Desert Recreation District

Financial Statements

For the Fiscal Year Ended June 30, 2013

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

Our Mission Statement

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

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

Desert Recreation District

Board of Directors

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

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

Desert Recreation District

Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Desert Recreation District
Annual Financial Report
For the Fiscal Year Ended June 30, 2013

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Financial Section

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

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Independent Auditor's Report

Board of Directors
Desert Recreation District
Indio, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Desert Recreation District (District) as of and for the year ended June 30, 2013, 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Desert Recreation District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 3 through 6, the required supplementary information on pages 33 and 34 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information schedule on page 35 is presented for purposes of additional analysis and is not required parts 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 36 and 37.

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2013

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, 2013. 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 11.24% or $1,687,806, from $15,011,036 to $16,698,842.
- Total revenues increased by 5.05% or $563,451 from $11,152,143 to $11,715,594 from the prior year due primarily to increases in capital grants of $253,353 and redevelopment agency pass-through revenues of $324,033.
- Total expenses decreased by 10.59% or $1,187,182 from $11,214,970 to $10,027,788 from the prior year due to primarily to decreases in salaries and benefits of $1,062,122 and facilities and maintenance of $111,118.

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) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's reserves and credit worthiness.

Government-wide Financial Statements

Statement of Net 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 and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Governmental Funds Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

Government-wide Financial Analysis

Statement of Net Position

Condensed Statement of Net Assets

		2013	2012	Change
Assets:				
Current assets	$	9,772,418	8,269,863	1,502,555
Non-current assets		-	208,045	(208,045)
Capital assets, net		10,862,574	10,506,499	356,075
Total assets		20,634,992	18,984,407	1,650,585
Liabilities:				
Current liabilities		891,011	919,230	(28,219)
Non-current liabilities		3,045,139	3,054,141	(9,002)
Total liabilities		3,936,150	3,973,371	(37,221)
Net position:				
Net investment in capital assets		8,647,574	8,226,499	421,075
Restricted		139,609	138,819	790
Unrestricted		7,911,659	6,645,718	1,265,941
Total net assets	$	16,698,842	15,011,036	1,687,806

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 of the District exceeded liabilities by $16,698,842 as of June 30, 2013. A large portion of the District's net position (52% or $8,647,574) 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 2013, the District reflected a positive balance in its unrestricted net position of $7,911,659 that may be utilized in future years.

Statement of Activities

Condensed Statement of Activities

		2013	2012	Change
Expenses:				
Recreation and park operations	$	10,027,788	11,214,970	(1,187,182)
Total expenses		10,027,788	11,214,970	(1,187,182)
Program revenues		6,996,632	6,753,895	242,737
General revenues		4,718,962	4,398,248	320,714
Total revenues		11,715,594	11,152,143	563,451
Change in net position		1,687,806	(62,827)	1,750,633
Net position – beginning of year		15,011,036	15,073,863	(62,827)
Net position – end of year	$	16,698,842	15,011,036	1,687,806

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 $1,687,806 during the fiscal year ended June 30, 2013.

Governmental Funds Financial Analysis

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

As of June 30, 2013, the District's General Fund reported a fund balance of $9,287,820.

General Fund Budgetary Highlights

Total cost for the District's general fund programs were less than the 2013 revised budget by $744,017 primarily due to less than expected expenditures for salaries and benefits, facilities and maintenance, and materials and services then budgeted. Actual revenues were less than the anticipated revised budget by $415,411 primarily due to a decrease in intergovernmental service fees of $987,865.

Capital Asset Administration

Changes in capital assets for the year were as follows:

		Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable capital assets	$	1,699,009	35,601	(26,183)	1,708,427
Depreciable capital assets		15,266,737	166,766	(73,208)	15,360,295
Total capital assets		16,965,746	202,367	(99,391)	17,068,722
Accumulated depreciation		(6,459,247)	(584,209)	73,208	(6,970,248)
Total capital assets, net	$	10,506,499	(381,842)	(26,183)	10,098,474

At the end of fiscal year 2013, the District's investment in capital assets amounted to $10,098,474 (net of accumulated depreciation). This investment in capital assets includes structures and improvements, playground equipment, equipment and construction-in-process. Major capital asset additions during the year include various improvements and equipment purchases totaling $176,184. See note 4 for further information on the District's capital assets.

