



**PALM SPRINGS UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



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

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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, 2017, 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 *2016-2017 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.

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

Basis for Qualified Opinion on Fiduciary Funds

As described in the accompanying schedule of findings and questioned costs, Palm Springs Unified School District did not provide sufficient and appropriate evidence over the Fiduciary Funds information as identified in the Financial Statements Findings 2017-001.

Qualified Opinion on Fiduciary Funds

Because of the significance of the matter discussed in the “Basis for Qualified of Opinion on Fiduciary Funds” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on Fiduciary Funds. Accordingly, we do not express such an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph 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, 2017, 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.

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 69, schedule of other postemployment benefits funding progress on page 70, schedule of the district's proportionate share of net pension liability on page 71, and the schedule of district contributions on page 72, 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 (Uniform Guidance)* and the other supplementary information as listed in 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 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 January 31, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Palm Springs Unified School District's 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
January 31, 2018



PALM SPRINGS UNIFIED SCHOOL DISTRICT

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PALM SPRINGS, CALIFORNIA 92262-0119

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SANDRA LYON, Superintendent of Schools

BOARD OF EDUCATION: *President* - JOHN GERARDI, *Clerk* - JAMES WILLIAMSON,
Member - RICHARD R. CLAPP, *Member* - KAREN CORNETT, *Member* - MADONNA GERRELL

This section of Palm Springs Unified School District's (the District) (2016-2017) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from June 30, 2016. 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$14 thousand more than expenses for the General Fund in 2016-2017.
- The District's Funds (without Fixed Asset and Long-Term Liabilities) reported \$268.3 million or a increase of \$79.1 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 \$265.3 million for an increase of \$3.0 million.
- The General Fund reported a positive fund balance of \$36.2 million.
- Overall construction project costs were approximately \$41.5 million.
- \$100 million approval to issue new General Obligation Bonds for the 2016-2017 fiscal year.
- Total LCFF increased from \$200 million in 2015-2016 to \$222.9 million in 2016-2017.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$265.3 million for the fiscal year ended June 30, 2017, an increase of \$3 million, or 1.1 percent over the prior year. Of this amount, \$(136.6) 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	
	2017	2016
Assets		
Current and other assets	\$ 317.8	\$ 231.0
Capital assets	642.9	613.7
Total Assets	960.7	844.7
Deferred Outflows of Resources		
Deferred charge on refunding	10.5	11.1
Deferred outflows of resources related to pensions	70.4	53.5
Total Deferred Outflows of Resources	80.9	64.6
Liabilities		
Current liabilities	34.4	24.5
Long-term obligations	484.4	392.0
Aggregate Net Pension Liability	251.0	192.7
Total Liabilities	769.8	609.2
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	6.5	37.8
Total Deferred Inflows of Resources	6.5	37.8
Net Position		
Net investment in capital assets	313.3	264.5
Restricted	88.6	105.2
Unrestricted	(136.6)	(107.4)
Total Net Position	\$ 265.3	\$ 262.3

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 2.2	\$ 2.6
Operating grants and contributions	71.7	58.4
Capital grants and contributions	-	6.3
General revenues:		
Federal and State aid	180.8	175.4
Property taxes	94.7	81.5
Other general revenues	6.8	5.4
Total Revenues	<u>356.2</u>	<u>329.6</u>
Expenses		
Instruction-related	244.1	210.1
Pupil services	38.6	33.8
General administration	21.7	14.1
Maintenance and operations	33.4	31.0
Other	15.3	19.6
Total Expenses	<u>353.1</u>	<u>308.6</u>
Change in Net Position	<u>\$ 3.1</u>	<u>\$ 21.0</u>

Governmental Activities

As reported in the *Statement of Activities* on page 16, the net cost of all of our governmental activities this year was \$353.1 million, an increase of \$44.5 million, or 14.4 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$94.7 million because the cost was paid by those who benefited from the programs \$2.2 million or by other governments and organizations who subsidized certain programs with grants and contributions \$71.7 million. We paid for the remaining "public benefit" portion of our governmental activities with \$187.6 million in Federal and State funds and other revenues, like interest, and general entitlements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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	
	2017	2016
Instruction-related	\$ 192.3	\$ 164.9
Pupil services	20.9	16.3
General administration	20.1	12.8
Maintenance and operations	33.1	30.1
Other activities	12.8	17.2
Total	\$ 279.2	\$ 241.3

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$268.3 million, which is an increase of \$79.1 million from last year.

Table 4

	Balances and Activity			
	July 01, 2016	Revenues	Expenditures	June 30, 2017
General Fund	\$ 36,228,889	\$ 276,647,070	\$ 276,633,041	\$ 36,242,918
Building Fund	47,771,712	101,079,183	17,910,386	130,940,509
Special Reserve for Capital Outlay	42,393,465	11,400,584	22,461,299	31,332,750
Bond Interest and Redemption Fund	28,770,201	39,586,883	28,271,687	40,085,397
Non-Major Governmental Funds	34,017,612	28,681,068	33,020,677	29,678,003
Total	\$ 189,181,879	\$ 457,394,788	\$ 378,297,090	\$ 268,279,577

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 13, 2017. (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).

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had \$642.9 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 \$29.2 million, or 4.8 percent, over last year. Depreciation expense of \$14 million was allocated to governmental activities during 2017.

Table 5

(Amounts in millions)

	Governmental Activities	
	2017	2016
Land	\$ 86.5	\$ 86.5
Construction in progress	26.0	25.1
Land improvements	3.1	2.8
Buildings and improvements	520.8	493.5
Furniture and equipment	6.5	5.8
Total	\$ 642.9	\$ 613.7

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

This year's additions of \$40.5 million consist of the construction projects listed below and various smaller projects District-wide. We present more detailed information about our capital assets in Note 5 to the financial statements.

Cabot Yerxa Elementary	Xeriscape	\$ 67,033
Cathedral City High School	Roofing	\$ 95,000
Cielo Vista Charter School	Modular Building	\$ 39,114
Cielo Vista Charter School	Office Conversion	\$ 34,590
Clean Energy Jobs Act	JWMS/MSJ HVAC Projects	\$ 1,806,576
District Wide (DW)	VOIP Systems	\$ 710,285
DW Portables Phase II	BV, KF, VDM, LAN, SS, TBP, RV, CY	\$ 9,129,036
Elementary Wide (EW)	Repurposing	\$ 7,308
Julius Corsini Elementary	Xeriscape	\$ 82,016
Katherin Fincy Elementary	Landscape	\$ 116,491
Painted Hills Middle School	Modernization	\$ 18,754
Palm Springs High School	Performing Arts Building/Field House	\$ 30,612
Palm Springs High School	Auditorium/Seismic	\$ 15,664,296
PSUSD	Pool	\$ 5,731,178
Rancho Mirage High School	Video Scoreboard	\$ 119
Raymond Cree Middle School	Chiller Plant	\$ 2,879
Raymond Cree Middle School	New Classroom Building	\$ 4,294,808
Raymond Cree Middle School	Upgrades	\$ 2,153,328
Service Center	Tenant Improvements	\$ 2,495
Two Bunch Palms Elementary	Landscape	\$ 104,982
VDM	Cell Tower	\$ 450,416

