PALM SPRINGS UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Palm Springs Unified School District
Palm Springs, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of an Error

As discussed in Note 16 to the financial statements, the District has restated beginning net position of the government-wide financial statements to reflect the classification change of the capital assets and related depreciation expense.

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 5 through 14, budgetary comparison schedule on page 71, schedule of other postemployment benefits funding progress on page 72, schedule of the district's proportionate share of net pension liability on page 73, and the schedule of district contributions on page 74, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Palm Springs Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the Palm Springs Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palm Springs Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2016

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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SANDRA LYON, Superintendent of Schools

This section of Palm Springs Unified School District's (the District) (2015-2016) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016, with comparative information from June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Palm Springs Unified School District and its component units using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District, as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Primary unit of the government is the Palm Springs Unified School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were $10.2 million more than expenses for the General Fund in 2015-2016.
- The District's Funds (without Fixed Asset and Long-Term liabilities) reported $189.2 million or a decrease of $12.7 million as a result of expenditure in the Building Fund and increased revenues in the General Fund (see Table 4).
- Total net position in governmental activities was recorded at $262.3 million or an increase of $21 million.
- The General Fund reported a positive fund balance of $36.2 million.
- Overall construction project costs were approximately $31.4 million.
- $100 million approval to issue new General Obligation Bonds for the 2016-2017 fiscal year.
- Total LCFF increased from $168 million in 2014-2015 to $200 million in 2015-2016.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District 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 cash is received or paid.

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is 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.

The relationship between revenues and expenses are the District's *operating results.* Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District's activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Fiduciary Fund-Statement of Net Position,* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $262.3 million for the fiscal year ended June 30, 2016, an increase of $21 million, or 8.7 percent over the prior year. Of this amount, $(107.4) million was unrestricted deficit. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2016	(As restated) 2015
Assets		
Current and other assets	$ 231.0	$ 245.7
Capital assets	613.7	593.2
Total Assets	844.7	838.9
Deferred Outflows of Resources		
Deferred charge on refunding	11.1	-
Deferred outflows of resources related to pensions	53.5	13.9
Total Deferred Outflows of Resources	64.6	13.9
Liabilities		
Current liabilities	24.5	30.1
Long-term obligations	392.0	391.7
Aggregate Net Pension Liability	192.7	149.6
Total Liabilities	609.2	571.4
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	37.8	40.1
Total Deferred Inflows of Resources	37.8	40.1
Net Position		
Net investment in capital assets	264.5	436.5
Restricted	105.2	172.5
Unrestricted	(107.4)	(367.7)
Total Net Position	$ 262.3	$ 241.3

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	$ 2.6	$ 3.0
Operating grants and contributions	58.4	55.3
Capital grants and contributions	6.3	-
General revenues:		
Federal and State aid	175.4	135.6
Property taxes	81.5	78.8
Other general revenues	5.4	9.3
Total Revenues	329.6	282.0
Expenses		
Instruction-related	210.1	192.0
Pupil services	33.8	30.1
General administration	14.1	12.3
Maintenance and operations	31.0	37.0
Other	19.6	19.8
Total Expenses	308.6	291.2
Change in Net Position	$ 21.0	$ (9.2)

Governmental Activities

As reported in the *Statement of Activities* on page 16, the net cost of all of our governmental activities this year was $241.3 million, an increase of $8.5 million, or 3.7 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was $81.5 million because the cost was paid by those who benefited from the programs $(2.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions $(64.7 million). We paid for the remaining "public benefit" portion of our governmental activities with $180.8 million in Federal and State funds and other revenues, like interest, and general entitlements.

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's largest functions – instruction-related, pupil services, general administration, maintenance and operations, and other activities. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Total Net Cost of Services	
	2016	2015
Instruction-related	$ 164.9	$ 157.5
Pupil services	16.3	12.8
General administration	12.8	10.7
Maintenance and operations	30.1	28.4
Other activities	17.2	23.4
Total	$ 241.3	$ 232.8

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $189.2 million, which is a decrease of $12.7 million from last year.

Table 4

	Balances and Activity			
	July 01, 2015	Revenues	Expenditures	June 30, 2016
General Fund	$ 26,068,588	$ 267,511,062	$ 257,350,761	$ 36,228,889
Building Fund	69,168,337	295,741	21,692,366	47,771,712
Capital Facilities Fund	21,914,781	3,038,659	3,780,943	21,172,497
County School Facilities Fund	-	6,342,355	6,342,355	-
Special Reserve for Capital Outlay	40,694,536	9,720,002	8,021,073	42,393,465
Bond Interest and Redemption Fund	32,877,398	117,912,041	122,019,238	28,770,201
Non-Major Governmental Funds	11,120,169	24,247,698	22,522,752	12,845,115
Total	$ 201,843,809	$ 429,067,558	$ 441,729,488	$ 189,181,879

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June, 2016, (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 71.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had $613.7 million in a broad range of capital assets, including land, construction in progress, land improvements, buildings and improvements, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $20.5 million, or 3.5 percent, over last year. Depreciation expense of $13.6 million was allocated to governmental activities during 2016.

Table 5

(Amounts in millions)	Governmental Activities	
	2016	2015 (As Restated)
Land	$ 86.5	$ 86.5
Construction in progress	25.1	30.3
Land improvements	2.8	1.9
Buildings and improvements	493.5	470.1
Furniture and equipment	5.8	4.4
Total	$ 613.7	$ 593.2

This year's additions of $31.4 million consist of the construction project listed below and various smaller projects District-wide. We present more detailed information about our capital assets in Note 4 to the financial statements.

Agua Caliente	Modernization	$ 819,322
District-Wide	Phone-System Modernization	$ 681,676
DW Portables - Phase II	BV, KF, RV, LAN, CY, VDM, SS, TBP, CCE	$ 2,305,551
New K-8	New School	$ 630,120
Palm Springs High School	Auditorium/Seismic	$ 11,240,328
Palm Springs High School	Concession and Field House	$ 2,894,120
PSUSD	Pool	$ 1,075,013
Raymond Cree	Chiller	$ 3,073,374
Raymond Cree	RCMS Classroom Building	$ 616,378
Raymond Cree	Upgrades	$ 1,851,523
Service Center	Tenant Improvements	$ 3,643,558

Long-Term Obligations

At the end of this year, the District had $372.6 million in general obligation bonds outstanding including premium on issuance versus $373.9 million last year, a decrease of $1.3 million. Compensated absences of $1.8 million claims liability of $9.7 million and $7.9 million of net OPEB obligation are also included:

Table 6

(Amounts in millions)	Governmental Activities			
	2016		2015	
General obligation bonds	$	336.8	$	354.0
Premium on issuance		35.8		19.9
Compensated absences		1.8		1.6
Claims liability		9.7		10.1
Net OPEB obligation		7.9		6.1
Total	$	392.0	$	391.7

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

Net Pension Liability (NPL)

The District had a pension liability as of June 30, 2016 and 2015 was $192.7 million and $149.6 million, respectively, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2014-2015. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

- LCAP expenditures tracking and results.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District budget for the 2016-2017 year, the District Board and management used the following criteria:

The budget assumptions were based on the information from the Governor's January Proposed and the May Revise 2015-2016 State Budget. The budget was based on the Local Control Funding Formula (LCFF), the new funding model now in the fourth year. Through the new Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP), districts now have a system that allows them to locally define what is important. Under this new funding model, the statewide target base grant is not expected to be reached until 2019-2020. Base grants are established by grade span with added grade span adjustments (GSA) amounts for K-3 levels to address Class Size Reduction funding and 9-12 levels to address Career Technical Education funding.