Debt Administration

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

		Balance 2012	Additions	Principal Payments	Balance 2013
Certificates-of-participation	$	2,280,000	-	(65,000)	2,215,000

In 2013, long-term debt decreased by $65,000 due to principal payments on the District's certificates-of-participation. See further detail at note 6.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net 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 you have any questions about the report or need additional information, please contact the District's General Manager, Kevin Kalman, at the Desert Recreation District, 45-305 Oasis Street, Indio, California 92201 or (760) -347-3484.

Basic Financial Statements

Desert Recreation District
Statement of Net Position
June 30, 2013
With Comparative Amounts as of June 30, 2012

		2013	2012
Assets:			
Cash and cash equivalents (note 2)	$	8,996,440	7,510,123
Restricted – cash and cash equivalents (note 2)		175,828	175,828
Accrued interest receivable		2,599	2,142
Accounts receivable		147,678	195,450
Property taxes receivable		59,817	66,168
Restricted – special assessments receivable		141,527	137,302
Redevelopment agencies receivable		-	5,558
Prepaid expenses and other assets		248,529	177,292
Note receivable – property tax from state (note 3)		-	208,045
Capital assets – not being depreciated (note 4)		2,472,527	1,699,009
Capital assets – being depreciated, net (note 4)		8,390,047	8,807,490
Total assets		20,634,992	18,984,407
Liabilities:			
Accounts payable and accrued expenses		403,855	484,616
Accrued salaries and benefits		180,999	149,053
Deferred revenue and customer deposits		111,891	104,210
Accrued interest payable		36,219	37,009
Long-term liabilities – due in one year:			
Compensated absences (note 5)		93,047	79,342
Certificates-of-participation (note 6)		65,000	65,000
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)		279,139	238,027
Other post-employment benefits payable (note 7)		616,000	601,114
Certificates-of-participation (note 6)		2,150,000	2,215,000
Total liabilities		3,936,150	3,973,371
Net position: (note 9)			
Net investment in capital assets		8,647,574	8,226,499
Restricted for debt service		139,609	138,819
Unrestricted		7,911,659	6,645,718
Total net position	$	16,698,842	15,011,036

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Activities
For the Fiscal Year Ended June 30, 2013
With Comparative Amounts for the Fiscal Year Ended June 30, 2012

Governmental Activities:		2013	2012
Expenses:			
Recreation and park operations:			
Salaries and benefits	$	5,487,066	6,549,188
Facilities and maintenance		2,232,367	2,343,485
Materials and services		1,146,153	1,124,221
Indio Community Center & Park project (note 8)		468,941	469,423
Claims and settlements		-	7,000
Interest on long-term debt		109,052	111,393
Depreciation		584,209	610,260
Total expenses		10,027,788	11,214,970
Program revenues:			
Charges for services:			
Registration and other fees		2,688,302	2,866,026
Facility and other rental fees		119,636	124,548
Intergovernmental service fees		365,342	333,001
Other revenues		91,636	139,204
Special assessments		2,524,080	2,435,746
Total charges for services		5,788,996	5,898,525
Operating grants and contributions		296,313	197,400
Capital grants and contributions		911,323	657,970
Total program revenues		6,996,632	6,753,895
Net program expense		3,031,156	4,461,075
General revenues:			
Property taxes		2,075,982	2,067,706
Redevelopment agency pass-through		2,620,055	2,296,022
Interest earnings		22,925	34,520
Total general revenues		4,718,962	4,398,248
Change in net position		1,687,806	(62,827)
Net position – beginning of year		15,011,036	15,073,863
Net position – end of year	$	16,698,842	15,011,036

