



**PALM SPRINGS UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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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, 2018, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

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 73, schedule of changes in the District's total OPEB liability and related ratios on page 74, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 75, schedule of the District's proportionate share of the net pension liability on page 76, and the schedule of District contributions on page 77, 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, as referenced in the previous paragraph, 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 December 12, 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
December 12, 2018



PALM SPRINGS UNIFIED SCHOOL DISTRICT

150 DISTRICT CENTER DRIVE
PALM SPRINGS, CALIFORNIA 92264

(760) 883-2700

SANDRA LYON, Superintendent of Schools

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

This section of Palm Springs Unified School District's (the District) (2017-2018) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from June 30, 2017. 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 Funds* 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, 2018

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$1,138,518 less than expenses for the General Fund in 2017-2018.
- The District's Funds (without Fixed Asset and Long-Term Liabilities) reported \$225,944,916 or a decrease of \$42,334,661 as a result of expenditures in the Building Fund and increased revenues in the General Fund (see Table 4).
- Total net position in governmental activities was recorded at \$227,523,512 for a decrease of \$2,172,059.
- The General Fund reported a fund balance of \$35,104,400.
- Overall construction project costs were approximately \$52,551,523.
- Total LCFF increased from \$222,857,895 in 2016-2017 to \$227,743,428 in 2017-2018.

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, 2018

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, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$227,523,512 for the fiscal year ended June 30, 2018, a decrease of \$2,172,059, or 0.9 percent over the prior year. Of this amount, \$(194,794,781) 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

	Governmental Activities	
	2018	2017 (as restated)
Assets		
Current and other assets	\$ 274,972,397	\$ 317,842,566
Capital assets	679,490,388	642,924,878
Total Assets	954,462,785	960,767,444
Deferred Outflows of Resources	108,466,190	80,903,539
Liabilities		
Current liabilities	32,298,699	33,138,524
Long-term obligations	500,985,852	521,321,384
Aggregate Net Pension Liability	289,691,983	251,028,346
Total Liabilities	822,976,534	805,488,254
Deferred Inflows of Resources	12,428,929	6,487,158
Net Position		
Net investment in capital assets	352,418,111	313,326,657
Restricted	69,900,182	88,627,004
Unrestricted	(194,794,781)	(172,258,090)
Total Net Position	\$ 227,523,512	\$ 229,695,571

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,911,634	\$ 2,183,652
Operating grants and contributions	64,735,867	71,699,984
Capital grants and contributions	800,790	92
General revenues:		
Federal and State aid	179,375,055	180,845,369
Property taxes	100,356,248	94,664,852
Other general revenues	11,779,753	6,801,677
Total Revenues	<u>358,959,347</u>	<u>356,195,626</u>
Expenses		
Instruction-related	252,805,821	244,093,803
Pupil services	39,355,225	38,627,023
General administration	15,705,926	21,662,416
Plant services	34,934,658	33,384,733
Other	18,329,776	15,297,372
Total Expenses	<u>361,131,406</u>	<u>353,065,347</u>
Change in Net Position	<u>\$ (2,172,059)</u>	<u>\$ 3,130,279</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 \$361,131,406, an increase of \$8,066,059, or 2.3 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$100,356,248 because the cost was paid by those who benefited from the programs \$1,911,634 or by other governments and organizations who subsidized certain programs with grants and contributions \$65,536,657. We paid for the remaining "public benefit" portion of our governmental activities with \$191,154,808 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, 2018

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 including, special instruction programs and other instructional programs, pupil services, plant services, administration, and all other services. 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

	Total Net Cost of Services	
	2018	2017
Instruction-related	\$ 207,468,436	\$ 192,323,916
Pupil services	22,088,187	20,947,933
Administration	13,812,579	20,099,073
Plant services	34,501,284	33,052,948
Other activities	15,812,629	12,757,749
Total	\$ 293,683,115	\$ 279,181,619

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$225,944,916, which is a decrease of \$42,334,661 from last year.