In addition to the base grant, districts are entitled to a supplemental increase equal to 20 percent of the base grant for the unduplicated count of students who are English Learners (EL), Low Income (LI) or Foster Youth (FY). In addition, a concentration increase is provided for students identified in the supplemental funding when the enrollment exceeds 55 percent of unduplicated enrollment.

The May Revise proposes minimal changes as compared to the January Budget. The statutory COLA was set at zero percent. In the past, the COLA would only apply to selected categorical programs that will continue outside of the LCFF. For the Palm Springs Unified School District (PSUSD) these programs are:

- o Special Education
- o Child Nutrition
- o After School Education and Safety (ASES)

- On November 7, 2012, the electorate passed Proposition 30 adding Article XIII, Section 36 to the California Constitution. The new created the Education Protection Account (EPA) to receive and disburse the revenues derived from the increased taxes. Starting 2012-2013, school districts have received allocations thru the EPA. These funds are not new revenues to the District. These funds are an offset to the State's revenue limit apportionment. The funds captured by the EPA is currently schedule to expire as follows:
  - o The 0.25 percent sales tax increase will expire in 2016.
  - o The personal income tax increase will expire in 2018.
- The proposed budget is balanced and reflects a fund balance which exceeds the three percent State required reserve level.

Revenue assumptions:

- LCFF increase funding
- College Readiness Grant
- Other one time funding
- Educator Effectiveness of approximately $1 million (carryovers)
- CTE funds in the 2nd year of $1.5 million

Expenditures are based on the following forecast:

- 4.6 percent increase for Certificated employees with LCAP and LCFF funding
- Proposed increase for Classified was not budgeted

	Staffing Ratio	Enrollment*
Grades Kindergarten through three	21.9:1	4,909
Grades four and five	29:1	5,246
Grades six through eight	31:1	5,020
Grades nine through twelve	31:1	7,240
Total		22,415

*Does not include Cielo Vista Charter School.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Peter VanBuskirk, Director of Fiscal Services, at Palm Springs Unified School District, 980 E. Tahquitz Canyon Way, Suite 204, Palm Springs, California 92262.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	$ 214,451,405
Receivables	15,635,579
Prepaid expenditures	413,527
Stores inventories	429,591
Capital assets	
Land and construction in process	111,621,765
Other capital assets	672,265,674
Less: Accumulated depreciation	(170,158,660)
Total Capital Assets	613,728,779
Total Assets	844,658,881
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	11,096,602
Deferred outflows of resources related to pensions	53,536,174
Total Deferred Outflows of Resources	64,632,776
LIABILITIES	
Accounts payable	14,260,779
Interest payable	6,465,692
Unearned revenue	1,639,424
Claims liabilities	2,095,000
Long-term obligations:	
Current portion of long-term obligations other than pensions	13,425,186
Noncurrent portion of long-term obligations other than pensions	378,613,169
Total Long-Term Obligations	392,038,355
Aggregate net pension liability	192,726,999
Total Liabilities	609,226,249
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	37,798,229
Total Deferred Inflows of Resources	37,798,229
NET POSITION	
Net investment in capital assets	264,454,337
Restricted for:	
Debt service	22,304,509
Capital projects	66,194,520
Educational programs	4,252,239
Other activities	12,443,135
Unrestricted (deficit)	(107,381,561)
Total Net Position	$ 262,267,179

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**
Governmental Activities:			
Instruction	$ 177,882,768	$ 113,520	$ 32,350,075
Instruction-related activities:			
Supervision of instruction	11,372,865	5,091	5,773,914
Instructional library, media, and technology	2,506,538	-	114,173
School site administration	18,372,357	-	577,714
Pupil services:			
Home-to-school transportation	5,190,863	-	-
Food services	12,683,822	523,593	12,228,513
All other pupil services	15,901,747	23	4,709,258
Administration:			
Data processing	3,626,194	139	2,640
All other administration	10,503,048	30,694	1,272,873
Plant services	30,977,161	304,507	522,790
Ancillary services	2,667,580	-	51,414
Enterprise services	122	-	-
Interest on long-term obligations	16,680,462	-	-
Other outgo	242,865	1,582,521	783,088
Total Governmental Activities	$ 308,608,392	$ 2,560,088	$ 58,386,452

General Revenues and Subventions:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Taxes levied for other specific purposes
Federal and State aid not restricted to specific purposes
Interest and investment earnings
Transfers between agencies
Miscellaneous
Subtotal, General Revenues
Change in Net Position
Net Position - Beginning
Prior Period Adjustment
Net Assets Beginning, as Restated
Net Position - Ending

The accompanying notes are an integral part of these financial statements.

	Net (Expenses) Revenues and Changes in Net Position
Capital Grants and Contributions	Governmental Activities
$ 6,342,355	$ (139,076,818)
-	(5,593,860)
-	(2,392,365)
-	(17,794,643)
-	(5,190,863)
-	68,284
-	(11,192,466)
-	(3,623,415)
-	(9,199,481)
-	(30,149,864)
-	(2,616,166)
-	(122)
-	(16,680,462)
-	2,122,744
$ 6,342,355	(241,319,497)
	47,992,667
	25,037,858
	8,448,142
	175,428,142
	173,426
	182,954
	5,010,570
	262,273,759
	20,954,262
	207,536,873
	33,776,044
	241,312,917
	$ 262,267,179

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 32,450,340	$ 45,143,154	$ 22,042,732
Receivables	7,612,698	235,449	139,492
Due from other funds	7,739,934	4,799,872	63,666
Prepaid expenditures	197,172	-	-
Stores inventories	77,611	-	-
Total Assets	$ 48,077,755	$ 50,178,475	$ 22,245,890
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 9,827,294	$ 2,375,944	$ 1,040,025
Due to other funds	417,632	30,819	33,368
Unearned revenue	1,603,940	-	-
Total Liabilities	11,848,866	2,406,763	1,073,393
Fund Balances:			
Nonspendable	374,783	-	-
Restricted	4,252,239	47,771,712	21,172,497
Assigned	21,861,187	-	-
Unassigned	9,740,680	-	-
Total Fund Balances	36,228,889	47,771,712	21,172,497
Total Liabilities and Fund Balances	$ 48,077,755	$ 50,178,475	$ 22,245,890

The accompanying notes are an integral part of these financial statements.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 48,195,079	$ 28,770,201	$ 12,168,545	$ 188,770,051
4,797,577	302,500	-	2,491,557	15,579,273
-	63,291	-	161,673	12,828,436
-	-	-	-	197,172
-	-	-	351,980	429,591
$ 4,797,577	$ 48,560,870	$ 28,770,201	$ 15,173,755	$ 217,804,523
$ -	$ 447,783	$ -	$ 303,045	$ 13,994,091
4,797,577	5,719,622	-	1,990,111	12,989,129
-	-	-	35,484	1,639,424
4,797,577	6,167,405	-	2,328,640	28,622,644
-	-	-	401,980	776,763
-	-	28,770,201	12,443,135	114,409,784
-	42,393,465	-	-	64,254,652
-	-	-	-	9,740,680
-	42,393,465	28,770,201	12,845,115	189,181,879
$ 4,797,577	$ 48,560,870	$ 28,770,201	$ 15,173,755	$ 217,804,523

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balance - Governmental Funds		**$ 189,181,879**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	$ 783,887,439	
Accumulated depreciation is:	(170,158,660)	
Net Capital Assets		613,728,779
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		11,096,602
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		16,956,092
In the governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(6,465,692)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance and retiree benefits program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		14,049,044
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		15,061,435
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(13,610,653)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		60,043
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		(2,728,972)