See accompanying notes to the basic financial statements

Desert Recreation District
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	$ 8,864,999	-	131,441	8,996,440
Restricted – cash and cash equivalents	175,828	-	-	175,828
Accrued interest receivable	2,599	-	-	2,599
Accounts receivable	146,678	-	1,000	147,678
Property taxes receivable	59,817	-	-	59,817
Special assessments receivable	-	141,527	-	141,527
Due from other funds (note 11)	828,949	486,159	-	1,315,108
Prepaid expenses and other assets	243,030	-	5,499	248,529
Total assets	10,321,900	627,686	137,940	11,087,526
Liabilities:				
Accounts payable and accrued expenses	265,307	112,089	26,459	403,855
Accrued salaries and benefits	170,723	-	10,276	180,999
Due to other funds (note 11)	486,159	39,996	788,953	1,315,108
Deferred revenue and customer deposits	111,891	-	-	111,891
Total liabilities	1,034,080	152,085	825,688	2,011,853
Fund balance: (note 10)				
Nonspendable	243,030	-	5,499	248,529
Restricted	175,828	-	-	175,828
Committed	988,186	475,601	-	1,463,787
Assigned	7,000,000	-	-	7,000,000
Unassigned	880,776	-	(693,247)	187,529
Total fund balance	9,287,820	475,601	(687,748)	9,075,673
Total liabilities and fund balance	$ 10,321,900	627,686	137,940	11,087,526

See accompanying notes to the basic financial statements

Desert Recreation District
Reconciliation of the Balance Sheet of Governmental Type Funds to the Statement of Net Assets
June 30, 2013

Reconciliation:

Fund balance of governmental funds	$	9,075,673
Amounts reported for governmental activities in the statement of net position are different because:		
Capitalized assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those assets as capital assets.		10,862,574
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.		(36,219)
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities' both current and long-term, are reported in the statement of net position as follows:		
Compensated absences		(372,186)
Other post-employment benefits payable		(616,000)
Certificates-of-participation		(2,215,000)
Net position of governmental activities	$	16,698,842

Desert Recreation District
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Type Funds
For the Fiscal Year Ended June 30, 2013

Desert Recreation District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

		General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Revenues:					
Taxes:					
Property taxes	$	2,274,751	-	-	2,274,751
Redevelopment agency pass-through		2,620,055	-	-	2,620,055
Charges for services:					
Registration and other fees		2,463,268	-	225,033	2,688,301
Facility and other rental fees		110,321	-	9,315	119,636
Intergovernmental service fees		365,342	-	-	365,342
Other revenues		63,302	-	28,335	91,637
Special assessments		-	2,524,080	-	2,524,080
Operating grants and contributions		115,977	-	180,336	296,313
Capital grants and contributions		147,223	-	-	147,223
Investment earnings		32,201	-	-	32,201
Total revenues		8,192,440	2,524,080	443,019	11,159,539
Expenditures:					
Salaries and benefits		4,117,474	988,954	310,935	5,417,363
Facilities and maintenance		909,938	949,470	372,959	2,232,367
Materials and services		728,792	344,299	73,062	1,146,153
Indio Community Center & Park project (note 8)		-	468,941	-	468,941
Claims and settlements		-	-	-	-
Capital outlay		176,184	-	-	176,184
Principal paid		65,000	-	-	65,000
Interest paid		109,842	-	-	109,842
Total expenditures		6,107,230	2,751,664	756,956	9,615,850
Excess of revenues over expenditures		2,085,210	(227,584)	(313,937)	1,543,689
Other financing sources(uses):					
Transfers (note 11)		(1,743,177)	1,743,177	-	-
Change in fund balance		342,033	1,515,593	(313,937)	1,543,689
Fund balance – beginning of year		8,945,787	(1,039,992)	(373,811)	7,531,984
Fund balance – end of year	$	9,287,820	475,601	(687,748)	9,075,673

See accompanying notes to the basic financial statements

Desert Recreation District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Reconciliation:

Net changes in fund balance of governmental fund	$	1,543,689
Amounts reported for governmental activities in the statement of activities is different because:		
Contributed land is not a current financial resource; however, on the statement of activity contributed land is accounted for as a capital grant.		764,100
Some long-term accrued revenues on the statement of activities became available in the current year and were recognized on the statement of revenues, expenses and changes in fund balance; however, those revenues were already accrued for and recognized on the statement of activities in prior years:		
Note receivable – property tax from state and accrued interest on the note		(208,045)
Some expenses reported in the statement of activities do not require the use of current financial resources. Therefore, those expenses are not reported as expenditures in governmental funds as follows:		
Net change in compensated absences		(54,817)
Net change in other post-employment benefits payable		(14,886)
Net change in accrued interest payable		790
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those capitalized assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay		176,184
Depreciation expense		(584,209)
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.		65,000
Change in net position of governmental activities	$	1,687,806

