



**PALM DESERT RECREATIONAL
FACILITIES CORPORATION**
FOR THE YEAR ENDED JUNE 30, 2024

ANNUAL FINANCIAL REPORT WITH
REPORT ON AUDIT BY INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Focused
on YOU



PALM DESERT RECREATIONAL FACILITIES CORPORATION

Annual Financial Report with Report on Audit
By Independent Certified Public Accountants

For the Year Ended June 30, 2024

PALM DESERT RECREATIONAL FACILITIES CORPORATION

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Table of Contents

	<u>Page Number</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position.....	9
Statement of Revenues, Expenses and Changes in Net Position.....	10
Statement of Cash Flows	11
Notes to Basic Financial Statements	12
Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palm Desert Recreational Facilities Corporation
City of Palm Desert, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Palm Desert Recreational Facilities Corporation (the Corporation), a component unit of the City of Palm Desert, California, a component unit of the City of Palm Desert, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Palm Desert Recreational Facilities Corporation (the Corporation), as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Component Unit Reporting

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



To the Board of Directors
Palm Desert Recreational Facilities Corporation
City of Palm Desert, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed on the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



To the Board of Directors
Palm Desert Recreational Facilities Corporation
City of Palm Desert, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2025, on our consideration of the City's internal control over the Corporation's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Corporation's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Corporation's financial reporting and compliance.

LSL, LLP

Irvine, California
March 28, 2025

PALM DESERT RECREATIONAL FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024

Our discussion and analysis of the financial performance of the Palm Desert Recreational Facilities Corporation (the Corporation), a component unit of the City of Palm Desert, provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2024. Please read it in conjunction with the Palm Desert Recreational Facilities Corporation's financial statements.

FINANCIAL HIGHLIGHTS

- Palm Desert Recreational Facilities Corporation's net position deficit was reduced to zero from \$1,063,311 in prior year through a designated contribution from the City.
- Palm Desert Recreational Facilities Corporation's gross sales of \$4,570,976 decreased by \$304,816 (6%) from the previous year.
- Palm Desert Recreational Facilities Corporation's gross profit decreased by \$196,405 (6%) from last year. The gross profit margin¹ increased by 1%.
- Palm Desert Recreational Facilities Corporation's cost of goods sold decreased by \$108,411 from \$1,342,255 to \$1,233,843.
- Palm Desert Recreational Facilities Corporation's *Selling and Administrative Expense Percentage*² increased from 72% to 76%.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position (on pages 9 and 10) provide information about the activities of the Palm Desert Recreational Facilities Corporation as a whole and present a long-term view of the Corporation's operations.

¹The gross profit margin is calculated by dividing gross profit by gross sales. The gross profit margin indicates how well sales are performing when compared to expectations and the industry. The corporation expected an industry gross profit margin of approximately 65%.

²The selling and administrative expense percentage is calculated by dividing the sum of the Maintenance & Operations and the General & Administrative costs by the gross sales. This percentage indicates how well the corporation's overhead is maintained in relation to sales. The goal is to arrive at overhead cost of approximately 64% or lower.

REPORTING THE COMPONENT UNIT AS A WHOLE

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position:

Our analysis of the Palm Desert Recreational Facilities Corporation begins on page 5. The Corporation plays an independent, yet vital role in completing the overall project known as Desert Willow Golf Resort (a municipal golf course owned by the City of Palm Desert). The Corporation's only function is to provide the Food and Beverage operations at the Desert Willow Clubhouse. The restaurant operation within the environment of the golf industry is a necessary complement to a round of golf. The focus of our analysis of the Palm Desert Recreational Facilities Corporation's operations is the profitability of the food and beverage activities and tailoring the restaurant to meet the expectations of all golf enthusiasts alike.