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2016

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (192,726,999)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	$ 336,765,707	
Premium on issuance	35,844,725	
Compensated absences (vacations)	1,774,864	
Net OPEB obligation	7,949,083	
Total Long-Term Obligations		(382,334,379)
Total Net Position - Governmental Activities		**$ 262,267,179**

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	$ 199,741,519	$ -	$ -
Federal sources	17,637,032	-	-
Other State sources	28,907,745	-	-
Other local sources	15,060,735	295,741	3,038,659
Total Revenues	261,347,031	295,741	3,038,659
EXPENDITURES			
Current			
Instruction	158,546,451	-	-
Instruction-related activities:			
Supervision of instruction	11,042,609	-	-
Instructional library, media, and technology	2,432,296	-	-
School site administration	17,774,187	-	-
Pupil services:			
Home-to-school transportation	5,190,514	-	-
Food services	9,247	-	-
All other pupil services	15,820,226	-	-
Administration:			
Data processing	3,679,390	-	-
All other administration	8,629,572	-	236,141
Plant services	29,446,474	1,039,500	4,296
Facility acquisition and construction	739,912	20,640,478	3,540,506
Ancillary services	2,671,696	-	-
Other outgo	242,865	-	-
Debt service			
Principal	-	-	-
Interest and other	-	12,388	-
Total Expenditures	256,225,439	21,692,366	3,780,943
Excess (Deficiency) of Revenues Over Expenditures	5,121,592	(21,396,625)	(742,284)
OTHER FINANCING SOURCES (USES)			
Transfers in	6,164,031	-	-
Transfers out	(1,125,322)	-	-
Net Financing Sources (Uses)	5,038,709	-	-
NET CHANGE IN FUND BALANCES	10,160,301	(21,396,625)	(742,284)
Fund Balances - Beginning	26,068,588	69,168,337	21,914,781
Fund Balances - Ending	$ 36,228,889	$ 47,771,712	$ 21,172,497

The accompanying notes are an integral part of these financial statements.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 6,911,733	$ 206,653,252
-	-	-	12,177,605	29,814,637
6,342,299	924,110	158,608	4,132,405	40,465,167
56	8,786,624	24,968,312	1,023,610	53,173,737
6,342,355	9,710,734	25,126,920	24,245,353	330,106,793
-	-	-	6,846,218	165,392,669
-	-	-	335,555	11,378,164
-	-	-	73,277	2,505,573
-	-	-	595,245	18,369,432
-	-	-	-	5,190,514
-	-	-	12,665,422	12,674,669
-	-	-	84,775	15,905,001
-	-	-	-	3,679,390
-	-	-	1,028,417	9,894,130
-	1,207,504	-	441,368	32,139,142
6,342,355	1,102,013	-	-	32,365,264
-	-	-	-	2,671,696
-	-	-	-	242,865
-	-	94,468,511	-	94,468,511
-	-	27,550,727	-	27,563,115
6,342,355	2,309,517	122,019,238	22,070,277	434,440,135
-	7,401,217	(96,892,318)	2,175,076	(104,333,342)
-	9,268	-	2,345	6,175,644
-	(5,711,556)	-	(452,475)	(7,289,353)
-	(5,702,288)	92,785,121	(450,130)	91,671,412
-	1,698,929	(4,107,197)	1,724,946	(12,661,930)
-	40,694,536	32,877,398	11,120,169	201,843,809
$ -	$ 42,393,465	$ 28,770,201	$ 12,845,115	$ 189,181,879

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds		**$ (12,661,930)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	$ 34,174,669	
Depreciation expense	(13,627,317)	
Net Expense Adjustment		20,547,352
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by $126,552.		(126,552)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(1,205,249)
In the Statement of Activities, Other Postemployment Benefits Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation was less than the ARC.		(1,818,973)
Proceeds received from the issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		
General obligation bonds		(77,215,000)

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued
FOR THE YEAR ENDED JUNE 30, 2016

Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these related items:		
Premium on issuance	$ (15,570,121)	
Deferred amount on refunding	11,096,602	
Combined adjustment		$ (4,473,519)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		94,468,511
Governmental funds report the effect of premiums, discounts, and issuance costs when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of the amortization of the related items:		
Premium on issuance for general obligation bonds		(423,578)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus, requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		209,629
An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net change in assets of the internal service fund is reported with governmental activities.		3,653,571
Change in Net Position of Governmental Activities		**$ 20,954,262**

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Internal Service Funds			
	Workers' Compensation	**Retiree Benefits**	**Property and Liability**	**Total**
ASSETS				
Current Assets				
Deposits and investments	$ 16,593,697	$ 9,020,323	$ 67,334	$ 25,681,354
Receivables	27,922	26,752	1,632	56,306
Due from other funds	20,368	158,119	-	178,487
Prepaid expenditures	216,355	-	-	216,355
Total Current Assets	16,858,342	9,205,194	68,966	26,132,502
LIABILITIES				
Current Liabilities				
Accounts payable	259,349	6,167	1,172	266,688
Due to other funds	-	-	17,794	17,794
Claim liabilities	2,095,000	-	-	2,095,000
Total Current Liabilities	2,354,349	6,167	18,966	2,379,482
Noncurrent Liabilities				
Long-term claims liability	9,703,976	-	-	9,703,976
Total Liabilities	12,058,325	6,167	18,966	12,083,458
NET POSITION				
Restricted	4,800,017	9,199,027	50,000	14,049,044
Total Net Position	$ 4,800,017	$ 9,199,027	$ 50,000	$ 14,049,044

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund			
	Workers' Compensation	Retiree Benefits	Property and Liability	Total
OPERATING REVENUES				
Charges to other funds	$ 5,675,472	$ 2,185,583	$ 53,058	$ 7,914,113
OPERATING EXPENSES				
Payroll costs	90,604	-	38,633	129,237
Professional and contract services	2,811,682	1,562,242	974,237	5,348,161
Supplies and materials	397	-	17,023	17,420
Total Operating Expenses	**2,902,683**	**1,562,242**	**1,029,893**	**5,494,818**
Operating Income (Loss)	2,772,789	623,341	(976,835)	2,419,295
NONOPERATING REVENUES				
Interest income	76,894	43,108	565	120,567
Total Nonoperating Revenues	76,894	43,108	565	120,567
Gain (Loss) Before Capital Contributions and Transfers	2,849,683	666,449	(976,270)	2,539,862
Capital contributions and Transfers				
Transfers in	-	148,540	965,169	1,113,709
Change in Net Position	2,849,683	814,989	(11,101)	3,653,571
Total Net Position - Beginning	1,950,334	8,384,038	61,101	10,395,473
Total Net Position - Ending	$ 4,800,017	$ 9,199,027	$ 50,000	$ 14,049,044

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 8,580,440
Cash payments to other suppliers of goods or services	(5,365,581)
Cash payments for administrative expense	(129,237)
Other operating cash payments	(51,613)
Net Cash Provided by Operating Activities	3,034,009
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	1,113,709
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	120,567
Net Increase in Cash and Cash Equivalents	4,268,285
Cash and Cash Equivalents - Beginning	21,413,069
Cash and Cash Equivalents - Ending	$ 25,681,354
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	$ 2,419,295
Changes in Assets and Liabilities:	
Accounts receivable	34,845
Due from other funds	666,327
Prepaid expenditures	(216,355)
Accounts payable	170,575
Due to other funds	(40,678)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,034,009

The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Agency Funds
ASSETS	
Deposits and investments	$ 1,037,820
LIABILITIES	
Accounts payable	$ 2,187
Due to student groups	1,035,633
Total Liabilities	$ 1,037,820

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Palm Springs Unified School District (the District) was formed in 1948, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools, four middle schools, three high schools, one continuation high school, an adult education program, and an alternative education program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Charter School