Table 4

	Balances and Activity			
	July 01, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 36,242,918	\$ 282,973,124	\$ 284,111,642	\$ 35,104,400
Building Fund	130,940,509	1,698,329	29,851,441	102,787,397
Special Reserve Fund for Capital				
Outlay Projects	31,332,750	13,772,629	28,567,773	16,537,606
Bond Interest and Redemption Fund	40,085,397	34,534,189	35,004,208	39,615,378
Non-Major Governmental Funds	29,678,003	29,951,124	27,728,992	31,900,135
Total	\$ 268,279,577	\$ 362,929,395	\$ 405,264,056	\$ 225,944,916

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 26, 2018. (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 73).

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$679,490,388 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 \$36,565,510, or 5.7 percent, over last year. Depreciation expense of \$15,986,013 was allocated to governmental functions during 2018.

Table 5

	Governmental Activities	
	2018	2017
Land	\$ 86,526,832	\$ 86,510,439
Construction in progress	35,645,182	26,010,176
Land improvements	4,333,544	3,145,828
Buildings and improvements	546,653,774	520,792,088
Furniture and equipment	6,331,056	6,466,347
Total	\$ 679,490,388	\$ 642,924,878

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

This year's additions of \$52,551,523 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.

Desert Hot Springs High School	4 Portables	\$ 30,876
Desert Hot Springs High School	CTE Building	\$ 61,011
Palm Springs High School	Seismic	\$ 364,339
Agua Caliente Elementary School	Re-built	\$ 21,189,221
Elementary wide	Shade Structures - 15 sites	\$ 106,794
Cathedral City High School	Solar - Pool	\$ 4,525
Palm Springs High School	Restroom Building	\$ 382,743
Maintenance & Operations	Roofing Projects various sites	\$ 1,648,801
Nellie Coffman Middle School	Chiller	\$ 394,190
Palm Springs High School	HVAC Project	\$ 1,603,693
Cathedral City High School & Desert Hot Springs High	Marquees	\$ 255,869
Early Childhood Education	Classroom and Playground at EW	\$ 65,588
Katherine Finchy Elementary School	Parking Lot renovation	\$ 208,804
Two Bunch Palms Elementary School	Parking Lot renovation	\$ 212,494
Cathedral City Elementary School	Parking Lot renovation	\$ 93,982
Rio Vista Elementary School	RV Parking Lot	\$ 96,755
District Administration Center	Land Purchase DAC Adjacent	\$ 16,393

Long-Term Obligations

At the end of this year, the District had \$444,101,768 in general obligation bonds outstanding including premium on issuance versus \$464,216,179 last year, a decrease of \$20,114,411. Compensated absences of \$2,139,906, claims liability of \$6,791,465, and \$47,952,713 of net other postemployment benefits (OPEB) liability are also included:

Table 6

	Governmental Activities	
	2018	2017 (as Restated)
General obligation bonds	\$ 405,516,960	\$ 423,340,521
Premium on issuance	38,584,808	40,875,658
Compensated absences	2,139,906	1,967,039
Claims liability	6,791,465	8,020,271
Net other postemployment benefits (OPEB) liability	47,952,713	47,117,895
Total	\$ 500,985,852	\$ 521,321,384

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Net Pension Liability (NPL)

The District had a net pension liability as of June 30, 2018 and 2017 was \$289,691,983 and \$251,028,346, respectively, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015-2016. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