What is the outcome for the food & beverage operations for this fiscal year? The Statement of Net Position and the Statement of Revenues, and the Expenses and Changes in Net Position report information about the Component Unit as a whole and about its activities. This report, along with the financial highlights noted above, illustrates the operations and the profitability of the food and beverage activities. These statements include all assets and liabilities of the Corporation using the *accrual basis of accounting*. With the accrual basis of accounting, all the current year's revenues are recognized when earned instead of received, and all expenses are recorded when incurred instead of when paid.

These two statements report on the Palm Desert Recreational Facilities Corporation's *net position* and *changes in net position*. Net position is the difference between assets and liabilities, which is one way to measure the Corporation's financial health, or *financial position*. Over time, *increases or decreases* in the Corporation's net position is an indication of whether its *financial health* is improving or deteriorating. To determine the profitability of the Corporation, consideration should also be given to other non-financial factors such as the changes in consumer spending as a direct result of the overall economic indicators, as well as changes in the significant industry factors such as price per golf round and level of tourism.

THE COMPONENT UNIT AS A WHOLE

The Palm Desert Recreational Facilities Corporation's net position deficit decreased by \$1,063,311 to zero after a contribution from the city at year-end. Food and beverage operations have resumed normal activities since the COVID-19 shutdowns, and the recovery of banquet events and organized group gatherings have been strong. While restaurant operations have been healthy, the Corporation continues to experience inflationary economic pressures and increased minimum wages for fiscal year ended June 30, 2024.

The restaurant's operations recognized a 6% decrease in gross revenues and a net decrease in overall expenditures of 1%, indicating that revenue-decline outpaced expense-decline by about 5% during the fiscal year.

Our analysis on the next page focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the Corporation.

Table 1

PALM DESERT RECREATIONAL FACILITIES CORPORATION

CONDENSED STATEMENT OF NET POSITION

June 30, 2024

	2024	2023
ASSETS:		
Current assets	\$ 2,271,941	\$ 1,336,033
Noncurrent assets	2,422,902	2,494,164
TOTAL ASSETS	4,694,843	3,830,197
LIABILITIES:		
Current liabilities	2,273,307	2,417,761
Noncurrent liabilities	2,421,536	2,475,747
TOTAL LIABILITIES	4,694,843	4,893,508
NET POSITION (DEFICIT):		
Unrestricted (deficit)	-	(1,063,311)
TOTAL NET POSITION (DEFICIT)	\$ -	\$ (1,063,311)

Total assets increased by \$864,646, primarily due to an increased receivable balance for the contribution from the city of \$1,305,037 over the prior year. Total liabilities decreased by \$198,665 compared to prior year, driven by decreases in advances from related parties, and by decreases in leases payable. The decrease in leases payable was related to the annual entry for the Corporation's one lease currently subject to GASB 87 Lease reporting requirements. Note 4 to the financial statements contains additional information regarding this lease.

Table 2

PALM DESERT RECREATIONAL FACILITIES CORPORATION

CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the year ended June 30, 2024

	2024	2023
OPERATING REVENUES:		
Food and beverage sales	\$4,570,976	\$ 4,875,792
Contribution from the City	1,305,037	-
TOTAL OPERATING REVENUES	5,876,013	4,875,792
OPERATING EXPENSES:		
Cost of goods sold	1,233,843	1,342,255
Maintenance and operations	3,296,446	3,325,001
General and administrative	164,853	176,625
Amortization	71,262	71,262
TOTAL OPERATING EXPENSES	4,766,404	4,915,143
OPERATING INCOME	1,109,609	(39,351)
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(46,298)	(43,531)
TOTAL NONOPERATING REVENUES (EXPENSES)	(46,298)	(43,531)
CHANGE IN NET POSITION	1,063,311	(82,882)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(1,063,311)	(980,429)
NET POSITION (DEFICIT) - END OF YEAR	\$ (0)	\$ (1,063,311)

Component Activities

Food and beverage sales decreased by \$304,816 (6%) from \$4,875,792 to \$4,570,976 during the fiscal year.