Long-Term Obligations

At the end of this year, the District had \$464.2 million in general obligation bonds outstanding including premium on issuance versus \$372.6 million last year, an increase of \$91.6 million. Compensated absences of \$2 million, claims liability of \$6.8 million, and \$11.4 million of net OPEB obligations are also included:

Table 6

(Amounts in millions)

	Governmental Activities	
	2017	2016
General obligation bonds	\$ 423.3	\$ 336.8
Premium on issuance	40.9	35.8
Compensated absences	2.0	1.8
Claims liability	6.8	9.7
Net OPEB obligation	11.4	7.9
Total	\$ 484.4	\$ 392.0

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

The District had a pension liability as of June 30, 2016 and 2015 was \$251 million and \$192.7 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 2016-2017 ARE NOTED BELOW:

- LCAP expenditures tracking and results.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District budget for the 2017-2018 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 2017-2018 State Budget. The budget was based on the Local Control Funding Formula (LCFF), the new funding model now in the fifth 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 1.56 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:

- Special Education
- Child Nutrition
- 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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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:

- The 0.25 percent sales tax increase expired in 2016.
- 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 over \$6 million with the Gap funding.
- Other one time discretionary funding of \$147 per ADA.
- Educator Effectiveness of approximately \$0.5 million (carryovers).
- CTE funds in the 2nd year of \$0.9 million and \$1.3 million in the 3rd year.

Expenditures are based on the following forecast:

- Only step and column assumptions for staffing

	<u>Staffing Ratio</u>	<u>Enrollment*</u>
Grades Kindergarten through three	21.9:1	6,456
Grades four and five	29:1	3,294
Grades six through eight	31:1	5,102
Grades nine through twelve	31:1	7,322
Total		<u>22,174</u>

*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, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 307,311,584
Receivables	10,048,376
Prepaid expenditures	61,257
Stores inventories	421,349
Capital assets	
Land and construction in process	112,520,615
Other capital assets	714,592,825
Less: Accumulated depreciation	(184,188,562)
Total Capital Assets	<u>642,924,878</u>
Total Assets	<u>960,767,444</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	10,480,126
Deferred outflows of resources related to pensions	70,423,413
Total Deferred Outflows of Resources	<u>80,903,539</u>
 LIABILITIES	
Accounts payable	22,574,951
Interest payable	7,278,107
Unearned revenue	3,285,466
Claims liabilities	1,229,000
Long-term obligations:	
Current portion of long-term obligations other than pensions	17,823,562
Noncurrent portion of long-term obligations other than pensions	466,566,935
Total Long-Term Obligations	<u>484,390,497</u>
Aggregate net pension liability	251,028,346
Total Liabilities	<u>769,786,367</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	6,487,158
Total Deferred Inflows of Resources	<u>6,487,158</u>
 NET POSITION	
Net investment in capital assets	313,326,657
Restricted for:	
Debt service	32,807,290
Capital projects	43,871,973
Educational programs	3,028,778
Other activities	8,918,963
Unrestricted (deficit)	(136,556,203)
Total Net Position	<u>\$ 265,397,458</u>

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, 2017**

Functions/Programs	Expenses	Program Revenues			Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities		
Governmental Activities:						
Instruction	\$ 210,777,310	\$ 105,098	\$ 45,143,867	\$ 92	\$ (165,528,253)	
Instruction-related activities:						
Supervision of instruction	10,041,042	410	5,497,957	-	(4,542,675)	
Instructional library, media, and technology	2,877,519	13	161,322	-	(2,716,184)	
School site administration	20,397,932	-	861,128	-	(19,536,804)	
Pupil services:						
Home-to-school transportation	6,941,430	-	47,988	-	(6,893,442)	
Food services	14,078,025	410,259	11,977,937	-	(1,689,829)	
All other pupil services	17,607,568	1,151	5,241,755	-	(12,364,662)	
Administration:						
Data processing	4,258,986	1,646	4,162	-	(4,253,178)	
All other administration	17,403,430	32,790	1,524,745	-	(15,845,895)	
Plant services	33,384,733	57,265	274,520	-	(33,052,948)	
Ancillary services	2,951,255	-	88,792	-	(2,862,463)	
Enterprise services	(3,757,758)	-	-	-	3,757,758	
Interest on long-term obligations	15,821,045	-	3,554	-	(15,817,491)	
Other outgo	282,830	1,575,020	872,257	-	2,164,447	
Total Governmental Activities	\$ 353,065,347	\$ 2,183,652	\$ 71,699,984	\$ 92	(279,181,619)	
General Revenues and Subventions:						
					51,777,204	
					33,836,884	
					9,050,764	
					180,845,369	
					331,019	
					161,121	
					6,309,537	
					<u>282,311,898</u>	
					<u>3,130,279</u>	
					<u>262,267,179</u>	
					<u>\$ 265,397,458</u>	

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>
ASSETS			
Deposits and investments	\$ 40,649,043	\$ 134,617,958	\$ 38,426,776
Receivables	6,073,799	501,440	439,580
Due from other funds	7,718,628	8,973	46,657
Prepaid expenditures	60,843	-	-
Stores inventories	80,009	-	-
Total Assets	<u>\$ 54,582,322</u>	<u>\$ 135,128,371</u>	<u>\$ 38,913,013</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 14,893,800	\$ 4,180,790	\$ 2,127,831
Due to other funds	227,787	7,072	5,452,432
Unearned revenue	3,217,817	-	-
Total Liabilities	<u>18,339,404</u>	<u>4,187,862</u>	<u>7,580,263</u>
 Fund Balances:			
Nonspendable	240,852	-	-
Restricted	3,028,778	130,940,509	28,851,575
Assigned	15,661,273	-	2,481,175
Unassigned	17,312,015	-	-
Total Fund Balances	<u>36,242,918</u>	<u>130,940,509</u>	<u>31,332,750</u>
Total Liabilities and Fund Balances	<u>\$ 54,582,322</u>	<u>\$ 135,128,371</u>	<u>\$ 38,913,013</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 40,085,397	\$ 29,626,201	\$ 283,405,375
-	2,966,737	9,981,556
-	187,880	7,962,138
-	414	61,257
-	341,340	421,349
<u>\$ 40,085,397</u>	<u>\$ 33,122,572</u>	<u>\$ 301,831,675</u>

\$ -	\$ 1,182,082	\$ 22,384,503
-	2,194,838	7,882,129
-	67,649	3,285,466
-	3,444,569	33,552,098

-	391,754	632,606
40,085,397	25,135,635	228,041,894
-	4,150,614	22,293,062
-	-	17,312,015
<u>40,085,397</u>	<u>29,678,003</u>	<u>268,279,577</u>
<u>\$ 40,085,397</u>	<u>\$ 33,122,572</u>	<u>\$ 301,831,675</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds		\$ 268,279,577
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:	\$ 827,113,440	
Accumulated depreciation is:	<u>(184,188,562)</u>	
Net Capital Assets		642,924,878
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		10,480,126
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.		(7,278,107)
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.		15,682,301
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:		
Pension contributions subsequent to measurement date	21,233,161	
Net change in proportionate share of net pension liability	21,596,325	
Differences between projected and actual earnings on pension plan investments	24,826,126	
Differences between expected and actual experience in the measurement of the total pension liability	<u>2,767,801</u>	
Total Deferred Outflows of Resources Related to Pensions		70,423,413