The District has approved a Charter for the Cielo Vista Charter School pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined, as special revenue funds in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of $5,078,154, $5,078,154, and $32,319, respectively.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects is used to account for funds set aside for Board designated construction projects.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Charter School Fund This fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Funds Internal Service Funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance workers' compensation fund, retiree benefits fund and a property and liability fund that are accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial Statement of Activities presents a comparison between direct expenses and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds, the internal service funds, and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements, because they do not represent resources of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $25,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statement of net position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to certain school employees who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed, but that is intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $105,194,403 of restricted net position.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the *California Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) 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 Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.
The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	$ 214,451,405
Fiduciary funds	1,037,820
Total Deposits and Investments	$ 215,489,225

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	$ 1,037,820
Cash in revolving	150,000
Investments	214,377,647
Total Deposits and Investments	$ 215,565,467

Policies and Practices

The District is authorized under California *Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Riverside County Investment Pool.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Weighted-Average Days to Maturity
Riverside County Investment Pool	$ 214,380,863	420

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 Fitch Ratings. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Minimum Rating	Rating June 30, 2016	Fair Value
Riverside County Investment Pool	Not Required	AAA/V1	$ 214,380,863

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of $472,204 was exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Riverside County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Uncategorized
Riverside County Treasury Investment Pool	$ 214,380,863	$ 214,380,863

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund
Federal Government				
Categorical aid	$ 2,317,381	$ -	$ -	$ -
State Government				
Categorical aid	623,544	-	-	-
Lottery	2,441,854	-	-	-
SELPA Master plan	1,535,494	-	-	-
State school facilities project	-	-	-	4,797,521
Local Government				
Interest	78,025	81,384	37,477	56
Other Local Sources	616,400	154,065	102,015	-
Total	$ 7,612,698	$ 235,449	$ 139,492	$ 4,797,577

	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government				
Categorical aid	$ -	$ 1,835,512	$ -	$ 4,152,893
State Government				
Categorical aid	-	514,469	-	1,138,013
Lottery	-	83,995	-	2,525,849
SELPA Master plan	-	-	-	1,535,494
State school facilities project	-	-	-	4,797,521
Local Government				
Interest	53,799	18,956	40,794	310,491
Other Local Sources	248,701	38,625	15,512	1,175,318
Total	$ 302,500	$ 2,491,557	$ 56,306	$ 15,635,579

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 86,510,439	$ -	$ -	$ 86,510,439
Construction in progress	30,306,423	19,806,075	25,001,172	25,111,326
Total Capital Assets Not Being Depreciated	116,816,862	19,806,075	25,001,172	111,621,765
Capital Assets Being Depreciated				
Land improvements	2,133,600	1,011,478	-	3,145,078
Buildings and improvements	611,246,958	35,937,086	-	647,184,044
Furniture and equipment	19,515,350	2,421,202	-	21,936,552
Total Capital Assets Being Depreciated	632,895,908	39,369,766	-	672,265,674
Less Accumulated Depreciation				
Land improvements	248,882	57,987	-	306,869
Buildings and improvements	141,131,055	12,553,486	-	153,684,541
Furniture and equipment	15,151,406	1,015,844	-	16,167,250
Total Accumulated Depreciation	156,531,343	13,627,317	-	170,158,660
Capital Assets, Net	$ 593,181,427	$ 45,548,524	$ 25,001,172	$ 613,728,779

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 12,580,003
All other general administration	420,732
Plant services	626,582
Total Depreciation Expenses	$ 13,627,317

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances consist of amounts allocated between funds for various purposes. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds and the Internal Service Fund, are as follows:

	Due From							
Due To	General Fund	Building Fund	Capital Facilities Fund	County Schools Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
General Fund	$ -	$ 12,178	$ 17,303	$ -	$ 5,711,556	$ 1,981,103	$ 17,794	$ 7,739,934
Building Fund	2,295	-	-	4,797,577	-	-	-	4,799,872
Capital Facilities Fund	49,548	14,118	-	-	-	-	-	63,666
Special Reserve Fund for Capital Outlay Projects	42,703	4,523	16,065	-	-	-	-	63,291
Non-Major Governmental Funds	159,273	-	-	-	-	2,400	-	161,673
Internal Service Fund	163,813	-	-	-	8,066	6,608	-	178,487
Total	$ 417,632	$ 30,819	$ 33,368	$ 4,797,577	$ 5,719,622	$ 1,990,111	$ 17,794	$ 13,006,923

A balance of $1,000,000 is due to the General Fund from the Child Development Non-Major Governmental Fund for a temporary loan and to cover costs.

A balance of $58,394 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

A balance of $904,509 is due to the General Fund from the Charter Non-Major Governmental Fund for administrative and supervisorial fees.

A balance of $3,711,556 is due to the General fund from the Special Reserve Fund for Capital Outlay Projects for maintenance and operation costs.

A balance of $2,000,000 is due to the General fund from the Special Reserve Fund for Capital Outlay Projects for the site technology plans.

The balance of $4,797,577 is due to the Building Fund from the Special Reserve Fund for Capital Outlay Projects for state funding received to cover costs related to Palm Springs High School Auditorium projected.

A balance of $9,923 is due to Special Reserve Fund for Capital Outlay Projects from the Capital Facilities Fund for project management costs.

A balance of $39,625 is due to the Capital Facilities Fund from the General Fund for payroll costs.

A balance of $154,578 is due to the Charter School Non-Major Governmental Fund from the General Fund for In Lieu of Property Taxes pass-through monies and to cover indirect costs.

A balance of $148,540 is due to the Internal Service Fund from the General Fund for Teams 1 and 2 medical pool expense and workers' compensation/OPEB costs.

All remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfer From			
Transfer To	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
General Fund	$ -	$ 5,711,556	$ 452,475	$ 6,164,031
Special Reserve Fund for Capital Outlay Projects	9,268	-	-	9,268
Non-Major Governmental Funds	2,345	-	-	2,345
Internal Service Funds	1,113,709	-	-	1,113,709
Total	$ 1,125,322	$ 5,711,556	$ 452,475	$ 7,289,353

The General Fund tranferred to the Child Development Non-Major Governmental Fund to cover costs.	$ 2,345
The General Fund tranferred to the Special Reserve Fund for Capital Outlay Projects to cover costs.	9,268
The General Fund transferred to the Self Insurance Internal Service Fund for future claims.	1,113,709
The Charter School Non-Major Governmental Fund transferred to the General Fund for administrative fees.	452,475
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for support of program related expenses	3,711,556
The Special Reserves Fund for Capital Outlay Projects transferred to the General Fund for the site technology plans.	2,000,000
Total	$ 7,289,353

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
Vendor payables	$ 3,521,797	$ 325,942	$ 12,630	$ 401,282
State principal apportionment	5,531,991	-	-	-
Salaries and benefits	773,506	-	-	-
Construction	-	2,050,002	1,027,395	46,501
Total	$ 9,827,294	$ 2,375,944	$ 1,040,025	$ 447,783

	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	$ 232,151	$ 266,688	$ 4,760,490
State principal apportionment	-	-	5,531,991
Salaries and benefits	70,894	-	844,400
Construction	-	-	3,123,898
Total	$ 303,045	$ 266,688	$ 14,260,779

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 639,886	$ -	$ 639,886
State categorical aid	964,054	13,643	977,697
Other local	-	21,841	21,841
Total	$ 1,603,940	$ 35,484	$ 1,639,424

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	$ 354,019,218	$ 77,215,000	$ 94,468,511	$ 336,765,707	$ 13,425,186
Premium on issuance	19,851,026	16,048,717	55,018	35,844,725	-
Compensated absences	1,648,312	126,552	-	1,774,864	-
Claims liability	10,084,976	-	381,000	9,703,976	-
OPEB obligation	6,130,110	3,548,870	1,729,897	7,949,083	-
	$ 391,733,642	$ 96,939,139	$ 96,634,426	$ 392,038,355	$ 13,425,186

Payments on general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments for compensated absences are typically paid by the fund for which the employee worked.