This fiscal year was the twenty-third year of operation at the Desert Willow Clubhouse. During this fiscal year, the Palm Desert Recreational Facilities Corporation continued to market their banquets and outings aggressively in the national, regional and local markets with an advertising campaign to maximize revenue for fiscal year 2024 and beyond, focusing on:

- Attracting new and repeat business.
- Continued patronage of customers and corporate groups.
- Increased banquet and outing operations.
- Marketing to golfers on the golf course.

As Table 2 above indicates, total operating expenses recognized a decrease of \$148,739 from \$4,915,143 to \$4,766,404. A significant component of the decrease was from reduced Cost of Goods Sold expenses of \$108,411 compared to the prior year; which is attributable to decreases in banquet activity and rising prices due to inflation. During the 2023-24 fiscal year, management continued to focus on retaining repeat business, continued patronage, and growing the corporate and group market as demand for golf and associated recreational activities remains strong. There were additional decreases in Equipment Rental and General & Administrative expenses of \$51,376 and \$11,771, respectively, while Payroll expenses increased by \$16,676, compared to prior year. The remaining increases and decreases in operating expenses were composed of various other expense categories.

The *Gross Profit Margin* increased from 72% to 73%, driven by a greater relative reduction in COGS compared to the decrease in gross sales, which improved profitability. The *Selling and Administrative Expense Percentage* also increased during the year from 72% in 2023 to 76% in 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Corporation's only capital assets and long-term liabilities relate to the lease between the Corporation and the City of Palm Desert for the use of the Desert Willow Golf Course Clubhouse. As of June 30, 2024, the value of the lease liability is \$2,475,747. The value of the right-to-use leased asset as of June 30, 2024, of \$2,636,688 with accumulated amortization of \$213,786. More information can be found in Note 4.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In preparing the budget for 2024-25, management looked at the following economic factors:

- **Prices:** The prices for goods and services in the golf industry continue to experience increased inflationary pressures. In an effort to maintain the integrity of the products served at the restaurant, The Palm Desert Recreational Facility has increased menu prices between 5-8% in response to the increased pressure on costs associated with labor and supplies. Changes to the menu will also be implemented to incorporate cost effective items and beverages. Secondly, management continues to implement better cost control measures to eliminate wastage.
- **National Economy:** The golf and hospitality industries rely heavily on a strong national and local economy. With a strong national economy, the market demand for leisure activities such as golf and dining are increased; however, in an economic downturn or a slowing of the economy, the typical trend is for consumers to reduce their consumption of leisure activities. The state of the current economy was taken into consideration when budgeting for the 2024-2025 fiscal year.
- **Labor cost:** The State of California has mandated increased minimum wage rates, which increased from \$16 per hour to \$16.50 per hour effective January 1, 2025. Further in April of 2024 the State of California mandated all fast-food worker minimum wage to increase to \$20 per hour. Management is determining the impact on the restaurant wages relating to the increase in the minimum wage of fast-food workers. The increased minimum wage rate, coupled with the mandated changes in employer-provided health care benefits (Affordable Care Act) places pressure on an already fragile food industry. The Palm Desert Recreational Facilities Corporation has taken measures to manage labor costs without affecting customer service and will continue to seek effective and efficient methods to implement in their daily operations.

A copy of the Corporation's 2024-2025 financial plan can be obtained by contacting the Palm Desert Recreational Facilities Corporation (see below).

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the users with a general overview of the Palm Desert Recreational Facilities Corporation, a component unit of the City of Palm Desert. If you have questions about this report or need additional financial information, contact the Controller at the address of the Palm Desert Recreational Facilities Corporation at 38-995 Desert Willow Drive, Palm Desert, California 92260.