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2017**

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at yearend consist of:

Differences between expected and actual experience in the measurement of the total pension liability	\$ (4,553,730)	
Changes in assumptions	<u>(1,933,428)</u>	
Total Deferred Inflows of Resources Related to Pensions		(6,487,158)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. \$ (251,028,346)

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	423,340,521	
Premium on issuance	40,875,658	
Compensated absences (vacations)	1,967,039	
Net OPEB obligation	<u>11,416,008</u>	
Total Long-Term Obligations		<u>(477,599,226)</u>
Total Net Position - Governmental Activities		<u><u>\$ 265,397,458</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES			
Local Control Funding Formula	\$ 214,658,225	\$ -	\$ -
Federal sources	16,891,034	-	-
Other State sources	24,226,298	-	1,376,624
Other local sources	14,787,351	1,079,183	10,023,960
Total Revenues	270,562,908	1,079,183	11,400,584
EXPENDITURES			
Current			
Instruction	171,617,892	-	-
Instruction-related activities:			
Supervision of instruction	12,427,316	-	-
Instructional library, media, and technology	2,600,047	-	-
School site administration	18,113,411	-	-
Pupil services:			
Home-to-school transportation	5,719,985	-	-
Food services	10,076	-	-
All other pupil services	17,279,991	-	-
Administration:			
Data processing	4,044,629	-	-
All other administration	9,031,876	-	-
Plant services	31,622,841	434,374	1,171,219
Facility acquisition and construction	9,310	17,377,310	15,783,745
Ancillary services	2,737,704	-	-
Other outgo	282,830	-	-
Enterprise services	3,555	-	-
Debt service			
Principal	-	-	-
Interest and other	-	98,702	-
Total Expenditures	275,501,463	17,910,386	16,954,964
Excess (Deficiency) of Revenues Over Expenditures	(4,938,555)	(16,831,203)	(5,554,380)
OTHER FINANCING SOURCES (USES)			
Transfers in	6,084,162	-	-
Other sources	-	100,000,000	-
Transfers out	(1,131,578)	-	(5,506,335)
Net Financing Sources (Uses)	4,952,584	100,000,000	(5,506,335)
NET CHANGE IN FUND BALANCES	14,029	83,168,797	(11,060,715)
Fund Balances - Beginning	36,228,889	47,771,712	42,393,465
Fund Balances - Ending	\$ 36,242,918	\$ 130,940,509	\$ 31,332,750

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 8,199,670	\$ 222,857,895
-	11,697,259	28,588,293
209,200	4,479,621	30,291,743
33,793,701	4,302,221	63,986,416
<u>34,002,901</u>	<u>28,678,771</u>	<u>345,724,347</u>
-	7,913,289	179,531,181
-	351,964	12,779,280
-	76,706	2,676,753
-	656,536	18,769,947
-	-	5,719,985
-	12,898,544	12,908,620
-	176,449	17,456,440
-	-	4,044,629
-	1,532,947	10,564,823
-	535,707	33,764,141
-	8,300,708	41,471,073
-	-	2,737,704
-	-	282,830
-	-	3,555
13,425,186	-	13,425,186
16,177,536	-	16,276,238
<u>29,602,722</u>	<u>32,442,850</u>	<u>372,412,385</u>
<u>4,400,179</u>	<u>(3,764,079)</u>	<u>(26,688,038)</u>
-	2,297	6,086,459
6,915,017	-	106,915,017
-	(577,827)	(7,215,740)
<u>6,915,017</u>	<u>(575,530)</u>	<u>105,785,736</u>
<u>11,315,196</u>	<u>(4,339,609)</u>	<u>79,097,698</u>
<u>28,770,201</u>	<u>34,017,612</u>	<u>189,181,879</u>
<u>\$ 40,085,397</u>	<u>\$ 29,678,003</u>	<u>\$ 268,279,577</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS 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, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 79,097,698**

**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 expense in the period.

Capital outlays	\$ 43,229,721	
Depreciation expense	<u>(14,033,622)</u>	
Net Expense Adjustment		29,196,099

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 \$192,175. (192,175)

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. (10,103,037)

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. (3,466,925)

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		(100,000,000)
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The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
 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, 2017**

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	1,884,084	
Deferred amount on refunding for general obligations bonds	<u>(616,476)</u>	
Combined Adjustment		1,267,608

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. (812,415)

An internal service fund is used by the District's management to charge the costs of the workers' compensation, property and liability, medical insurance and unemployment compensation programs to the individual funds. The net change in assets of the internal service fund is reported with governmental activities. 1,633,257

Change in Net Position of Governmental Activities **\$ 3,130,279**

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 23,906,209
Receivables	66,820
Due from other funds	621
Total Current Assets	<u>23,973,650</u>
 LIABILITIES	
Current Liabilities	
Accounts payable	190,448
Due to other funds	80,630
Claim liabilities	1,229,000
Total Current Liabilities	<u>1,500,078</u>
Noncurrent Liabilities	
Long-term claims liability	6,791,271
Total Liabilities	<u>8,291,349</u>
 NET POSITION	
Restricted	<u>\$ 15,682,301</u>

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, 2017**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 3,256,458
Total Operating Revenues	<u>3,256,458</u>
OPERATING EXPENSES	
Payroll costs	133,054
Professional and contract services	2,812,188
Supplies and materials	<u>6,320</u>
Total Operating Expenses	<u>2,951,562</u>
Operating Income	<u>304,896</u>
NONOPERATING REVENUES	
Interest income	<u>199,080</u>
Gain (Loss) Before Capital Contributions and Transfers	<u>503,976</u>
Capital contributions and Transfers	
Transfers in	<u>1,129,281</u>
Change in Net Position	1,633,257
Total Net Position - Beginning	14,049,044
Total Net Position - Ending	<u><u>\$ 15,682,301</u></u>

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, 2017

	Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 3,434,324
Cash payments to other suppliers of goods or services	(6,597,213)
Cash payments for administrative expense	(133,054)
Other operating cash payments	192,437
Net Cash Used in Operating Activities	<u>(3,103,506)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	<u>1,129,281</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>199,080</u>
 Net Decrease in Cash and Cash Equivalents	(1,775,145)
Cash and Cash Equivalents - Beginning	25,681,354
Cash and Cash Equivalents - Ending	<u><u>\$ 23,906,209</u></u>
 RECONCILIATION OF OPERATING TO NET CASH (USED IN) OPERATING ACTIVITIES:	
Operating Income	\$ 304,896
Changes in Assets and Liabilities:	
Accounts receivable	(10,514)
Due from other funds	177,866
Prepaid expenditures	216,355
Accounts payable	(3,854,945)
Due to other funds	62,836
NET CASH (USED IN) OPERATING ACTIVITIES	<u><u>\$ (3,103,506)</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Agency Funds</u>		<u>Total Fiduciary Funds</u>
	<u>Associate Student Bodies</u>	<u>Warrant Pass-Through</u>	
ASSETS			
Deposits and investments	\$ 1,002,400	\$ 79,449	\$ 1,081,849
Inventory	18,106	-	18,106
Total Assets	<u>\$ 1,020,506</u>	<u>\$ 79,449</u>	<u>\$ 1,099,955</u>
LIABILITIES			
Overdrafts	\$ 7,394	\$ -	\$ 7,394
Accounts payable	4,002	-	4,002
Due to student groups	1,009,110	-	1,009,110
Due to other agencies	-	79,449	79,449
Total Liabilities	<u>\$ 1,020,506</u>	<u>\$ 79,449</u>	<u>\$ 1,099,955</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 fund balance of \$8,889,474.