Payments for the OPEB obligation are made in the General Fund.

Payments for claims liability are made from the Self-Insurance Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Redeemed	Bonds Outstanding June 30, 2016
06/15/10	02/01/26	4.37%	$ 19,539,035	$ 14,439,218	$ -	$ 1,058,511	$ 13,380,707
01/12/10	08/01/33	2.00-5.00%	110,000,000	91,705,000	-	83,130,000	8,575,000
06/08/11	08/01/32	0.40-5.00%	75,105,000	60,025,000	-	1,500,000	58,525,000
07/17/13	08/01/33	3.00-4.25%	20,425,000	19,145,000	-	4,555,000	14,590,000
11/05/13	08/01/37	3.00-5.00%	70,000,000	68,620,000	-	1,330,000	67,290,000
07/17/14	08/01/36	3.00-5.00%	100,085,000	100,085,000	-	2,895,000	97,190,000
06/21/16	08/01/33	4.00-5.00%	77,215,000	-	77,215,000	-	77,215,000
				$ 354,019,218	$ 77,215,000	$ 94,468,511	$ 336,765,707

Debt Service Requirements to Maturity

The bonds mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 13,425,186	$ 17,178,029	$ 30,603,215
2018	14,583,562	18,082,611	32,666,173
2019	14,673,911	17,469,519	32,143,430
2020	15,071,341	16,784,851	31,856,192
2021	12,920,725	12,276,623	25,197,348
2022-2026	72,640,982	51,831,538	124,472,520
2027-2031	94,245,000	32,194,532	126,439,532
2032-2036	87,265,000	10,861,125	98,126,125
2037	11,940,000	539,100	12,479,100
Total	$ 336,765,707	$ 177,217,928	$ 513,983,635

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2016, amounted to $1,774,864.

Claims Liability

The District has an outstanding long-term liability for incurred but not reported claims for the District's workers' compensation insurance program in the amount of $9,703,976 at June 30, 2016.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was $3,273,014, and contributions made by the District during the year were $1,421,696. Interest on the net OPEB obligation and adjustments to the annual required contribution were $275,856 and $(308,201), respectively, which resulted in an increase to the net OPEB obligation of $1,818,973. As of June 30, 2016, the net OPEB obligation was $7,949,083. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund
Nonspendable			
Revolving cash	$ 100,000	$ -	$ -
Stores inventories	77,611	-	-
Prepaid expenditures	197,172	-	-
Total Nonspendable	374,783	-	-
Restricted			
Legally restricted programs	4,252,239	-	-
Capital projects	-	47,771,712	21,172,497
Debt services	-	-	-
Total Restricted	4,252,239	47,771,712	21,172,497
Assigned			
School/Department Carryover	569,849	-	-
Anderson Grants	41,062	-	-
Local Grants	109,016	-	-
Sunny Sands mentoring grant	9,381	-	-
The Foundation for PSUSD	9,983	-	-
Donations and fees	164,453	-	-
Textbook Adoption	3,747,392	-	-
Mental Health Program	359,292	-	-
Mental Health RAP Foundation	19,500	-	-
Medi-Cal Admin. Activities Reimbursement	198,419	-	-
Local Control Accountability Plan	7,434,296	-	-
ROTC Instructional Materials and Supplies	27,860	-	-
Lottery 1100	281,210	-	-
New schools	8,889,474	-	-
Energy Efficiency Projects	-	-	-
Other assignments	-	-	-
Total Assigned	21,861,187	-	-
Unassigned			
Economic uncertainties	7,720,490	-	-
Remaining unassigned	2,020,190	-	-
Total Unassigned	9,740,680	-	-
Total	$ 36,228,889	$ 47,771,712	$ 21,172,497

NOTE 10 - FUND BALANCES, Continued

Fund balances are composed of the following elements:

	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ -	$ -	$ 50,000	$ 150,000
Stores inventories	-	-	351,980	429,591
Prepaid expenditures	-	-	-	197,172
Total Nonspendable	-	-	401,980	776,763
Restricted				
Legally restricted programs	-	-	12,443,135	16,695,374
Capital projects	-	-	-	68,944,209
Debt services	-	28,770,201	-	28,770,201
Total Restricted	-	28,770,201	12,443,135	114,409,784
Assigned				
School/Department Carryover	-	-	-	569,849
Anderson Grants	-	-	-	41,062
Local Grants	-	-	-	109,016
Sunny Sands mentoring grant	-	-	-	9,381
The Foundation for PSUSD	-	-	-	9,983
Donations and fees	-	-	-	164,453
Textbook Adoption	-	-	-	3,747,392
Mental Health Program	-	-	-	359,292
Mental Health RAP Foundation	-	-	-	19,500
Medi-Cal Admin. Activities Reimbursement	-	-	-	198,419
Local Control Accountability Plan	-	-	-	7,434,296
ROTC Instructional Materials and Supplies	-	-	-	27,860
Lottery 1100	-	-	-	281,210
New schools	-	-	-	8,889,474
Energy Efficiency Projects	2,418,251	-	-	2,418,251
Other assignments	39,975,214	-	-	39,975,214
Total Assigned	42,393,465	-	-	64,254,652
Unassigned				
Economic uncertainties	-	-	-	7,720,490
Remaining unassigned	-	-	-	2,020,190
Total Unassigned	-	-	-	9,740,680
Total	$ 42,393,465	$ 28,770,201	$ 12,845,115	$ 189,181,879

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Palm Springs Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and dependents. Membership of the Plan consists of 134 retirees and beneficiaries currently receiving benefits, and 1,963 active Plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Palm Springs Teachers Association (PSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed $1,421,696 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 3,273,014
Interest on net OPEB obligation	275,856
Adjustment to annual required contribution	(308,201)
Annual OPEB cost (expense)	3,240,669
Contributions made	(1,421,696)
Increase in net OPEB obligation	1,818,973
Net OPEB obligation, beginning of year	6,130,110
Net OPEB obligation, end of year	$ 7,949,083

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Costs	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$ 2,842,603	$ 1,480,444	52%	$ 4,415,384
2015	$ 3,249,716	$ 1,534,990	47%	$ 6,130,110
2016	$ 3,240,669	$ 1,421,696	44%	$ 7,949,083

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 1, 2014	$ -	$ 28,641,652	$ 28,641,652	0%	$ 142,009,935	20%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

On the November 1, 2014 actuarial valuation, the entry-age normal actuarial cost method was used. The actuarial assumptions included a five percent investment rate of return, based on assumed long-term return on plan assets or employer assets, as appropriate. Healthcare cost trend rates were assumed at an ultimate rate of four percent based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. The level percentage payroll method was used to allocate amortization cost by year.

NOTE 12 - RISK MANAGEMENT - CLAIMS

Description

Beginning July 1, 2003, the District's risk financing activities for workers' compensation are recorded in the Internal Service Fund. The purpose of the Internal Service Fund is to administer the District's self-insured portion of its workers' compensation insurance program.

The District participates in various joint powers authorities (JPAs) for health coverage and property exposures (see Note 14).