PALM DESERT RECREATIONAL FACILITIES CORPORATION
Statement of Net Position
June 30, 2024

ASSETS:

Current:

Cash and cash equivalents	\$ 907,655
Accounts receivable	4,000
Due from other governments	1,305,037
Inventories	43,797
Prepaid expenses	11,452
	<hr/>
Total current assets	2,271,941
	<hr/>

Noncurrent:

Leased assets, net of accumulated amortization	2,422,902
	<hr/>
Total noncurrent assets	2,422,902
	<hr/>

TOTAL ASSETS	4,694,843
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LIABILITIES:

Current:

Accounts payable	49,758
Accrued liabilities	114,787
Accrued interest payable	3,518
Advances from related party	1,857,644
Unearned revenues	193,389
Lease payable, due in one year	54,211
	<hr/>
Total current liabilities	2,273,307
	<hr/>

Noncurrent:

Lease payable, due in more than one year	2,421,536
	<hr/>
Total noncurrent liabilities	2,421,536
	<hr/>

TOTAL LIABILITIES	4,694,843
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NET POSITION (DEFICIT):

Unrestricted (deficit)	-
	<hr/>
TOTAL NET POSITION (DEFICIT)	\$ -
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PALM DESERT RECREATIONAL FACILITIES CORPORATION
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2024

OPERATING REVENUES:

Food and beverage sales	\$4,570,976
Contribution from City	1,305,037

TOTAL OPERATING REVENUES

\$5,876,013

OPERATING EXPENSES:

Cost of goods sold	1,233,843
Maintenance and operations	3,296,446
General and administrative	164,853
Amortization	71,262

TOTAL OPERATING EXPENSES

4,766,404

OPERATING INCOME

1,109,609

NONOPERATING REVENUES (EXPENSES)

Interest expense	(46,298)
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TOTAL NONOPERATING REVENUES (EXPENSES)

(46,298)

CHANGE IN NET POSITION

1,063,311

NET POSITION (DEFICIT) - BEGINNING OF YEAR

(1,063,311)

NET POSITION (DEFICIT) - END OF YEAR

\$ -

PALM DESERT RECREATIONAL FACILITIES CORPORATION
Statement of Cash Flows
For the Year Ended June 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 4,605,408
Payments to suppliers	(4,673,930)

NET CASH PROVIDED BY OPERATING ACTIVITIES	(68,522)
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CASH FLOWS FROM NON-CAPITAL AND RELATED
FINANCING ACTIVITIES

Cash advanced from other funds	(140,920)
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NET CASH PROVIDED BY NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(140,920)
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CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Interest paid on leases	(46,298)
Principal paid on leases	(53,295)

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(99,593)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	(309,035)
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	\$ 1,216,690
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CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 907,655
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RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 1,109,609
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**Adjustments to reconcile operating income
to net cash provided by operating activities:**

Changes in assets and liabilities:

Amortization	71,262
(Increase) decrease in receivables	29,236
(Increase) decrease in contribution from the City	(1,305,037)
(Increase) decrease in inventory	31,373
(Increase) decrease in prepaid expenses	(515)
Increase (decrease) in accounts payable	12,645
Increase (decrease) in accrued liabilities	(22,291)
Increase (decrease) in unearned revenues	5,196

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (68,522)
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PALM DESERT RECREATIONAL FACILITIES CORPORATION

Notes to Basic Financial Statements

For the Year Ended June 30, 2024

NOTE 1: ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY

The Palm Desert Recreational Facilities Corporation (the Corporation) is a Corporation that provides food and beverage services exclusively to the Desert Willow Golf Resort (the Golf Resort). The Corporation is a component unit of the City of Palm Desert (the City) and is reported as an Enterprise Fund in the City's basic financial statements. The Corporation was incorporated on February 25, 1997. The Board of Directors of the Corporation consists of two members of the City Council and two members of the public at large. The annual Board of Director's meetings are held the second Monday of June at 11:00 a.m. at the principal office of the Corporation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basic Financial Statements:

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the basic financial statements.