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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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 1A), 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.).

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, medical, 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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) and warrant pass-through fund activities.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 \$88.6 million 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 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 District has implemented the provisions of this Statement as of June 30, 2017.

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;

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

- 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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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.

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The District has implemented the provisions of this Statement as of June 30, 2017, 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.

New Accounting Pronouncements

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 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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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JUNE 30, 2017

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

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

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

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

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 307,311,584
Fiduciary funds	1,081,849
Total Deposits and Investments	<u>\$ 308,393,433</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 1,002,400
Cash in revolving	150,000
Investments	<u>307,241,033</u>
Total Deposits and Investments	<u>\$ 308,393,433</u>

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	<u>\$ 306,605,390</u>	<u>412</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

<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>\$ 306,605,390</u>

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, 2017, the District's bank balance of \$1,050,020 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 Treasury Investment Pool	\$ 306,605,390	\$ 306,605,390

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>
Federal Government						
Categorical aid	\$ 786,392	\$ -	\$ -	\$ 1,846,958	\$ -	\$ 2,633,350
State Government						
Categorical aid	319,827	-	-	823,923	-	1,143,750
Lottery	825,375	-	98,301	58,452	-	982,128
SELPA Master plan State school facilities project	1,502,816	-	-	-	-	1,502,816
	308,988	-	-	-	-	308,988
Local Government						
Interest	80,991	347,422		17,297	40,423	486,133
Other Local Sources	2,249,410	154,018	341,279	220,107	26,397	2,991,211
Total	<u>\$6,073,799</u>	<u>\$501,440</u>	<u>\$ 439,580</u>	<u>\$ 2,966,737</u>	<u>\$66,820</u>	<u>\$10,048,376</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 86,510,439	\$ -	\$ -	\$ 86,510,439
Construction in progress	25,111,326	21,592,043	20,693,193	26,010,176
Total Capital Assets Not Being Depreciated	111,621,765	21,592,043	20,693,193	112,520,615
Capital Assets Being Depreciated				
Land improvements	3,145,078	370,521	-	3,515,599
Buildings and improvements	647,184,044	40,170,795	-	687,354,839
Furniture and equipment	21,936,552	1,789,555	3,720	23,722,387
Total Capital Assets Being Depreciated	672,265,674	42,330,871	3,720	714,592,825
Less Accumulated Depreciation				
Land improvements	306,869	62,902	-	369,771
Buildings and improvements	153,684,541	12,878,210	-	166,562,751
Furniture and equipment	16,167,250	1,092,510	3,720	17,256,040
Total Accumulated Depreciation	170,158,660	14,033,622	3,720	184,188,562
Capital Assets, Net	<u>\$ 613,728,779</u>	<u>\$ 49,889,292</u>	<u>\$ 20,693,193</u>	<u>\$ 642,924,878</u>

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 12,955,081
All other general administration	433,276
Plant services	645,265
Total Depreciation Expenses	<u>\$ 14,033,622</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

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, 2017, between major and non-major governmental funds and the Internal Service Fund, are as follows:

Due To	Due From					
	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
General Fund	\$ -	\$ 4,211	\$ 5,443,459	\$ 2,190,948	\$ 80,010	\$ 7,718,628
Building Fund	-	-	8,973	-	-	8,973
Special Reserve Fund for Capital Outlay Projects	46,657	-	-	-	-	46,657
Non-Major Governmental Funds	181,129	2,861	-	3,890	-	187,880
Internal Service Fund	1	-	-	-	620	621
Total	\$ 227,787	\$ 7,072	\$ 5,452,432	\$ 2,194,838	\$ 80,630	\$ 7,962,759

A balance of \$1,097,379 is due to the General Fund from Charter Schools Non-Major Governmental Fund for Special Education and Administrative pro-rata share and to cover costs.

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 \$55,023 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

A balance of \$3,442,993 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.

A balance of \$77,150 is due to the General Fund from the internal Service Fund to reduce contributions to property and liability.

The balance of \$46,657 is due to Special Reserve Fund for Capital Outlay Projects from the General Fund to return unspent contributions.

A balance of \$120,195 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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

Transfer To	Transfer From			
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
General Fund	\$ -	\$ 5,506,335	\$ 577,827	\$ 6,084,162
Special Reserve Fund for Capital Outlay Projects	-	-	-	-
Non-Major Governmental Funds	2,297	-	-	2,297
Internal Service Funds	1,129,281	-	-	1,129,281
Total	<u>\$ 1,131,578</u>	<u>\$ 5,506,335</u>	<u>\$ 577,827</u>	<u>\$ 7,215,740</u>

The General Fund transferred to the Child Development Non-Major Governmental Fund to cover costs.	\$ 2,297
The General Fund transferred to the Self Insurance Internal Service Fund for future claims.	1,129,281
The Charter School Non-Major Governmental Fund transferred to the General Fund for administrative fees.	577,827
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for support of program related expenses.	3,506,335
The Special Reserves Fund for Capital Outlay Projects transferred to the General Fund for the site technology plans.	2,000,000
Total	<u>\$ 7,215,740</u>

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Vendor payables	\$ 7,631,779	\$ 107,180	\$ 29,517	\$ 255,955
State principal apportionment	5,924,300	-	-	-
Salaries and benefits	1,330,704	-	-	140,794
Construction	-	4,073,610	2,098,314	785,333
Due to grantor governments	7,017	-	-	-
Due to other agencies	-	-	-	-
Total	<u>\$ 14,893,800</u>	<u>\$ 4,180,790</u>	<u>\$ 2,127,831</u>	<u>\$ 1,182,082</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Fund
Vendor payables	\$ 190,448	\$ 8,214,879	\$ 4,002
State principal apportionment	-	5,924,300	-
Salaries and benefits	-	1,471,498	-
Construction	-	6,957,257	-
Due to grantor governments	-	7,017	-
Due to other agencies	-	-	79,449
Total	<u>\$ 190,448</u>	<u>\$ 22,574,951</u>	<u>\$ 83,451</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 816,760	\$ 17,879	\$ 834,639
State categorical aid	2,377,170	49,770	2,426,940
Other local	23,887	-	23,887
Total	<u>\$ 3,217,817</u>	<u>\$ 67,649</u>	<u>\$ 3,285,466</u>

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, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	\$ 336,765,707	\$ 100,000,000	\$ 13,425,186	\$ 423,340,521	\$ 17,823,562
Premium on issuance	35,844,725	6,915,017	1,884,084	40,875,658	-
Compensated absences	1,774,864	192,175	-	1,967,039	-
Claims liability	9,703,976	-	2,912,705	6,791,271	-
OPEB obligation	7,949,083	5,170,703	1,703,778	11,416,008	-
	<u>\$ 392,038,355</u>	<u>\$ 112,277,895</u>	<u>\$ 19,925,753</u>	<u>\$ 484,390,497</u>	<u>\$ 17,823,562</u>

