	<u>28</u>	<u>2,519</u>	<u>-</u>	<u>58,776</u>	<u>23,915</u>	<u>100,501</u>
Fund balance:							
Restricted	-	-	449,561	-	-	418,844	868,405
Total fund balance	<u>-</u>	<u>-</u>	<u>449,561</u>	<u>-</u>	<u>-</u>	<u>418,844</u>	<u>868,405</u>
Total liabilities and fund balance	<u>\$ 15,263</u>	<u>28</u>	<u>452,080</u>	<u>-</u>	<u>58,776</u>	<u>442,759</u>	<u>968,906</u>

Desert Recreation District
Schedule of Special Assessment Fund –
Combining Statement of Revenues, Expenditures, and Change in Fund Balance
For the Fiscal Year Ended June 30, 2018

	<u>Assessment Districts</u>						<u>2018</u>
	<u>97-1</u>	<u>02-1</u>	<u>03-1</u>	<u>03-2</u>	<u>93-1</u>	<u>01-1</u>	
Revenues:							
Property taxes and special assessments							
Special assessments	\$ 337,346	103,651	97,006	-	800,052	1,541,270	2,879,325
Other revenues	-	7,199	-	-	-	-	7,199
Total revenues	<u>337,346</u>	<u>110,850</u>	<u>97,006</u>	<u>-</u>	<u>800,052</u>	<u>1,541,270</u>	<u>2,886,524</u>
Expenditures:							
Salaries and benefits	96,929	-	-	-	524,309	677,071	1,298,309
Facilities and maintenance	251,799	101,520	31,384	-	651,554	272,380	1,308,637
Materials and services	23,946	16,567	10,726	-	135,828	166,698	353,765
Capital outlay	-	-	-	-	-	6,277	6,277
Total expenditures	<u>372,674</u>	<u>118,087</u>	<u>42,110</u>	<u>-</u>	<u>1,311,691</u>	<u>1,122,426</u>	<u>2,966,988</u>
Deficiency of revenues over expenditures	(35,328)	(7,237)	54,896	-	(511,639)	418,844	(80,464)
Other financing sources(uses):							
Operating transfers in(out) (note 7)	35,328	7,237	-	(2,726)	511,639	-	551,478
Net change in fund balance	<u>-</u>	<u>-</u>	<u>54,896</u>	<u>(2,726)</u>	<u>-</u>	<u>418,844</u>	<u>471,014</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>394,665</u>	<u>2,726</u>	<u>-</u>	<u>-</u>	<u>397,391</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>449,561</u>	<u>-</u>	<u>-</u>	<u>418,844</u>	<u>868,405</u>

Report on Compliance and Internal Controls

**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, 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 Desert Recreation District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District’s basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’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 District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from 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*.

**Independent Auditor's 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, continued***

Purpose of this Report

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

Fedak & Brown LLP
Cypress, California
November 29, 2018