B. Basis of Presentation:

The basic financial statements of the Palm Desert Recreational Facilities Corporation have been prepared in conformity with the accrual basis of accounting principles as applicable to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounts of the Corporation are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the "accrual basis of accounting". Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Net Position:

In the Statement of Net Position, net position is classified in the following categories:

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are available for use, the Corporation may use restricted resources or unrestricted resources based on the Board's discretion.

PALM DESERT RECREATIONAL FACILITIES CORPORATION
Notes to Basic Financial Statements
For the Year Ended June 30, 2024

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Operating Revenues:

Operating revenues, such as food and beverage sales, resulting from exchange transactions associated with the principal activity of the Corporation. Exchange transactions are those in which each party receives and gives up essentially equal values.

F. Cash and Investments:

For purposes of the Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value was \$907,655 and the deposit value was \$925,039. The difference includes \$16,281 of deposits in transit and checks outstanding totaling \$33,665 for a net total of \$17,384.

The City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". This pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the annual report of the City.

G. Inventories and Prepaid:

Inventories in the amount of \$43,797 consisted of merchandise for sales of food and beverages, are reported at lower of cost or market. Certain payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid costs in the financial statements. At June 30, 2024 the prepaid balance was \$11,452.

H. Budgetary Policies:

Kemper Sports Management, Inc. is required to submit to the City an operating budget containing estimates of all the Corporation expenses for the next operating year, including expenditures for: (a) property operation and maintenance, (b) repairs, replacements and alterations that do not constitute capital improvements, (c) furnishings and equipment and operating inventory, and (d) advertising, sale and business promotion. The budget is required to be reviewed and approved by the City prior to July 1st each year.

NOTE 3: DUE TO PRIMARY GOVERNMENT AND UNEARNED REVENUE

A. Due to Primary Government:

As of June 30, 2024, the Corporation owed the following amounts to primary government:

Desert Willow Golf Course	\$ 1,437,644
City of Palm Desert	420,000
	<u>\$ 1,857,644</u>

The Corporation amounts owed to primary government represent amounts owed to the Desert Willow Golf Resort for monies provided for operations and past due rent due to the City of Palm Desert per the lease agreement with the City for use of the facilities (see Note 4).

PALM DESERT RECREATIONAL FACILITIES CORPORATION
Notes to Basic Financial Statements
For the Year Ended June 30, 2024

NOTE 3: DUE TO PRIMARY GOVERNMENT AND UNEARNED REVENUE (CONTINUED)

B. Unearned Revenue:

The balance of \$193,389 represents the unused portions of prepaid banquets.

NOTE 4: LEASES

On July 1, 2021, the Corporation entered into a 444 month lease as Lessee for the use of the restaurant at the Desert Willow Golf Course Clubhouse from the City of Palm Desert. An initial lease liability was recorded in the amount of \$2,636,688. As of June 30, 2024, the value of the lease liability is \$2,475,747. The Corporation is required to make monthly fixed payments of \$8,000. The lease has an interest rate of 1.7050%. The estimated useful life was 37 years as of the contract commencement. The value of the right-to-use asset as of June 30, 2024 of \$2,636,688 with accumulated amortization of \$213,786.

	Balance June 30, 2023	Additions	Reductions	Balance June 30, 2024
Right to use leased asset, being amortized:				
Leased asset - building				
Payments to suppliers	\$ 2,636,688	\$ -	\$ -	\$ 2,636,688
Accumulated amortization:				
Leased asset - building	(142,524)	(71,262)	-	(213,786)
Total Leased assets, net of accumulated amortization	<u>\$ 2,494,164</u>	<u>\$ (71,262)</u>	<u>\$ -</u>	<u>\$ 2,422,902</u>

A summary of changes in leased assets at June 30, 2024, was as follows:

The following is a summary of lease payable transactions for the year ended June 30, 2024.