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2016	Issued	Redeemed	Outstanding June 30, 2017
06/15/10	02/01/26	4.37%	\$ 19,539,035	\$ 13,380,707	\$ -	\$ 1,100,186	\$ 12,280,521
01/12/10	08/01/33	2.00-5.00%	110,000,000	8,575,000	-	2,225,000	6,350,000
06/08/11	08/01/32	0.40-5.00%	75,105,000	67,120,000	-	1,050,000	66,070,000
07/17/13	08/01/33	3.00-4.25%	20,425,000	55,470,000	-	4,730,000	50,740,000
11/05/13	08/01/37	3.00-5.00%	70,000,000	17,815,000	-	1,385,000	16,430,000
07/17/14	08/01/36	3.00-5.00%	100,085,000	97,190,000	-	2,935,000	94,255,000
06/21/16	08/01/33	4.00-5.00%	77,215,000	77,215,000	-	-	77,215,000
07/13/16	08/01/33	2.00-4.00%	100,000,000	-	100,000,000	-	100,000,000
				<u>\$ 336,765,707</u>	<u>\$ 100,000,000</u>	<u>\$ 13,425,186</u>	<u>\$ 423,340,521</u>

Debt Service Requirements to Maturity

The bonds mature through 2038 as follows:

Fiscal Year	Interest to		
	Principal	Maturity	Total
2018	\$ 17,823,562	\$ 17,175,536	\$ 34,999,098
2019	19,208,911	16,483,694	35,692,605
2020	17,351,341	15,730,876	33,082,217
2021	18,005,725	14,966,936	32,972,661
2022	17,837,343	14,220,944	32,058,287
2023-2027	99,403,639	58,646,258	158,049,897
2028-2032	142,105,000	33,460,733	175,565,733
2033-2037	86,580,000	7,716,406	94,296,406
2038	5,025,000	125,625	5,150,625
Total	<u>\$ 423,340,521</u>	<u>\$ 178,527,008</u>	<u>\$ 601,867,529</u>

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2017, amounted to \$1,967,039.

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, 2017.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was \$4,812,994, and contributions made by the District during the year were \$1,278,170. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$357,709 and \$(425,608), respectively, which resulted in an increase to the net OPEB obligation of \$3,466,925. As of June 30, 2017, the net OPEB obligation was \$11,416,008. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 100,000	\$ -	\$ -	\$ -	\$ 50,000	\$ 150,000
Stores inventories	80,009	-	-	-	341,340	421,349
Prepaid expenditures	60,843	-	-	-	414	61,257
Total Nonspendable	<u>240,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,754</u>	<u>632,606</u>
Restricted						
Legally restricted programs	3,028,778	-	-	-	8,918,963	11,947,741
Capital projects	-	130,940,509	28,851,575	-	16,216,672	176,008,756
Debt services	-	-	-	40,085,397	-	40,085,397
Total Restricted	<u>3,028,778</u>	<u>130,940,509</u>	<u>28,851,575</u>	<u>40,085,397</u>	<u>25,135,635</u>	<u>228,041,894</u>
Assigned						
Local Control Accountability Plan	6,266,087	-	-	-	-	6,266,087
Mental Health County Contract	239,420	-	-	-	-	239,420
Medi-Cal Admin. Activities Reimbursement	882,874	-	-	-	-	882,874
Anderson Grants	26,143	-	-	-	-	26,143
Local Grants	97,400	-	-	-	-	97,400
Mentoring Program	15,002	-	-	-	-	15,002
The Foundation for PSUSD	11,360	-	-	-	-	11,360
Assistance League PS Desert Area	4,900	-	-	-	-	4,900
Donations and Fees	150,916	-	-	-	-	150,916
Facilities One-Time Repair	263,727	-	-	-	-	263,727
Use of Facilities	78,612	-	-	-	-	78,612
ROTC Supplies	26,240	-	-	-	-	26,240
District Computer Insurance - Claims	12,360	-	-	-	-	12,360
District Wide Computer Replacement	245,558	-	-	-	-	245,558
ECE Local Revenue	120	-	-	-	-	120
Students Series Grief Counseling	3,330	-	-	-	-	3,330
Mental Health Workshop Fees	2,720	-	-	-	-	2,720
Security-Parents on Patrol	3,061	-	-	-	-	3,061
Textbooks	25,365	-	-	-	-	25,365
School Site Discretionary	390,202	-	-	-	-	390,202
Teamsters Classification & Compensation	56,900	-	-	-	-	56,900
Lighted Up Program	5,224	-	-	-	-	5,224
District Office move	200,000	-	-	-	-	200,000
Textbook Reinstatement to 14/15 Level	843,297	-	-	-	-	843,297
Fund 17 Contribution Reversal	4,418,565	-	-	-	-	4,418,565
Site Discretionary	113,027	-	-	-	-	113,027
Designated Operational Lottery	1,278,863	-	-	-	-	1,278,863
Donations	-	-	-	-	195,538	195,538
Local Grants	-	-	-	-	12,001	12,001
Unrestricted Lottery	-	-	-	-	548,897	548,897
Other assignments	-	-	2,481,175	-	3,394,178	5,875,353
Total Assigned	<u>15,661,273</u>	<u>-</u>	<u>2,481,175</u>	<u>-</u>	<u>4,150,614</u>	<u>22,293,062</u>
Unassigned						
Economic uncertainties	8,379,395	-	-	-	-	8,379,395
Remaining unassigned	8,932,620	-	-	-	-	8,932,620
Total Unassigned	<u>17,312,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,312,015</u>
Total	<u>\$ 36,242,918</u>	<u>\$ 130,940,509</u>	<u>\$ 31,332,750</u>	<u>\$ 40,085,397</u>	<u>\$ 29,678,003</u>	<u>\$ 268,279,577</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 129 retirees and beneficiaries currently receiving benefits, and 2,146 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 2016-2017, the District contributed \$1,278,170 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	\$ 4,812,994
Interest on net OPEB obligation	357,709
Adjustment to annual required contribution	(425,608)
Annual OPEB cost (expense)	<u>4,745,095</u>
Contributions made	<u>(1,278,170)</u>
Increase in net OPEB obligation	3,466,925
Net OPEB obligation, beginning of year	<u>7,949,083</u>
Net OPEB obligation, end of year	<u><u>\$ 11,416,008</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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
2015	\$ 3,249,716	\$ 1,534,990	47%	\$ 6,130,110
2016	3,240,669	1,421,696	44%	7,949,083
2017	4,745,095	1,278,170	27%	11,416,008

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 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)
April 28, 2017	\$ -	\$ 22,530,615	\$ 22,530,615	0%	\$ 112,653,075	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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 15).