Claims Liabilities

The District records an estimated liability for claims filed against it. Claims liabilities are based on estimates of the ultimate cost of reported claims and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claim Liabilities

The Internal Service Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities of the District from July 1, 2015 to June 30, 2016:

	Workers' Compensation
Liability Balance, July 1, 2014	$ 12,045,338
Claims and changes in estimates	1,845,037
Claims payments	(2,091,399)
Liability Balance, June 30, 2015	11,798,976
Claims and changes in estimates	(455,868)
Claims payments	455,868
Liability Balance, June 30, 2016	$ 11,798,976
Assets available to pay claims at June 30, 2016	$ 16,858,342

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 148,312,147	$ 37,403,934	$ 26,253,788	$ 12,733,755
CalPERS	44,414,852	16,132,240	11,544,441	4,069,396
Total	$ 192,726,999	$ 53,536,174	$ 37,798,229	$ 16,803,151

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $12,214,694.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:	
District's proportionate share of net pension liability	$ 148,312,147
State's proportionate share of the net pension liability associated with the District	78,440,776
Total	$ 226,752,923

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.2203 percent and 0.0750 percent, resulting in a net increase in the proportionate share of 0.1453 percent.

For the year ended June 30, 2016, the District recognized pension expense of $12,733,755. In addition, the District recognized pension expense and revenue of $6,076,119 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 12,214,694	$ -
Net change in proportionate share of net pension liability	13,503,633	-
Differences between projected and actual earnings on pension plan investments	11,685,607	23,775,457
Differences between expected and actual experience in the measurement of the total pension liability	-	2,478,331
Total	$ 37,403,934	$ 26,253,788

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (5,003,751)
2018	(5,003,751)
2019	(5,003,751)
2020	2,921,403
Total	$ (12,089,850)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ 1,837,550
2018	1,837,550
2019	1,837,550
2020	1,837,550
2021	1,837,551
Thereafter	1,837,551
Total	$ 11,025,302

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 223,939,798
Current discount rate (7.60%)	$ 148,312,147
1% increase (8.60%)	$ 85,459,466

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions for funding, but not accounting purposes, and membership information is listed in the June 30, 2014 annual actuarial valuation report(s), Schools Pool Actuarial Valuation, 2014.This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016 are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were $4,741,398.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $44,414,852. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.3013 percent and 0.2952 percent, resulting in a net increase/decrease in the proportionate share of 0.0061 percent.

For the year ended June 30, 2016, the District recognized pension expense of $4,069,396. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,741,398	$ -
Net change in proportionate share of net pension liability	1,557,802	-
Difference between projected and actual earnings on pension plan investments	7,294,667	8,815,469
Differences between expected and actual experience in the measurement of the total pension liability	2,538,373	-
Changes of assumptions	-	2,728,972
Total	$ 16,132,240	$ 11,544,441

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (1,114,823)
2018	(1,114,823)
2019	(1,114,823)
2020	1,823,667
Total	$ (1,520,802)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ 605,081
2018	605,080
2019	157,042
Total	$ 1,367,203

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 72,288,873
Current discount rate (7.65%)	$ 44,414,852
1% increase (8.65%)	$ 21,235,742

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $6,740,825 (7.12589 percent of the 2012-2013 creditable compensation subject to STRS). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Construction Commitments	Date of Completion
Agua Caliente Elementary School Modernization	$ 30,278,289	2017-2018
Bubbling Wells Elementary School Parking Lot	71,149	2016-2017
Cathedral City High School Pool-Solar / Roofing	992,779	2016-2017
Cathedral City High School Theater Renovation	135,345	2016-2017
District Wide - Prop 39 / Bond HVAC Replacements	228,011	2017-2018
District-Wide Phone-System Modernization	202,580	2016-2017
District-Wide Portables - Phase II	5,194,449	2016-2017
Katherine Finchy Solar Landscape	120,425	2017-2018
New District Adminstration Offices	22,743,802	2017-2018
New K-8	64,330,867	2018-2019
Palm Springs High School Auditorium / Equipment Measure J	180,193	2017-2018
Palm Springs High School Auditorium / Seismic	4,459,358	2016-2017
Palm Springs Unified School District Pool	4,644,171	2016-2017
Raymond Cree Middle School Classroom Building	4,407,501	2016-2017
Raymond Cree Middle School Roof Replacement	2,439,160	2018-2019
Raymond Cree Middle School Upgrades	61,751	2016-2017
Vista Del Monte Communication Tower	260,077	2016-2017
	$ 140,749,907	

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Southern California Regional Liability Excess Fund (So Cal ReLiEF) and the Riverside Employer/Employees' Partnership for Benefits (REEP) joint powers authorities. The District pays an annual premium to each entity for its health and property and liability coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements.

During the year ended June 30, 2016, the District made payments of $798,396 and $1,172,046, to So Cal ReLiEF and REEP, respectively, for health and property and liability coverage.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occur in the prior year net position and fund balances have been restated as of June 30, 2016, to more accurately reflect the substance of the underlying transactions. The following table summarizes the reason for the restatement. As a result, the effect on the current fiscal year is as follows:

Government-Wide - Statement of Net Position	
Net Position - Beginning	$ 207,536,873
Understatement of net assets related Capital Assets:	
Overstatement of work in progress	(53,552,110)
Understatement of buildings and improvements	53,492,125
Understatement of furniture and equipment	103,718
Overstatement of accumulated depreciaiton for land improvements	163
Overstatement of accumulated depreciaiton for buildings and improvements	31,465,025
Overstatement of accumulated depreciaiton for furniture and equipment	2,267,123
Net Position - Beginning as Restated	$ 241,312,917

REQUIRED SUPPLEMENTARY INFORMATION

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	$ 200,789,824	$ 199,180,775	$ 199,741,519	$ 560,744
Federal sources	15,473,875	20,660,520	17,637,032	(3,023,488)
Other State sources	21,170,100	30,369,784	28,907,745	(1,462,039)
Other local sources	13,776,554	14,865,286	15,060,735	195,449
Total Revenues [1]	251,210,353	265,076,365	261,347,031	(3,729,334)
EXPENDITURES				
Current				
Certificated salaries	109,012,594	111,923,074	111,829,351	93,723
Classified salaries	35,896,704	37,917,875	37,072,059	845,816
Employee benefits	53,531,508	60,543,332	59,436,350	1,106,982
Books and supplies	13,642,566	24,547,572	14,740,217	9,807,355
Services and operating expenditures	36,927,698	37,075,595	31,946,378	5,129,217
Capital outlay	981,769	2,122,926	1,914,290	208,636
Other outgo	(353,863)	(672,225)	(713,206)	40,981
Total Expenditures [1]	249,638,976	273,458,149	256,225,439	17,232,710
Excess (Deficiency) of Revenues Over Expenditures	1,571,377	(8,381,784)	5,121,592	13,503,376
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	6,164,031	6,164,031
Transfers out	(4,826,026)	(1,490,711)	(1,125,322)	365,389
Net Financing Sources (Uses)	(4,826,026)	(1,490,711)	5,038,709	6,529,420
NET CHANGE IN FUND BALANCE	(3,254,649)	(9,872,495)	10,160,301	20,032,796
Fund Balance - Beginning	26,068,588	26,068,588	26,068,588	-
Fund Balance - Ending	$ 22,813,939	$ 16,196,093	$ 36,228,889	$ 20,032,796

[1] On behalf payments of $6,740,825 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS AND EMPLOYER CONTRIBUTION
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 1, 2014	$ -	$ 28,641,652	$ 28,641,652	0%	$ 142,009,935	20%

The District has placed $9,199,027 in the Internal Service Fund as being expressly for the purpose of funding the future liability associated with the District's OPEB obligation. This designation is not allowed to be included in the actuarial value of assets noted above. If this amount had been placed into a restricted irrevocable trust in accordance with GASB Statement No. 43 guidelines, as of year-end, the calculation of the actuarial value of assets would have been $9,199,027. The unfunded AAL would have been $19,442,625. The funded ratio would have been 32 percent, and the UAAL as a percentage of covered payroll, would have been 14 percent, accordingly.