Desert Recreation District
Statement of Fiduciary Net Position
June 30, 2013
With Comparative Amounts as of June 30, 2012

		Part-Time Employees Retirement Trust Fund	
		2013	2012
Assets:			
Cash and investments	$	856,854	777,879
Total assets		856,854	777,879
Net position:			
Net position – held-in-trust		856,854	777,879
Total liabilities	$	856,854	777,879

See accompanying notes to the basic financial statements

Desert Recreation District
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013
With Comparative Amounts for the Fiscal Year Ended June 30, 2012

		Part-Time Employees Retirement Trust Fund	
		2013	2012
Additions:			
Contributions to retirement trust fund	$	151,237	201,278
Investment earnings		53,165	14,420
Total additions		204,402	215,698
Deductions:			
Retirement funds transferred to recipients		109,097	138,477
Trustee fees		16,330	15,781
Total deductions		125,427	154,258
Change in net position		78,975	61,440
Net position – held-in-trust – beginning of year		777,879	716,439
Net position – held-in-trust – end of year	$	856,854	777,879

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 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. Because the governing bodies are substantially the same as that of the District, the District has six component units, which are considered blended component units, as follows:

California Special District Finance Corporation (Corporation)

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

Assessment District 97-1, Thousand Palms Landscape and Lighting

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

Assessment District 02-1, Coachella Landscape and Lighting

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

Assessment District 03-1, Mecca Landscape and Lighting

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

Assessment District 03-2, Thousand Palms Landscape and Lighting

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

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity, continued

Assessment District 06-1, Coachella Drainage Benefit Assessment

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

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net 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. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position 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 this statement to meet the qualifications of GASB Statement No. 34.

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

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

B. Basis of Accounting and Measurement Focus, continued

Governmental Funds

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

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

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

Fiduciary Funds

Part-Time Employees Retirement Trust Fund – holds funds in trust for part-time employees who are enrolled in the non-elective deferred compensation plan arrangement for the benefit of employees who are not covered by another retirement system maintained by the District. (See note 12)

C. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net 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 initial maturities of three months or less to be cash equivalents.

3. Investments and Investment Policy

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

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

4. Property Taxes and Special Assessments

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

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

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

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

C. Assets, Liabilities and Net Position, continued

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.

6. Capital Assets

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

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

7. Compensated Absences

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

8. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

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

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

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

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

C. Assets, Liabilities, Net Position, continued

9. Fund Balance

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

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

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

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

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

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

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

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

Fund Balance Policy

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

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

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

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*s. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. There were no Concession Arrangements entered into by the District.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus.* This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62

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

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

Hereinafter, these pronouncements collectively are referred to as the ***FASB & AICPA pronouncements***. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as ***Net Position***, rather than ***Net Assets***.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(2) Cash and Cash Equivalents

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

		2013
Cash and cash equivalents	$	8,996,440
Restricted - cash and cash equivalents		175,828
Total	$	9,172,268

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

		2013
Cash on hand	$	800
Deposits held with bond trustee		175,828
Deposits held with financial institutions		5,006,249
Deposits held with California Local Agency Investment Fund (LAIF)		3,752,046
Deposits held with Riverside County Pooled Investment Fund (RCPIF)		237,345
Total	$	9,172,268

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

	2013
Deposits held with California Local Agency Investment Fund (LAIF)	278 days
Deposits held with Riverside County Pooled Investment Fund (RCPIF)	515 days

Authorized Deposits and Investments

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

Local Agency Investment Fund

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

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

Riverside County Treasury – Pooled Investment Fund

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

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

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk

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

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF or RCPIF)

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, LAIF is not rated and the RCPIF has been rated AAA-bf by Moody's.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 41% and RCPIF is 3% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was $198,769 plus accrued interest at a rate of 2.00% per annum of $9,276 for a total of $208,045 as of June 30, 2012. The $198,769 borrowing by the State of California was paid in full on June 14, 2013 plus interest of $13,214 otaling $211,983.