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, 2017:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2015	\$ 11,798,976
Claims and changes in estimates	(455,868)
Claims payments	455,868
Liability Balance, June 30, 2016	<u>11,798,976</u>
Claims and changes in estimates	(5,168,024)
Claims payments	1,389,319
Liability Balance, June 30, 2017	<u><u>\$ 8,020,271</u></u>
Assets available to pay claims at June 30, 2017	<u><u>\$ 15,010,072</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 186,675,227	\$ 48,196,785	\$ 4,553,730	\$ 21,315,065
CalPERS	64,353,119	22,226,628	1,933,428	10,021,133
Total	<u>\$ 251,028,346</u>	<u>\$ 70,423,413</u>	<u>\$ 6,487,158</u>	<u>\$ 31,336,198</u>

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, 2015, 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	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	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

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, 2017, are presented above and the District's total contributions were \$15,444,894.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

At June 30, 2017, 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	\$ 186,675,227
State's proportionate share of the net pension liability associated with the District	106,270,877
Total	<u>\$ 292,946,104</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.2308 percent and 0.2203 percent, resulting in a net increase in the proportionate share of 0.0105 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$21,315,065. In addition, the District recognized pension expense and revenue of \$10,272,199 for support provided by the State. At June 30, 2017, 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	\$ 15,444,894	\$ -
Net change in proportionate share of net pension liability	17,911,301	-
Differences between projected and actual earnings on pension plan investments	14,840,590	-
Differences between expected and actual experience in the measurement of the total pension liability	-	4,553,730
Total	<u>\$ 48,196,785</u>	<u>\$ 4,553,730</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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
2018	\$ 323,772
2019	323,773
2020	8,626,887
2021	5,566,158
Total	<u>\$ 14,840,590</u>

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 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 2,529,238
2019	2,529,238
2020	2,529,238
2021	2,529,238
Thereafter	2,529,233
Total	<u>711,386</u> <u>\$ 13,357,571</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2015
Measurement date	June 30, 2016
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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 268,667,752
Current discount rate (7.60%)	186,675,227
1% increase (8.60%)	118,577,001

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool 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, 2015 annual actuarial valuation report(s), Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports 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>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

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, 2017, are presented above and the total District contributions were \$5,788,267.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$64,353,119. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.3258 percent and 0.3013 percent, resulting in a net increase in the proportionate share of 0.0245 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$10,021,133. At June 30, 2017, 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	\$ 5,788,267	\$ -
Net change in proportionate share of net pension liability	3,685,024	-
Difference between projected and actual earnings on pension plan investments	9,985,536	-
Differences between expected and actual experience in the measurement of the total pension liability	2,767,801	-
Changes of assumptions	-	1,933,428
Total	<u>\$ 22,226,628</u>	<u>\$ 1,933,428</u>

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
2018	\$ 1,400,604
2019	1,400,604
2020	4,578,191
2021	2,606,137
Total	<u>\$ 9,985,536</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 1,852,499
2019	1,499,929
2020	1,166,969
Total	<u>\$ 4,519,397</u>

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, 2015
Measurement date	June 30, 2016
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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

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:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 96,015,211
Current discount rate (7.65%)	64,353,119
1% increase (8.65%)	37,988,196

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 \$9,045,833 (8.828 percent of annual payroll). 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.

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, 2017.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Construction Commitments	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
	\$ 66,271,018	

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Southern California Regional Liability Excess Fund (So Cal ReLiEF), California Valley Trust (CVT), and the Riverside Schools Risk Management Authority (RSRMA) 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, 2017, the District made payments of \$912,606, \$19,539,441, and 4,664,044 to So Cal ReLiEF, CVT, and RSRMA, respectively, for health and property and liability coverage.

REQUIRED SUPPLEMENTARY INFORMATION

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 212,028,766	\$ 213,228,997	\$ 214,658,225	\$ 1,429,228
Federal sources	16,526,749	20,747,366	16,891,034	(3,856,332)
Other State sources	21,965,954	25,588,779	24,226,298	(1,362,481)
Other local sources	12,951,158	14,203,246	14,787,351	584,105
Total Revenues ¹	<u>263,472,627</u>	<u>273,768,388</u>	<u>270,562,908</u>	<u>(3,205,480)</u>
EXPENDITURES				
Current				
Certificated salaries	115,947,048	121,131,245	121,020,258	110,987
Classified salaries	39,079,461	39,996,692	39,529,668	467,024
Employee benefits	64,240,653	66,089,366	65,339,458	749,908
Books and supplies	15,336,566	23,878,496	16,725,911	7,152,585
Services and operating expenditures	35,140,892	37,403,160	32,360,438	5,042,722
Capital outlay	500,643	1,812,888	1,370,568	442,320
Other outgo	(778,763)	(919,375)	(844,838)	(74,537)
Total Expenditures ¹	<u>269,466,500</u>	<u>289,392,472</u>	<u>275,501,463</u>	<u>13,891,009</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,993,873)</u>	<u>(15,624,084)</u>	<u>(4,938,555)</u>	<u>10,685,529</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	6,217,503	6,253,624	6,084,162	(169,462)
Transfers out	(1,204,450)	(1,206,432)	(1,131,578)	74,854
Net Financing Sources (Uses)	<u>5,013,053</u>	<u>5,047,192</u>	<u>4,952,584</u>	<u>(94,608)</u>
NET CHANGE IN FUND BALANCE	<u>(980,820)</u>	<u>(10,576,892)</u>	<u>14,029</u>	<u>10,590,921</u>
Fund Balance - Beginning	<u>36,228,889</u>	<u>36,228,889</u>	<u>36,228,889</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 35,248,069</u>	<u>\$ 25,651,997</u>	<u>\$ 36,242,918</u>	<u>\$ 10,590,921</u>

¹ On behalf payments of \$9,045,833 are included in the actual revenues and expenditures and have 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

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)
April 28, 2017	\$ -	\$ 22,530,615	\$ 22,530,615	0%	\$ 112,653,075	20%

The District has placed \$7,813,820 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 \$7,813,820. The unfunded AAL would have been \$14,716,795. The funded ratio would have been 35 percent, and the UAAL as a percentage of covered payroll, would have been 13 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, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.2308%</u>	<u>0.2203%</u>	<u>0.0750%</u>
District's proportionate share of the net pension liability	<u>\$ 186,675,227</u>	<u>\$ 148,312,147</u>	<u>\$ 116,093,098</u>
State's proportionate share of the net pension liability associated with the District	<u>106,270,877</u>	<u>78,440,776</u>	<u>70,102,025</u>
Total	<u><u>\$ 292,946,104</u></u>	<u><u>\$ 226,752,923</u></u>	<u><u>\$ 186,195,123</u></u>
District's covered - employee payroll	<u>\$ 143,941,230</u>	<u>\$ 137,552,860</u>	<u>\$ 106,231,697</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>129.69%</u>	<u>107.82%</u>	<u>109.28%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.3258%</u>	<u>0.3013%</u>	<u>0.2952%</u>
District's proportionate share of the net pension liability	<u>\$ 64,353,119</u>	<u>\$ 44,414,852</u>	<u>\$ 33,509,892</u>
District's covered - employee payroll	<u>\$ 48,858,504</u>	<u>\$ 40,280,333</u>	<u>\$ 33,782,389</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>131.71%</u>	<u>110.26%</u>	<u>99.19%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 15,444,894	\$ 12,214,694	\$ 8,764,115
Contributions in relation to the contractually required contribution	<u>15,444,894</u>	<u>12,214,694</u>	<u>8,764,115</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 143,941,230</u>	<u>\$ 137,552,860</u>	<u>\$ 106,231,697</u>
Contributions as a percentage of covered - employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 5,788,267	\$ 4,741,398	\$ 3,865,381
Contributions in relation to the contractually required contribution	<u>5,788,267</u>	<u>4,741,398</u>	<u>3,865,381</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 48,858,504</u>	<u>\$ 40,280,333</u>	<u>\$ 33,782,389</u>
Contributions as a percentage of covered - employee payroll	<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions - There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

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.