See accompanying note to required supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
District's proportion of the net pension liability (asset)	0.2203%	0.0750%
District's proportionate share of the net pension liability (asset)	$ 148,312,147	$ 116,093,098
State's proportionate share of the net pension liability (asset) associated with the District	78,440,776	70,102,025
Total	$ 226,752,923	$ 186,195,123
District's covered - employee payroll	$ 98,694,989	$ 92,877,709
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	150.27%	125.00%
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability (asset)	0.3013%	0.2952%
District's proportionate share of the net pension liability (asset)	$ 44,414,852	$ 33,509,892
District's covered - employee payroll	$ 32,838,170	$ 30,950,192
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	135.25%	108.27%
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	79%	83%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
Contractually required contribution	$ 12,214,694	$ 8,764,115
Contributions in relation to the contractually required contribution	12,214,694	8,764,115
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 113,836,850	$ 98,694,989
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 4,741,398	$ 3,865,381
Contributions in relation to the contractually required contribution	4,741,398	3,865,381
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	40,021,930	$ 32,838,170
Contributions as a percentage of covered - employee payroll	11.85%	11.77%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	$ 195,331	$ -
No Child Left Behind Act (NCLB):				
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	8,538,644	51,774
Title I, Part G - Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	49,118	-
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	1,053,206	10,026
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	1,074,873	-
Mathematics and Science Partnerships Grants	84.366	14512	60,911	-
Passed through Riverside County Special Education Local Plan Area:				
Individuals With Disabilities Act (IDEA)				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	2,949,164	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	8,121	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	65,903	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	131,309	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	204,714	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	695	-
Total Special Education (IDEA) Cluster			3,359,906	-
Total U.S. Department of Education			14,331,989	61,800

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Forest Reserve	10.665	10044	$ 7,622	$ -
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	2,467,681	-
National School Lunch Program	10.555	13524	7,749,032	-
Summer Food Service Program	10.559	13004	269,646	-
Food Distribution	10.555	13524	315,135	-
Total Child Nutrition Cluster			10,801,494	-
CACFP Claims - Centers and Family Day Care	10.558	13393	1,376,110	-
Total U.S. Department of Agriculture			12,185,226	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	767,102	-
Medical Administrative Activities Program	93.778	10060	603,602	-
Total Medicaid Cluster			1,370,704	-
Passed through Riverside County Office of Education:				
Head Start	93.600	10016	1,808,980	-
Youth Risk Behavior Survey Participation	93.079	01031	400	-
Total U.S. Department of Health and Human Services			3,180,084	-
U.S. DEPARTMENT OF DEFENSE				
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	106,314	-
Total Federal Programs			$ 29,803,613	$ 61,800

[1] Pass-Through Number not available

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

The Palm Springs Unified School District was established in 1948, and consists of an area comprising approximately 498 square miles. The District operates fifteen elementary schools, four middle schools, three high schools, one continuation high school, an adult education program, and an alternative education program. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Shari Stewart	President	2016
John Gerardi	Clerk	2018
Richard R. Clapp	Member	2016
Karen Cornett	Member	2018
James Williamson	Member	2018

ADMINISTRATION

Sandra Lyon	Superintendent
Brian J. Murray	Assistant Superintendent, Business Services
Mike Swize	Assistant Superintendent, Educational Services
Mauricio Arellano	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,331.88	6,331.35
Fourth through sixth	4,900.32	4,891.54
Seventh and eighth	3,280.14	3,264.14
Ninth through twelfth	6,692.73	6,616.59
Total Regular ADA	21,205.07	21,103.62
Extended Year Special Education		
Transitional kindergarten through third	0.58	0.58
Fourth through sixth	2.06	2.06
Seventh and eighth	2.28	2.28
Ninth through twelfth	6.69	6.69
Total Extended Year Special Education	11.61	11.61
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.01	1.24
Fourth through sixth	1.39	2.45
Seventh and eighth	0.34	0.59
Ninth through twelfth	0.82	1.27
Total Special Education, Nonpublic, Nonsectarian Schools	3.56	5.55
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.05	0.05
Fourth through sixth	0.14	0.14
Ninth through twelfth	0.06	0.06
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.25	0.25
Total ADA	21,220.49	21,121.03

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE, Continued
FOR THE YEAR ENDED JUNE 30, 2016

CIELO VISTA CHARTER SCHOOL	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	427.57	426.97
Fourth through sixth	310.90	310.74
Seventh and eighth	60.75	60.95
Total Regular ADA	799.22	798.66
Classroom based ADA		
Regular ADA		
Transitional kindergarten through third	427.57	426.97
Fourth through sixth	310.90	310.74
Seventh and eighth	60.75	60.95
Total Classroom Based ADA	799.22	798.66

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,605	180	N/A	Complied
Grade 2		52,605	180	N/A	Complied
Grade 3		52,605	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,090	180	N/A	Complied
Grade 5		54,090	180	N/A	Complied
Grade 6		61,540	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		61,540	180	N/A	Complied
Grade 8		61,540	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9					
Grade 10		64,817	180	N/A	Complied
Grade 11		64,817	180	N/A	Complied
Grade 12		64,817	180	N/A	Complied
		64,817	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	56,550	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		57,225	180	N/A	Complied
Grade 2		57,225	180	N/A	Complied
Grade 3		57,225	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		58,575	180	N/A	Complied
Grade 5		58,575	180	N/A	Complied
Grade 6		62,175	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		62,175	180	N/A	Complied
Grade 8		62,175	180	N/A	Complied

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SUMMARY OF THE PROPOSITION 10 GRANT
FOR THE YEAR ENDED JUNE 30, 2016

	Proposition 10 Agreement Number
	13316-AQ
	July 1, 2015- June 30, 2016
REVENUES	
State categorical aid	$ 210,519
EXPENDITURES	
Personnel and benefits	$ 201,496
Operating expenditures	9,023
	$ 210,519

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 [1]	2016	2015	2014
GENERAL FUND [4]				
Revenues	$ 263,472,627	$ 261,314,712	$ 214,805,642	$ 191,070,987
Other sources and transfers in	6,217,503	6,164,031	9,672,145	12,348,282
Total Revenues and Other Sources	269,690,130	267,478,743	224,477,787	203,419,269
Expenditures	269,466,500	256,225,438	227,919,179	203,900,117
Other uses and transfers out	1,204,450	4,936,643	1,654,167	44,586,222
Total Expenditures and Other Uses	270,670,950	261,162,081	229,573,346	248,486,339
INCREASE (DECREASE) IN FUND BALANCE	$ (980,820)	$ 6,316,662	$ (5,095,559)	$ (45,067,070)
ENDING FUND BALANCE	$ 26,358,595	$ 27,339,415	$ 21,022,753	$ 26,118,312
AVAILABLE RESERVES [2]	$ 15,818,569	$ 9,740,680	$ 11,933,036	$ 19,816,674
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	5.8%	3.8%	5.0%	8.1%
LONG-TERM OBLIGATIONS	N/A	$392,038,355	$ 391,733,642	$ 399,149,574
AVERAGE DAILY ATTENDANCE AT P-2 [4]	21,173	21,220	21,251	21,237

The General Fund balance has increased by $1,221,103 over the past two years. The fiscal year 2016-2017 budget projects a decrease of $980,820 (3.59 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have decreased by $7,111,219 over the past two years.

Average daily attendance has decreased by 17 over the past two years. Additional decline of 47 ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] On behalf payments of $6,740,825, $4,835,804, and $4,850,283 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.