(4) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable capital assets:				
Land – golf	$ 961,613	-	-	961,613
Land – parks	677,004	764,100	-	1,441,104
Construction-in-process – golf	-	-	-	-
Construction-in-process – parks	60,392	35,601	(26,183)	69,810
Total non-depreciable capital assets	1,699,009	799,701	(26,183)	2,472,527
Depreciable capital assets:				
Land improvements – golf	421,112	-	-	421,112
Land improvements – parks	2,181,340	120,124	-	2,301,464
Buildings and structures – golf	159,309	-	-	159,309
Buildings and structures – parks	11,081,510	-	-	11,081,510
Machinery and equipment – golf	154,499	28,207	-	182,706
Machinery and equipment – parks	790,763	-	-	790,763
Vehicles – parks	478,204	18,435	(73,208)	423,431
Total depreciable capital assets	15,266,737	166,766	(73,208)	15,360,295
Accumulated depreciation:				
Land improvements – golf	(226,115)	(19,939)	-	(246,054)
Land improvements – parks	(1,588,020)	(84,140)	-	(1,672,160)
Buildings and structures – golf	(80,845)	(11,093)	-	(91,938)
Buildings and structures – parks	(3,649,383)	(355,236)	-	(4,004,619)
Machinery and equipment – golf	(88,910)	(12,182)	-	(101,092)
Machinery and equipment – parks	(499,132)	(58,254)	-	(557,386)
Vehicles – parks	(326,842)	(43,365)	73,208	(296,999)
Total accumulated depreciation	(6,459,247)	(584,209)	73,208	(6,970,248)
Total depreciable capital assets, net	8,807,490	(417,443)	-	8,390,047
Total capital assets, net	$ 10,506,499			10,862,574

(5) Compensated Absences

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

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

Balance 2012	Additions	Deletions	Balance 2013	Current Portion	Long-term Portion
$ 317,369	486,317	(431,500)	372,186	93,047	279,139

(6) Certificates-of-Participation – Series 2002

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

Interest is payable semi-annually on March 1st and September 1st of each year while principal payments are made on September 1st of each year, commencing September 1, 2003 with interest rates ranging from 3.650% to 5.000%. A reserve fund is required to be held by the bond trustee, as defined in the bond indenture. The amount held in reserve as of June 30, 2013, was $175,828. Annual debt service payments are as follows:

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

	Balance 2012	Additions	Principal Payments	Balance 2013
Certificates-of-participation	$ 2,280,000	-	(65,000)	2,215,000

Fiscal Year	Principal	Interest	Total
2014	$ 65,000	108,656	173,656
2015	70,000	105,406	175,406
2016	75,000	101,906	176,906
2017	75,000	98,156	173,156
2018	80,000	94,406	174,406
2019-2023	475,000	407,393	882,393
2024-2028	605,000	279,091	884,091
2029-2033	770,000	116,266	886,266
Total	2,215,000	1,311,280	3,526,280
Current	(65,000)		
Long-term	$ 2,150,000		

(7) Other Post Employment Benefits Payable

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

Plan Description – Eligibility and Benefits

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

(7) Other Post Employment Benefits Payable, continued

Funding Policy

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

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

Annual Cost

For the year ended June 30, 2013, the District‘s ARC cost is $298,401. The District’s net OPEB payable obligation amounted to $616,000 for the year ended June 30, 2013. The District contributed $6,406 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2013 and contributed $277,109 to the District’s Public Agencies Post-Retirement Health Care Plan Trust administered by PARS.