SUPPLEMENTARY INFORMATION

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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	84.048	14894	\$ 249,964	\$ -
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	7,608,221	48,482
Title I, Part B, Reading First Program LEA Grants	84.357	14787	1,824	
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	53,740	-
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	1,067,610	38,174
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	58,390	-
Title III, Immigrant Education Program	84.365	15146	33,250	4,482
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	791,236	-
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,136,959	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	14,242	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	49,311	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	167,270	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	277,977	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	626	-
Total Special Education Cluster			<u>3,646,385</u>	<u>-</u>
Total U.S. Department of Education			<u>13,510,620</u>	<u>91,138</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2017**

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	\$ 7,564	\$ -
Passed through CDE:				
Child Nutrition Cluster:				
Basic School Breakfast Program	10.553	13390	1,123	-
Especially Needy Breakfast	10.553	13526	2,325,300	-
National School Lunch Program	10.555	13524	7,822,267	-
Summer Food Service Program	10.559	13004	242,275	-
Food Distribution	10.555	13524	201,077	-
Total Child Nutrition Cluster			<u>10,592,042</u>	<u>-</u>
CACFP Claims, Centers and Family Day Care	10.558	13393	1,105,218	-
Total U.S. Department of Agriculture			<u>11,704,824</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	1,121,416	-
Medical Administrative Activities Program	93.778	10060	797,411	-
Total Medi-Cal Assistance Program			<u>1,918,827</u>	<u>-</u>
Passed through Riverside County Office of Education:				
Head Start	93.600	10016	1,865,226	-
Total U.S. Department of Health and Human Services			<u>3,784,053</u>	<u>-</u>
U.S. DEPARTMENT OF DEFENSE				
Junior Reserve Officer Training Corps, Air Force	12.000	[1]	59,181	-
Total Federal Programs			<u>\$ 29,058,678</u>	<u>\$ 91,138</u>

[1] Pass-Through Number not available

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

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

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
John Gerardi	President	2020
James Williamson	Clerk	2018
Richard R. Clapp	Member	2020
Karen Cornett	Member	2018
Madonna Gerrell	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, 2017**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,111.18	6,114.19
Fourth through sixth	4,856.62	4,848.71
Seventh and eighth	3,202.94	3,192.61
Ninth through twelfth	6,708.95	6,652.76
Total Regular ADA	<u>20,879.69</u>	<u>20,808.27</u>
Extended Year Special Education		
Transitional kindergarten through third	3.00	3.00
Fourth through sixth	1.80	1.80
Seventh and eighth	1.83	1.83
Ninth through twelfth	6.09	6.09
Total Extended Year Special Education	<u>12.72</u>	<u>12.72</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	3.79	5.19
Seventh and eighth	1.18	1.40
Ninth through twelfth	0.92	1.21
Total Special Education, Nonpublic, Nonsectarian Schools	<u>5.89</u>	<u>7.80</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.33	0.33
Seventh and eighth	0.12	0.12
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.45</u>	<u>0.45</u>
Total ADA	<u>20,898.75</u>	<u>20,829.24</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE, Continued
FOR THE YEAR ENDED JUNE 30, 2017**

CIELO VISTA CHARTER SCHOOL

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	395.89	394.85
Fourth through sixth	365.66	365.18
Seventh and eighth	132.29	131.38
Total Regular ADA	<u>893.84</u>	<u>891.41</u>
Classroom based ADA		
Regular ADA		
Transitional kindergarten through third	395.89	394.85
Fourth through sixth	365.66	365.18
Seventh and eighth	132.29	131.38
Total Classroom Based ADA	<u>893.84</u>	<u>891.41</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,895	180	N/A	Complied
Grade 2		54,360	180	N/A	Complied
Grade 3		54,895	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,225	180	N/A	Complied
Grade 5		56,225	180	N/A	Complied
Grade 6		61,248	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		61,248	180	N/A	Complied
Grade 8		61,248	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,830	180	N/A	Complied
Grade 10		64,830	180	N/A	Complied
Grade 11		64,830	180	N/A	Complied
Grade 12		64,830	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	62,145	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		62,145	180	N/A	Complied
Grade 2		57,255	180	N/A	Complied
Grade 3		57,225	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		58,545	180	N/A	Complied
Grade 5		58,545	180	N/A	Complied
Grade 6		61,500	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		64,080	180	N/A	Complied
Grade 8		64,080	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, 2017**

	Proposition 10 Agreement Number
	<u>13316-AQ</u>
	<u>July 1, 2016 - June 30, 2017</u>
REVENUES	
State categorical aid	<u>\$ 6,514</u>
EXPENDITURES	
Operating expenditures	<u>\$ 6,514</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND ⁵				
Revenues	\$ 267,571,065	\$ 270,562,908	\$ 261,314,712	\$ 214,805,642
Other sources and transfers in	11,119,053	6,084,162	6,164,031	9,672,145
Total Revenues and Other Sources	278,690,118	276,647,070	267,478,743	224,477,787
Expenditures	280,437,777	275,501,463	256,225,438	227,919,179
Other uses and transfers out	1,221,539	1,131,578	4,936,643	1,654,167
Total Expenditures and Other Uses	281,659,316	276,633,041	261,162,081	229,573,346
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,969,198)	\$ 14,029	\$ 6,316,662	\$ (5,095,559)
ENDING FUND BALANCE	\$ 24,384,246	\$ 27,353,444	\$ 27,339,415	\$ 21,022,753
AVAILABLE RESERVES ²	\$ 8,449,779	\$ 17,312,015	\$ 9,740,680	\$ 11,933,036
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	3.0%	6.5%	3.9%	5.0%
LONG-TERM OBLIGATIONS	N/A	\$487,343,202	\$392,038,355	\$391,733,642
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	21,069	20,899	21,220	21,251

The General Fund balance has increased by \$6,330,691 over the past two years. The fiscal year 2017-2018 budget projects a further decrease of \$2,969,198 (10.85 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 2017-2018 fiscal year. Total long-term obligations have increased by \$95,609,560 over the past two years.

Average daily attendance has decreased by 352 over the past two years. An increase of 170 ADA is anticipated during fiscal year 2017-2018.

