

**PALM SPRINGS UNIFIED SCHOOL DISTRICT**

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**BUILDING FUND (MEASURE E)  
FINANCIAL AND PERFORMANCE AUDITS**

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**JUNE 30, 2017**

**PALM SPRINGS UNIFIED SCHOOL DISTRICT**

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**BUILDING FUND (MEASURE E)  
FINANCIAL AUDIT**

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**JUNE 30, 2017**

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**FINANCIAL AUDIT  
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JUNE 30, June 30, 2017**

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***FINANCIAL SECTION***

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens' Oversight Committee  
Palm Springs Unified School District  
Palm Springs, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Palm Springs Unified School District's (the District) Building Fund (Measure E) as of and for the year ended June 30, 2017, and the related notes to the 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 statement 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

## **Opinion**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Building Fund (Measure E) of the Palm Springs Unified School District at June 30, 2017, and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure E, and are not intended to present fairly the financial position and results of operations of Palm Springs Unified School District in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the District's Building Fund (Measure E) 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund (Measure E) internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
January 31, 2018

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**BALANCE SHEET  
JUNE 30, 2017**

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**ASSETS**

Investments	\$ 134,617,958
Accounts receivable	501,440
Due from other funds	<u>8,973</u>
<b>Total Assets</b>	<b><u><u>\$ 135,128,371</u></u></b>

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

Accounts payable	\$ 4,180,790
Due to other funds	<u>7,072</u>
<b>Total Liabilities</b>	<b><u>4,187,862</u></b>

**Fund Balance:**

Restricted for capital projects funds	<u>130,940,509</u>
<b>Total Fund Balance</b>	<b><u>130,940,509</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u><u>\$ 135,128,371</u></u></b>

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

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2017**

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**REVENUES**

Local income	
Other local revenue	<u>\$ 1,079,183</u>

**EXPENDITURES**

Current	
Salaries and benefits	57,018
Books and supplies	
Materials and supplies	116,119
Noncapitalized equipment	130,378
Services and other operating expenditures	
Insurance	1,025
Professional/Consulting services and operating expenditures	191,904
Capital outlay	
Land improvements	171,348
Building and improvements to buildings	16,953,894
Equipment	<u>288,700</u>
<b>Total Expenditures</b>	<u>17,910,386</u>

**DEFICIENCY OF REVENUES OVER EXPENDITURES** (16,831,203)

**Other Financing Sources:**

Other sources - proceeds from bond issuance	<u>100,000,000</u>
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**NET CHANGE IN FUND BALANCE** 83,168,797

**FUND BALANCE - BEGINNING** 47,771,712

**FUND BALANCE - ENDING** \$ 130,940,509

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

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the Palm Springs Unified School District's (the District) Building Fund (Measure E) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Palm Springs Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

**Financial Reporting Entity**

The financial statements include only the Building Fund of the Palm Springs Unified School District used to account for Measure E projects. This Fund was established to account for the expenditures of general obligation bonds issued under the Measure E. These financial statements are not intended to present fairly the financial position and results of operations of the Palm Springs Unified School District in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Basis of Accounting**

The Building Fund is 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 balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

**Fund Balance - Building Fund (Measure E)**

As of June 30, 2017, the fund balance is classified as follows:

**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.

**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.

**Use of Estimates**

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

***NOTE 2 - INVESTMENTS***

**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.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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.

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 134,617,958</u>	<u>\$ 134,339,450</u>

**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

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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 county pool.

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Riverside County Investment Pool	<u>\$ 134,339,450</u>	412

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2017.

<u>Investment Type</u>	<u>Minimum Rating</u>	<u>Rating June 30, 2017</u>	<u>Fair Value</u>
Riverside County Investment Pool	Not Required	Aaa-bf	<u>\$ 134,339,450</u>

**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

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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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 reasonably 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, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Riverside County Investment Pool	<u>\$ 134,339,450</u>	<u>\$ 134,339,450</u>

***NOTE 4 - ACCOUNTS RECEIVABLE***

Accounts receivable at June 30, 2017, consisted of the following:

Interest	\$ 347,422
Other local sources	154,018
	<u>\$ 501,440</u>

***NOTE 5 - ACCOUNTS PAYABLE***

Accounts payable at June 30, 2017, consisted of the following:

Vendor payables	\$ 107,180
Capital outlay	4,073,610
	<u>\$ 4,180,790</u>

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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***NOTE 6 - FUND BALANCES***

Fund balances at June 30, 2017, consisted of the following:

Unreserved	
Restricted for Capital Projects funds	<u><u>\$ 130,940,509</u></u>

***NOTE 7 - INTERFUND TRANSACTIONS***

**Interfund Receivables/Payables (Due To/Due From)**

Interfund payable balance at June 30, 2017, was as follows:

Due from other funds - Special Reserve Fund for Capital Outlay Projects	<u>8,973</u>
Total Due From Other Funds	<u><u>\$ 8,973</u></u>
Due to other funds - General Fund	\$ 4,211
Due to other funds - Capital Facilities Fund	<u>2,861</u>
Total Due to Other Funds	<u><u>\$ 7,072</u></u>

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2017, the Building Fund (Measure E) had the following commitments with respect to unfinished capital projects:

<u>CAPITAL PROJECTS</u>	Remaining Construction Commitment	Expected Date of Completion
AC Re-build	\$ 40,369,295	2019
PROP39 HVAC	4,575,867	2019
LAN Staff Parking Lot	602,648	2018
Traffic Study	275,000	2018
Parking Lot Study - 4 sites	1,000,000	2018
NNC Chiller	5,976,410	2018
PSHS Restroom Building	471,694	2018
PSUSD Pool Solar	857,314	2018
Roofing Project JWMS, RCMS, RMES	2,838,856	2018
Retro Comm. CCHS, NNC, RMHS,DSC RCMS	275,000	2018
Facilities Master Plan	425,100	2018
Surplus Property & 711 Committee	100,000	2018
DW Drinking Fountains	2,000,000	2018
AB 300 Seismic	250,000	2018
EW Repurposing F&E remaining	453,834	2018
M&O Bond Projects	5,800,000	2019
	<u>\$ 66,271,018</u>	

**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, 2017.

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*SUPPLEMENTARY INFORMATION*

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**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2017**

**General Obligation Bonds**

The changes in the District's general obligation bonded debt during the year consisted of the following:

	Balance Beginning of Year	Additions	Accretion	Deductions	Balance End of Year	Due in One Year	Current Year Accrued Interest	Prior Year Accrued Interest
2008 GO Bonds, Series A	\$ 13,380,707	\$ -	\$ -	1,100,186	\$ 12,280,521	1,148,562	223,608	\$ 243,640
2008 GO Bonds, Series B	8,575,000	-	-	2,225,000	6,350,000	2,680,000	105,833	1,744,318
2008 GO Bonds, Series C	67,120,000	-	-	1,050,000	66,070,000	1,300,000	1,285,151	1,302,651
2008 GO Bonds, Series D		100,000,000		-	100,000,000	3,240,000	1,236,536	
	<u>\$ 89,075,707</u>	<u>\$ 100,000,000</u>		<u>\$ 4,375,186</u>	<u>\$ 184,700,521</u>	<u>\$ 8,368,562</u>	<u>\$ 2,851,128</u>	<u>\$ 3,290,609</u>

Payments are made annually from the Bond Interest and Redemption Fund.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
			Outstanding July 1, 2016	Issued	Redeemed	Outstanding June 30, 2017
02/01/26	4.37%	\$ 19,539,035	\$ 13,380,707	\$ -	\$ 1,100,186	\$ 12,280,521
08/01/33	2.00-5.00%	110,000,000	8,575,000	-	2,225,000	6,350,000
08/01/32	.40-5.00%	75,105,000	67,120,000	-	1,050,000	66,070,000
08/01/33	2.00-4.00%	100,000,000	-	100,000,000	-	100,000,000
		<u>\$ 304,644,035</u>	<u>\$ 89,075,707</u>	<u>\$ 100,000,000</u>	<u>\$ 4,375,186</u>	<u>\$ 184,700,521</u>

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2017**

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**Election 2008, Series A General Obligation Bonds**

The bonds mature through 2026 as follows:

Fiscal Year	Principal	Current Interest	Total
2018	\$ 1,148,562	\$ 536,659	\$ 1,685,221
2019	1,198,911	486,467	1,685,378
2020	1,246,341	434,074	1,680,415
2021	1,300,725	379,609	1,680,334
2022	1,357,343	322,767	1,680,110
2023-2026	6,028,639	671,831	6,700,470
Total	\$ 12,280,521	\$ 2,831,407	\$ 15,111,928

**Election 2008, Series B General Obligation Bonds**

The bonds mature through 2020 as follows:

Fiscal Year	Principal	Current Interest	Total
2018	\$ 2,680,000	\$ 200,400	\$ 2,880,400
2019	1,665,000	113,500	1,778,500
2020	2,005,000	40,100	2,045,100
Total	\$ 6,350,000	\$ 354,000	\$ 6,704,000

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2017**

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**Election 2008, Series C General Obligation Bonds**

The bonds mature through 2038 as follows:

Fiscal Year	Principal	Current Interest	Total
2018	\$ 1,300,000	\$ 3,064,863	\$ 4,364,863
2019	1,865,000	3,008,063	4,873,063
2020	1,975,000	2,921,388	4,896,388
2021	2,090,000	2,819,763	4,909,763
2022	2,205,000	2,712,388	4,917,388
2023-2027	13,005,000	11,915,138	24,920,138
2028-2032	16,880,000	8,605,488	25,485,488
2033-2037	21,725,000	4,028,969	25,753,969
2038	5,025,000	125,625	5,150,625
Total	\$ 66,070,000	\$ 39,201,685	\$ 105,271,685

**Election 2008, Series D General Obligation Bonds**

The bonds mature through 2037 as follows:

Fiscal Year	Principal	Current Interest	Total
2018	\$ 3,240,000	\$ 2,935,288	\$ 6,175,288
2019	4,535,000	2,857,538	7,392,538
2020	2,280,000	2,789,388	5,069,388
2021	5,085,000	2,690,313	7,775,313
2022	5,775,000	2,527,413	8,302,413
2023-2027	22,195,000	10,410,613	32,605,613
2028-2032	42,765,000	5,541,538	48,306,538
2033-2037	14,125,000	264,106	14,389,106
Total	\$ 100,000,000	\$ 30,016,197	\$ 130,016,197

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2017**

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***NOTE 1 - PURPOSE OF SCHEDULES***

**Schedule of Long-Term Obligations**

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Building Fund Election 2008, Measure E obligations.

**Reconciliation of Annual Financial Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (Measure E) reported on the Unaudited Actual Financial Report to the audited financial statements.

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***INDEPENDENT AUDITOR'S REPORT***

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**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 and  
Citizens' Oversight Committee  
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 accompanying financial statements of the Palm Springs Unified School District (the District) Building Fund (Measure E), as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure E, and are not intended to present fairly the financial position and results of operations of Palm Springs Unified School District in conformity with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

Management of Palm Springs Unified School District is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, 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 the Palm Springs Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Palm Springs Unified School District's Building Fund (Measure E) financial statements are free of 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or no compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the governing board, management, and the Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
January 31, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2017**

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None reported.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2017**

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There were no audit findings reported in the prior year's schedule of financial statement findings.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT**

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**BUILDING FUND (MEASURE E)  
PERFORMANCE AUDIT**

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**JUNE 30, 2017**

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**PERFORMANCE AUDIT  
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JUNE 30, 2017**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and  
Citizens' Oversight Committee  
Palm Springs Unified School District  
Palm Springs, California

We were engaged to conduct a performance audit of the Palm Springs Unified School District (the District) Measure E funds for the year ended June 30, 2017.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure E funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

*Vavrinek, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
January 31, 2018

# **PALM SPRINGS UNIFIED SCHOOL DISTRICT BUILDING FUND (MEASURE E)**

**JUNE 30, 2017**

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## ***AUTHORITY FOR ISSUANCE***

The Measure E Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County on November 3, 2009 (the Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on October 13, 2009.

The District received authorization at an election held on February 5, 2008, to issue bonds of the District in an aggregate principal amount not to exceed \$516,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2008 Authorization). The Bonds represent the first, second, third, and fourth series of the authorized bonds to be issued under the 2008 Authorization. There is a remaining balance of \$211,355,965 in authorized and unissued bonds.

## ***PURPOSE OF ISSUANCE***

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purpose specified in the District bond proposition submitted at the Election, which include the repair and replacement of lighting and electrical systems, heating, air and ventilation systems, flooring, roofs, windows, wall systems, plumbing, painting, fixtures, communication, bell and fire alarm systems, security systems, fencing, site improvements, walkways, parking lots, landscaping, athletic facilities, and handicap accessibility improvements.

"To repair and renovate every high school in the District, relieve student overcrowding by building and acquiring high schools and classrooms throughout the District and become eligible for State matching funds, shall Palm Springs Unified School District issue \$516 million of bonds at the lowest possible interest rates provided spending is annually reviewed by an independent citizens' oversight committee, no money is used for administrative salaries and all funds are spent locally and not transferred to the State."

## ***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**JUNE 30, 2017**

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2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure E.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure E and not for District general administration or operations.

***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2016 to June 30, 2017. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2017, were not reviewed, or included within the scope of our audit or in this report.

***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1 2016 through June 30, 2017, for the Building Fund (Measure E). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure E as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2016 and ending June 30, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included 37 transactions totaling \$14,494,169. This represents 81 percent of the total expenditures of \$17,910,386, including expenditures related to transferred funds.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**JUNE 30, 2017**

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3. We verified that funds from the Building Fund (Measure E) were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

***CONCLUSION***

The results of our tests indicated that, in all significant respects, the Palm Springs Unified School District has properly accounted for the expenditures held in the Building Fund (Measure E) and that such expenditures were made for authorized Bond projects.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

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None reported.

**PALM SPRINGS UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE E)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2017**

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There were no audit findings reported in the prior year's schedule of financial statement findings.