The balance at June 30, consists of the following:		2013	2012	2011
Annual OPEB expense:				
Annual required contribution (ARC)	$	277,109	295,595	295,595
Interest on net OPEB obligation		30,056	29,877	14,590
Investment earnings on irrevocable trust balance		(31,806)	(10,688)	-
Adjustment to annual required contribution		23,042	(13,507)	-
Total annual OPEB expense		298,401	301,277	310,185
Change in net OPEB payable obligation:				
Contributions made to irrevocable trust		(277,109)	(295,595)	-
Retiree benefits paid from irrevocable trust		(6,406)	(2,107)	(4,451)
Total change in net OPEB payable obligation		14,886	3,575	305,734
OPEB payable – beginning of year		601,114	597,539	291,805
OPEB payable – end of year	$	616,000	601,114	597,539

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2013	$	298,401	283,515	95.01%	$	616,000
2012		301,277	297,702	98.81%		601,114
2011		310,185	4,451	0.00%		597,539

(7) Other Post Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2012) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $1,538,359. Plan assets invested in the District's irrevocable trust were $301,349. The funded ratio of the actuarial accrued liability is 19.59%. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013 was $1,930,724. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 64.07%. (See Schedule at page 34)

Actuarial Methods and Assumptions

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

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

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

(8) Debt Without Government Commitment

On July 11, 2001, the District created Reassessment District No. 01-1 (Indio Community Center and Park project). On August 27, 2001, the District issued limited obligation refunding bonds in the amount of $5,105,000, pursuant to the Refunding Act of 1984. Proceeds of the bonds were used to refund (defease) Reassessment District No. 94-1 bonds, originally issued in the principal amount of $6,420,000, of which $5,350,000 was outstanding when refunded. The outstanding principal of these bonds as of June 30, 2013 was $1,700,000.

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

(9) Net Position

Calculation of net assets as of June 30, were as follows:		2013
Net investment in capital assets:		
Capital assets – not being depreciated	$	2,472,527
Capital assets – being depreciated, net		8,390,047
Certificates-of-participation – current portion		(65,000)
Certificates-of-participation – noncurrent portion		(2,150,000)
Total net investment in capital assets		8,647,574
Restricted net assets:		
Restricted – cash and cash equivalents		175,828
Accrued interest payable		(36,219)
Total restricted net assets		139,609
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses and other assets		248,529
Total non-spendable net assets		248,529
Spendable net assets are designated as follows:		
Six-month operating reserve		5,000,000
Capital replacement reserve		2,000,000
Reserve for specified facilities		475,601
Contingency reserve		187,529
Total spendable net assets		7,663,130
Total unrestricted net assets		7,911,659
Total net assets	$	16,698,842

(10) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.C.9 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2013 is as follows:

Description		General Fund	Special Assessment Fund	Golf Center Fund	Total Governmental Funds
Nonspendable:					
Prepaid expenditures	$	243,030	-	5,499	248,529
Restricted:					
Restricted for debt service		175,828	-	-	175,828
Committed:					
Compensated absences		372,186	-	-	372,186
Other post-employment benefits payable		616,000	-	-	616,000
Reserve for specified facilities		-	475,601	-	475,601
Total		988,186	475,601	-	1,463,787
Assigned:					
Six-month operating reserve		5,000,000	-	-	5,000,000
Capital replacement reserve		2,000,000	-	-	2,000,000
Total		7,000,000	-	-	7,000,000
Unassigned:					
Contingency reserve		880,776	-	(693,247)	187,529
Total fund balance	$	9,287,820	475,601	(687,748)	9,075,673

(11) Due To/From Other Funds and Transfers

Interfund Balances and Activities

Due from	Due to		Amount
General Fund	Special Assessment	$	486,159
Special Assessment	General Fund		39,996
Golf Fund	General Fund		788,953
	Total	$	1,315,108

The Special Assessment Fund holds its cash balance of $486,159 with the General Fund.

The General Fund has loaned $39,996 to the Special Assessment Fund to cover the costs of operating specific facilities that are above the special assessments revenues received.

The General Fund has loaned $788,953 to the Golf Fund to assist in the ongoing operations of the Golf Center and Golf Course.

(12) Pension Plans

Full-time Employees

Effective July 1, 2011, the District adopted the Public Agency Retirement Services (PARS) Defined Contribution Plan which has all regular full-time employees who meet the eligibility requirements are covered under the Coachella Valley Recreation and Park District Retirement Plan (Plan) administered by the District. This plan is a defined contribution deferred compensation pension plan under Code Section 401(a) of the Internal Revenue Code of 1986 (Code). The plan is fully funded by the District with a contribution rate of 10% of eligible compensation, net of non-vested portions of contributions of terminated employees (forfeitures). Charles Schwab serves as Trustee for the Plan. The employer's contributions to this plan for the fiscal year ending June 30, 2013, totaled $153,437. Regular full-time employees are eligible for the Plan when they have been employed by the District for six months. Full-time employees are also covered under Social Security, funded equally by the District and the employees.