¹ Budget 2018 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 and \$4,835,804 have been excluded from the calculation of available reserves for the fiscal for the fiscal years ending June 30, 2016, and 2015.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Cielo Vista Charter School (Charter No. 1173)	Yes

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

	Charter School Fund	Adult Education Fund	Child Development Fund
ASSETS			
Deposits and investments	\$ 5,575,149	\$ 275,666	\$ 585,376
Receivables	122,009	691	627,382
Due from other funds	169,599	-	7,253
Prepaid expenses	-	414	-
Stores inventories	-	-	-
Total Assets	\$ 5,866,757	\$ 276,771	\$ 1,220,011
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 98,026	\$ -	\$ 145,916
Due to other funds	1,119,063	2,103	1,009,206
Unearned revenue	-	-	49,770
Total Liabilities	1,217,089	2,103	1,204,892
Fund Balances:			
Nonspendable	50,000	414	-
Restricted	449,054	274,254	15,119
Assigned	4,150,614	-	-
Total Fund Balances	4,649,668	274,668	15,119
Total Liabilities and Fund Balances	\$ 5,866,757	\$ 276,771	\$ 1,220,011

See accompanying note to supplementary information.

Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
\$ 6,403,844	\$ 16,786,166	\$ -	\$ 29,626,201
1,995,395	221,260	-	2,966,737
8,167	2,861	-	187,880
-	-	-	414
341,340	-	-	341,340
<u>\$ 8,748,746</u>	<u>\$ 17,010,287</u>	<u>\$ -</u>	<u>\$ 33,122,572</u>
\$ 145,524	\$ 792,616	\$ -	\$ 1,182,082
63,467	999	-	2,194,838
17,879	-	-	67,649
<u>226,870</u>	<u>793,615</u>	<u>-</u>	<u>3,444,569</u>
341,340	-	-	391,754
8,180,536	16,216,672	-	25,135,635
-	-	-	4,150,614
<u>8,521,876</u>	<u>16,216,672</u>	<u>-</u>	<u>29,678,003</u>
<u>\$ 8,748,746</u>	<u>\$ 17,010,287</u>	<u>\$ -</u>	<u>\$ 33,122,572</u>

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, 2017**

	Charter School Fund	Adult Education Fund	Child Development Fund
REVENUES			
Local Control Funding Formula	\$ 8,199,670	\$ -	\$ -
Federal sources	-	-	-
Other State sources	776,495	256,000	2,648,382
Other local sources	62,612	4,833	675
Total Revenues	9,038,777	260,833	2,649,057
EXPENDITURES			
Current			
Instruction	5,597,278	83,455	2,232,556
Instruction-related activities:			
Supervision of instruction	2,097	-	349,867
Instructional library, media and technology	76,706	-	-
School site administration	656,536	-	-
Pupil services:			
Food services	-	-	7,195
All other pupil services	87,510	88,775	164
Administration:			
All other administration	616,868	8,874	32,333
Plant services	368,296	30,362	29,118
Facility acquisition and construction	34,590	-	-
Total Expenditures	7,439,881	211,466	2,651,233
Excess (Deficiency) of Revenues Over Expenditures	1,598,896	49,367	(2,176)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	2,297
Transfers out	(577,827)	-	-
Net Financing Sources (Uses)	(577,827)	-	2,297
NET CHANGE IN FUND BALANCES	1,021,069	49,367	121
Fund Balances - Beginning	3,628,599	225,301	14,998
Fund Balances - Ending	\$ 4,649,668	\$ 274,668	\$ 15,119

See accompanying note to supplementary information.

Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 8,199,670
11,697,259	-	-	11,697,259
798,744	-	-	4,479,621
583,219	3,650,790	92	4,302,221
<u>13,079,222</u>	<u>3,650,790</u>	<u>92</u>	<u>28,678,771</u>
-	-	-	7,913,289
-	-	-	351,964
-	-	-	76,706
-	-	-	656,536
12,891,349	-	-	12,898,544
-	-	-	176,449
545,283	329,589	-	1,532,947
96,931	11,000	-	535,707
-	8,266,026	92	8,300,708
<u>13,533,563</u>	<u>8,606,615</u>	<u>92</u>	<u>32,442,850</u>
<u>(454,341)</u>	<u>(4,955,825)</u>	<u>-</u>	<u>(3,764,079)</u>
-	-	-	2,297
-	-	-	(577,827)
-	-	-	(575,530)
(454,341)	(4,955,825)	-	(4,339,609)
8,976,217	21,172,497	-	34,017,612
<u>\$ 8,521,876</u>	<u>\$ 16,216,672</u>	<u>\$ -</u>	<u>\$ 29,678,003</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of (Medi-Call Billing Option) funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 28,588,293
Medi-Cal Billing Option	93.778	470,385
Total Schedule of Expenditures of Federal Awards		<u>\$ 29,058,678</u>

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 and the Charter School. 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.

Schedules 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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

Summary of Proposition 10 Grant

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

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.

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



**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, 2017, 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 January 31, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Financial Statement Findings we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Financial Statement Findings 2017-001 to be material weaknesses.

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*.

Palm Springs Unified School District's Response to Findings

Palm Springs Unified School District's response to the findings identified in our audit are described in the accompanying Financial Statement Findings. Palm Springs Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
January 31, 2018



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

VALUE THE *difference*

**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, 2017. 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.

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, 2017.

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 a 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
January 31, 2018



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 *2016-2017 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, 2017.

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 *2016-2017 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, 2017.

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:

	<u>Procedures Performed</u>
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
Mental Health Expenditures	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 the remaining 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 offer Non Classroom-Based Instruction, therefore; we did not perform any procedures related to Non Classroom-Based Instruction.

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

January 31, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Qualified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>Yes</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>
	<u>CACFP Claims, Centers and Family</u>
<u>10.558</u>	<u>Day Care</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 871,760</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

The following findings represent material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2017-001 30000 - Financial Accounting Controls

Criteria or Specific Requirements

It is critical to establish effective policies and internal controls for Associated Student Body organizations. The main purpose of strong internal controls is to safeguard assets and provide assurance regarding the effectiveness and efficiency of the operations. To help ensure adequate internal controls, the District needs to design, implement, and maintain efficient and effective policies and procedures based on laws, regulations, and sound business principles. If problems with internal controls are identified by an oversight party, action should be taken as soon as possible to correct any inefficient or problematic processes or procedures.

Condition

The following conditions were noted:

- Associate Student Body (ASB) accountant, was the sole person responsible for making bank deposits, receiving bank statements, reconciling bank statement, and preparing monthly financials.
- The ASB accountant altered the bank statements in order to disguise the misappropriation of assets.

Questioned Costs

The questioned costs associated with the condition found are unknown.

Context

The conditions identified were determined through audit procedures performed, specifically related to the confirmation of balances with the financial institutions. The confirmation reported a discrepancy between the altered bank statements and the amount in one of the fiduciary bank accounts.

Effect

A lack of proper segregation of duties increases the likelihood of misstatement due to error or fraud and decreases the likelihood of accurate financial reporting.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

Cause

It appears that the condition materialized due to the lack of segregation of duties with regard to the access to cash handling, and the alteration of the bank statements in order to disguise the misappropriation of assets.

Recommendation

The District should consider adding an additional layer of segregation of duties over the cash handling and the bank reconciliation at the fiduciary level. The proper segregation of duties is essential to ensure the accuracy of transactions posted and to decrease the likelihood of misstatement due to error or fraud.

Corrective Action Plan

The District has met with staff responsible for the ASB to review the audit finding and take corrective action as needed. The Fiscal Services Department has provided one-on-one training with the site staff regarding proper practices and procedures. The District will continue to strive for stronger controls over ASB accounting and to adequately train and supervise personnel.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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