4 Excludes Charter School ADA.

5 General Fund amounts do not include activity related to the consolidation as required by GASB Statement No. 54 of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016

Name of Charter School	Included in Audit Report
Cielo Vista Charter School	Yes

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Charter School Fund	Adult Education Fund	Child Development Fund
ASSETS			
Deposits and investments	$ 4,364,600	$ 185,939	$ 762,947
Receivables	98,833	41,393	337,006
Due from other funds	154,578	-	3,903
Stores inventories	-	-	-
Total Assets	$ 4,618,011	$ 227,332	$ 1,103,856
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 80,563	$ 2,031	$ 61,006
Due to other funds	908,849	-	1,014,209
Unearned revenue	-	-	13,643
Total Liabilities	989,412	2,031	1,088,858
Fund Balances:			
Nonspendable	50,000	-	-
Restricted	3,578,599	225,301	14,998
Total Fund Balances	3,628,599	225,301	14,998
Total Liabilities and Fund Balances	$ 4,618,011	$ 227,332	$ 1,103,856

See accompanying note to supplementary information.

Cafeteria Fund	Non-Major Governmental Funds
$ 6,855,059	$ 12,168,545
2,014,325	2,491,557
3,192	161,673
351,980	351,980
$ 9,224,556	$ 15,173,755
$ 159,445	$ 303,045
67,053	1,990,111
21,841	35,484
248,339	2,328,640
351,980	401,980
8,624,237	12,443,135
8,976,217	12,845,115
$ 9,224,556	$ 15,173,755

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Charter School Fund	Adult Education Fund	Child Development Fund
REVENUES			
Local Control Funding Formula	$ 6,911,733	$ -	$ -
Federal sources	-	-	-
Other State sources	841,341	-	2,447,764
Other local sources	111,468	227,332	78
Total Revenues	7,864,542	227,332	2,447,842
EXPENDITURES			
Current			
Instruction	4,795,346	-	2,050,872
Instruction-related activities:			
Supervision of instruction	1,946	-	333,609
Instructional library, media and technology	73,277	-	-
School site administration	595,228	-	17
Pupil services:			
Food services	-	-	3,847
All other pupil services	81,617	-	3,158
Administration:			
All other administration	528,522	-	28,269
Plant services	314,905	2,031	30,813
Total Expenditures	6,390,841	2,031	2,450,585
Excess (Deficiency) of Revenues Over Expenditures	1,473,701	225,301	(2,743)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	2,345
Transfers out	(452,475)	-	-
Net Financing Sources (Uses)	(452,475)	-	2,345
NET CHANGE IN FUND BALANCES	1,021,226	225,301	(398)
Fund Balances - Beginning	2,607,373	-	15,396
Fund Balances - Ending	$ 3,628,599	$ 225,301	$ 14,998

See accompanying note to supplementary information.

Cafeteria Fund	Non-Major Governmental Funds
$ -	$ 6,911,733
12,177,605	12,177,605
843,300	4,132,405
684,732	1,023,610
13,705,637	24,245,353
-	6,846,218
-	335,555
-	73,277
-	595,245
12,661,575	12,665,422
-	84,775
471,626	1,028,417
93,619	441,368
13,226,820	22,070,277
478,817	2,175,076
-	2,345
-	(452,475)
-	(450,130)
478,817	1,724,946
8,497,400	11,120,169
$ 8,976,217	$ 12,845,115

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Summary of Proposition 10 Grants

This schedule provides information to the Riverside County Children and Families Commission for each of the District's Proposition 10 Grants.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the Palm Springs Unified School District, and displays information for each Charter School on whether or not the Charter School is included in the District's audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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*

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palm Springs Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Palm Springs Unified School District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Emphasis of Matter – Correction of an Error

As discussed in Note 16 to the financial statements, the District has restated beginning net position of the government-wide financial statements to reflect the classification change of the capital assets and related depreciation expense.

Internal Control Over Financial Reporting

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

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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 Palm Springs Unified School 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*.

We noted certain matters that we reported to management of Palm Springs Unified School District in a separate letter dated November 30, 2016.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Palm Springs Unified School District
Palm Springs, California

Report on Compliance for Each Major Federal Program

We have audited Palm Springs Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palm Springs Unified School District's (the District) major Federal programs for the year ended June 30, 2016. Palm Springs Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Palm Springs Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Palm Springs Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Palm Springs Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Palm Springs Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Palm Springs Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palm Springs Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palm Springs Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Palm Springs Unified School District
Palm Springs, California

Report on State Compliance

We have audited Palm Springs Unified School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Palm Springs Unified School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Palm Springs Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Palm Springs Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Palm Springs Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Palm Springs Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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In connection with the audit referred to above, we selected and tested transactions and records to determine the Palm Springs Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, See Below
Immunizations	Yes, See Below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, See Below

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study – Course Based Program; therefore, we did not perform procedures related to the Independent Study – Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The District does not offer Non Classroom-Based Instruction/Independent Study therefore; we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study.

The District does not have a Charter School Facility Grant Program; therefore, we did not perform any procedures for that Program.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.365	Title III - Limited English Proficient (LEP) Student Program
84.027, 84.173, 84.027A, 84.173A	Special Education (IDEA) Cluster
93.778	Medicaid Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	$ 894,108
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's Schedule of Financial Statement, Federal Awards and State Awards findings.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

Governing Board
Palm Springs Unified School District
Palm Springs, California

In planning and performing our audit of the financial statements of Palm Springs Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 30, 2016 on the government-wide financial statements of the District.

Painted Hills Middle School

Associated Student Body – Internal Controls Student Store

Observation

The following deficiencies exist in the internal control structure of the snack bar operated by the student body:

- An inventory record is not maintained for merchandise sold or purchased.

- First inventory count sheets of the year showed "?" in several sections where a numerical figure should have been placed.

As a result of these deficiencies, procedures do not exist to substantiate the revenue generated. In addition, the profitability of the snack bar cannot be analyzed.

Recommendation

The student body should submit a sales analysis form with every deposit, maintain a perpetual inventory of goods purchased and sold, perform a physical inventory count at least quarterly, and create a separate sub-ledger account for snack bar transactions only. The snack bar account should document transactions regarding the sales and purchases of the snack bar. This would allow the profitability of the snack bar to be analyzed during the year.

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Associated Student Body – Receipting Procedures

Observation

For one of the deposits reviewed pre-numbered receipts were not on hand to account for cash collections and therefore, there is no reconciliation between issued receipts and bank deposits.

Recommendation

Pre-numbered receipts should be issued for all cash collections by teacher, advisors and the site bookkeeper that would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit.

Palm Springs High School

Associated Student Body – Revenue Potentials

Observation

Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth. The revenue potential form used at the site should contain four major elements. These are:

1. Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.

2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.

3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.

4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Associated Student Body – Student Store Tickets

Observation

The controls and procedures in place at the student store are not sufficient to safeguard merchandise. We noted the following conditions which we felt were areas that should be addressed:

- The tickets for ticketed events were left on the floor of the bookkeeper's room and not locked away.

Recommendation

The site should analyze the procedures at the student store and enhance the control environment by implementing new procedures and changing current procedures. The procedural changes should include the following:

- The safe should also be closed at all times even if there are only tickets inside. Tickets represent potential cash equivalents and the theft of them can result in revenue losses to the site.

Associated Student Body – Disbursements

Observation

Disbursements were not always adequately supported by proper documentation. By initialing or signing an invoice, the bookkeeper knows that all the merchandise was received prior to paying for the order.

Recommendation

All invoices should be accompanied by a purchase order where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Purchase orders provide clubs with documentation of items requested that can then be checked to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2016