Part-time, Seasonal and Temporary Employees

Effective July 1, 2011, the District adopted the PARS FICA Alternative Retirement Plan which has part-time, seasonal and temporary employees participate in a mandatory social security replacement plan (FICA Plan), which is a non-qualified defined contribution plan under Code Section 457(b). Each member employee contributes 3.75 percent of his/her gross wages. This amount is matched by the District. The total 7.5 percent is deposited into a retirement account on behalf of each employee at Lincoln National Life Insurance Company. Employees are 100% vested in all contributions at all times. Upon termination of employment, the employee may withdraw his/her money, subject to applicable fees and penalties, or leave the balance in the FICA Plan to collect interest, subject to certain requirements. The District's contributions to this plan for the fiscal years ended June 30, 2013 totaled $72,493.

(13) Risk Management

Self-Insurance Pool Pursuant to Joint Powers Agreement

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

(13) Risk Management, continued

Self-Insurance Programs of the Authority

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

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

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. On a cumulative basis for all 2012-12 reinsurance contracts the annual aggregate deductible is $5.5 million. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies. The overall coverage limit for each member including all layers of coverage is $50 million per occurrence.

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

Purchased Insurance

Pollution Legal Liability Insurance

The Desert Recreation District participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the Desert Recreation District. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50 million for the 3-year period from July 1, 2012 through July 1, 2014. Each member of the Authority has a $10 million sub-limit during the 3-year term of the policy.

Property Insurance

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

(13) Risk Management, continued

Earthquake and Flood Insurance

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

Crime Insurance

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

Special Event Tenant User Liability Insurance

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

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2012-12.

Workers' Compensation

The District is a participant in the California Association for Park and Recreation Insurance (CAPRI). CAPRI is governed by a separate board of directors, which is comprised of seven directors elected from the member districts. The board controls the operations of CAPRI, including selection of management and approval of operating budgets. The purpose of CAPRI is to arrange and administer programs of insurance and to purchase excess insurance coverage. At June 30, 2013, the District participated in the workers' compensation and of CAPRI as follows:

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

(14) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

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

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

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees.* Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

(15) Contingencies

Litigation

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

(16) Subsequent Events

Certificates-of-Participation – Series 2002 – Refunding

On August, 21, 2013, the District refunded its 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. Future remaining debt service payments on the 2013 loan payable is as follows:

Fiscal Year		Principal	Interest	Total
2014	$	220,460	27,245	247,705
2015		244,005	44,581	288,586
2016		250,143	38,443	288,586
2017		256,436	32,150	288,586
2018		262,887	25,699	288,586
2019		269,501	19,085	288,586
2020		276,280	12,306	288,586
2021		285,023	3,563	288,586
Total	$	2,064,735	203,072	2,267,807

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2013, 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.

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Required Supplementary Information

Desert Recreation District
Budgetary Comparison Schedule – General Fund and Special Assessment Fund
For the Fiscal Year Ended June 30, 2013

		Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:						
Taxes:						
Property taxes	$	2,418,665	-	2,418,665	2,274,751	(143,914)
Redevelopment agency pass-through		1,847,213	772,837	2,620,050	2,620,055	5
Charges for services:						
Registration and other fees		3,810,184	(1,801,999)	2,008,185	2,463,268	455,083
Facility and other rental fees		146,515	(31,203)	115,312	110,321	(4,991)
Intergovernmental service fees		-	1,353,207	1,353,207	365,342	(987,865)
Other revenues		-	-	-	63,302	63,302
Special assessments		2,332,335	50,216	2,382,551	2,524,080	141,529
Operating grants and contributions		26,000	-	26,000	115,977	89,977
Capital grants and contributions		303,591	(115,630)	187,961	147,223	(40,738)
Investment earnings		23,537	(3,537)	20,000	32,201	12,201
Total revenues		10,908,040	223,891	11,131,931	10,716,520	(415,411)
Expenditures:						
Salaries and benefits		6,115,091	(614,817)	5,500,274	5,106,428	393,846
Facilities and maintenance		2,063,243	(54,120)	2,009,123	1,859,408	149,715
Materials and services		1,103,776	87,057	1,190,833	1,073,091	117,742
Indio Community Center & Park project		472,056	-	472,056	468,941	3,115
Capital outlay		837,325	(581,700)	255,625	176,184	79,441
Principal paid		65,000	-	65,000	65,000	-
Interest paid		110,000	-	110,000	109,842	158
Total expenditures		10,766,491	(1,163,580)	9,602,911	8,858,894	744,017
Excess(Deficiency) of revenues over(under) expenditures		141,549	1,387,471	1,529,020	1,857,626	328,606
Other financing sources(uses):						
Transfers		-	-	-	-	-
Net change in fund balance		141,549	1,387,471	1,529,020	1,857,626	328,606
Fund balance - beginning of year		7,905,795		7,905,795	7,905,795	
Fund balance - end of year	$	8,047,344		9,434,815	9,763,421	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

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

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

Desert Recreation District
Schedule of Funding Status
For the Fiscal Year Ended June 30, 2013

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	$	-	1,156,747	1,156,747	0.00%	$	2,271,613	50.92%
7/1/2012		301,349	1,538,359	1,237,010	19.59%	$	1,930,724	64.07%

Calculation	Active Employees	Retired Employees	Total
Actuasrial Accrued Liability – 2010	1,095,621	61,126	1,156,747
Actuasrial Accrued Liability – 2013	1,484,169	54,190	1,538,359

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016 based on the year ending June 30, 2015.

Supplementary Information

Desert Recreation District
Schedule of Special Assessment Funds
For the Fiscal Year Ended June 30, 2013

Special Assessment Funds – Balance Sheet

		97-1	02-1	03-1	03-2	06-1	93-1	01-1	Total
Balance Sheets									
Assets:									
Restricted – special assessments receivable	$	21,321	4,311	163	-	-	60,211	55,521	141,527
Due from other funds		-	7,468	332,244	145,182	740	-	525	486,159
Total assets		21,321	11,779	332,407	145,182	740	60,211	56,046	627,686
Liabilities:									
Accounts payable and accrued expenses		16,727	11,779	2,728	-	-	24,809	56,046	112,089
Due to other funds		4,594	-	-	-	-	35,402	-	39,996
Total liabilities		21,321	11,779	2,728	-	-	60,211	56,046	152,085
Fund balance:									
Restricted		4,594	(7,468)	(2,565)	-	-	35,402	(525)	29,438
Unrestricted		(4,594)	7,468	332,244	145,182	740	(35,402)	525	446,163
Total fund balance		-	-	329,679	145,182	740	-	-	475,601
Total liabilities and fund balance	$	21,321	11,779	332,407	145,182	740	60,211	56,046	627,686
Statement of Revenues, Expenditures and Changes in Fund Balance									
Revenues:									
Special assessments	$	298,349	97,841	88,310	-	-	814,002	1,225,578	2,524,080
Expenditures:									
Salaries and benefits		68,505	3,263	3,263	337	-	370,918	542,668	988,954
Facilities and maintenance		262,651	109,934	34,219	-	-	248,476	294,190	949,470
Materials and services		28,771	9,591	7,030	-	-	123,496	175,411	344,299
Indio Community Center & Park project		-	-	-	-	-	-	468,941	468,941
Total expenditures		359,927	122,788	44,512	337	-	742,890	1,481,210	2,751,664
Excess(deficiency) of revenues over(under) expenditui		(61,578)	(24,947)	43,798	(337)	-	71,112	(255,632)	(227,584)
Other sources:									
Transfers in/(out)		201,491	96,188				(218,367)	1,663,865	1,743,177
Fund balance – beginning of the year		(139,913)	(71,241)	285,881	145,519	740	147,255	(1,408,233)	(1,039,992)
Fund balance – end of the year	$	-	-	329,679	145,182	740	-	-	475,601

Report on Compliance and Internal Controls

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

Board of Directors
Desert Recreation District
Indio, California

We have audited, 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, 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated September 30, 2013.

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*

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.

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2013