	Balance June 30, 2023	Reductions	Balance June 30, 2024	Due Within One Year
Lease payable	\$ 2,529,042	\$ (53,295)	\$ 2,475,747	\$ 54,211
Total	<u>\$ 2,529,042</u>	<u>\$ (53,295)</u>	<u>\$ 2,475,747</u>	<u>\$ 54,211</u>

PALM DESERT RECREATIONAL FACILITIES CORPORATION
Notes to Basic Financial Statements
For the Year Ended June 30, 2024

NOTE 4: LEASES (CONTINUED)

Future principal and interest requirements to maturity for the lease liability is as follows:

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2025	\$ 54,211	\$ 41,789	\$ 96,000
2026	55,142	40,858	96,000
2027	56,090	39,910	96,000
2028	57,054	38,946	96,000
2029	58,034	37,966	96,000
2030-2034	305,477	174,523	480,000
2035-2039	332,641	147,359	480,000
2040-2044	362,221	117,779	480,000
2045-2049	394,430	85,570	480,000
2050-2054	429,504	50,496	480,000
2055-2058	370,943	13,056	383,999
Total	<u>\$ 2,475,747</u>	<u>\$ 788,252</u>	<u>\$ 3,263,999</u>

The original terms of the lease indicated a lease rate of \$8,000 per month beginning June 4, 1997. On May 18, 2004, the Corporation approved an increase in the lease payment commencing on July 1, 2004. The July 1, 2004 lease amendment stipulated a new lease payment of \$15,000 per month. On May 12, 2009, the Board of Directors approved a decrease in the lease payment from \$15,000 to \$8,000 commencing on July 1, 2009. At June 30, 2024, the Corporation owed \$420,000 in rent in arrears to the City of Palm Desert. This amount is included in Advances from Related Parties.

A. Management Agreement:

The Corporation is managed by Kemper Sports Management, Inc., under an agreement to manage and operate Desert Willow Golf Course. On June 9, 2022 a new contract was approved with a commencement date of July 1, 2022 and a termination date of June 30, 2027. There is one 5-year option to extend the management agreement for an additional five years at the City's discretion.

NOTE 5: RISK MANAGEMENT

The Golf Resort is covered by insurance purchased by Kemper Sports Management Inc., which includes commercial liability, automobile, workers' compensation and overall umbrella excess liability insurance through Aon Risk Services, Inc. of Illinois. The Corporation is named as additional insured.

PALM DESERT RECREATIONAL FACILITIES CORPORATION**Notes to Basic Financial Statements****For the Year Ended June 30, 2024**

NOTE 6: OTHER DISCLOSURES

The Corporation has future federal and state income tax Net Operating Losses (NOL) carryforwards of \$819,871, will expire in the years as follows, and a prior NOL incurred in fiscal year 2019-20 of \$162,354 and a loss of \$161,652 incurred in fiscal year 2020-21 that can be carried forward indefinitely subject an income limitation of 80% in year utilized, for a combined NOL of \$819,871. There was an increase in the NOL carryforward of \$56,566 for the 2023 tax year.

2011-2016	\$	539,898
NOL utilized in 2022		(100,599)
2011-2016 remaining	\$	<u>439,299</u>
2011-2031	\$	294,814
2012-2032		109,556
2013-2033		34,929
2020-indefinite		162,354
2021-indefinite		161,652
2023-indefinite		<u>56,566</u>
Total	\$	<u>819,871</u>

The Corporation anticipates that it is more likely than not the benefit for each certain State and Federal NOL carryforwards will be realized before their respective expiration.



INDEPENDENT AUDITORS' 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

To the Board of Directors
Palm Desert Recreational Facilities Corporation
Palm Desert, 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 the Palm Desert Recreational Facilities Corporation (the Corporation), a component unit of the City of Palm Desert, California (the City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 28, 2025.

Report on Internal Control over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Palm Desert Recreational Facilities Corporation
Palm Desert, California

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LSL, LLP

Irvine, California
March 28, 2025