- LCAP expenditures tracking and results.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District budget for the 2018-2019 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 2018-2019 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 received allocations through 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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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	6,792
Grades four and five	29:1	3,558
Grades six through eight	31:1	5,452
Grades nine through twelve	31:1	7,301
Total		<u>23,103</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, 150 District Center Drive, Palm Springs, California 92264.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 261,698,432
Receivables	12,245,754
Prepaid expenditures	714,682
Stores inventories	313,529
Capital assets	
Land and construction in process	122,172,014
Other capital assets	757,492,949
Less: Accumulated depreciation	(200,174,575)
Total Capital Assets	<u>679,490,388</u>
Total Assets	<u>954,462,785</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	9,863,648
Deferred outflows of resources related to pensions	98,440,060
Deferred outflows of resources related to postemployment benefits other than pensions	162,482
Total Deferred Outflows of Resources	<u>108,466,190</u>
LIABILITIES	
Accounts payable	22,311,744
Interest payable	7,030,174
Unearned revenue	2,956,781
Long-term obligations:	
Current portion of long-term obligations other than pensions	20,437,911
Noncurrent portion of long-term obligations other than pensions	480,547,941
Total Long-Term Obligations	<u>500,985,852</u>
Aggregate net pension liability	<u>289,691,983</u>
Total Liabilities	<u>822,976,534</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	11,483,504
Deferred inflows of resources related to postemployment benefits other than pensions	945,425
Total Deferred Inflows of Resources	<u>12,428,929</u>
NET POSITION	
Net investment in capital assets	352,418,111
Restricted for:	
Debt service	32,585,204
Capital projects	26,633,112
Educational programs	2,763,176
Other activities	7,918,690
Unrestricted (deficit)	(194,794,781)
Total Net Position	<u>\$ 227,523,512</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, 2018**

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	\$ 213,863,766	\$ 62,732	\$ 37,705,818	\$ 800,790	\$ (175,294,426)	
Instruction-related activities:						
Supervision of instruction	15,835,657	3,629	5,883,084	-	(9,948,944)	
Instructional library, media, and technology	2,823,909	-	148,648	-	(2,675,261)	
School site administration	20,282,489	-	732,684	-	(19,549,805)	
Pupil services:						
Home-to-school transportation	5,788,034	-	59,227	-	(5,728,807)	
Food services	13,671,497	421,217	12,075,931	-	(1,174,349)	
All other pupil services	19,895,694	-	4,710,663	-	(15,185,031)	
Administration:						
Data processing	4,191,720	-	3,478	-	(4,188,242)	
All other administration	11,514,206	32,200	1,857,669	-	(9,624,337)	
Plant services	34,934,658	86,340	347,034	-	(34,501,284)	
Ancillary services	2,991,863	-	73,742	-	(2,918,121)	
Enterprise services	14,381	-	1,329	-	(13,052)	
Interest on long-term obligations	15,258,342	-	-	-	(15,258,342)	
Other outgo	65,190	1,305,516	1,136,560	-	2,376,886	
Total Governmental Activities	\$ 361,131,406	\$ 1,911,634	\$ 64,735,867	\$ 800,790	(293,683,115)	
General Revenues and Subventions:						
Property taxes, levied for general purposes					56,534,819	
Property taxes, levied for debt service					34,223,744	
Taxes levied for other specific purposes					9,597,685	
Federal and State aid not restricted to specific purposes					179,375,055	
Interest and investment earnings					561,038	
Transfers between agencies					152,145	
Miscellaneous					11,066,570	
Subtotal, General Revenues					291,511,056	
Change in Net Position					(2,172,059)	
Net Position - Beginning					265,397,458	
Restatement					(35,701,887)	
Net Assets Beginning, as Restated					229,695,571	
Net Position - Ending					\$ 227,523,512	

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 36,750,497	\$ 107,165,843	\$ 22,500,362
Receivables	8,908,598	654,598	93,866
Due from other funds	7,726,926	2,681	857,264
Prepaid expenditures	301,879	412,803	-
Stores inventories	39,351	-	-
Total Assets	\$ 53,727,251	\$ 108,235,925	\$ 23,451,492
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 14,453,010	\$ 5,411,673	\$ 1,743,579
Due to other funds	1,239,579	36,855	5,170,307
Unearned revenue	2,930,262	-	-
Total Liabilities	18,622,851	5,448,528	6,913,886
Fund Balances:			
Nonspendable	441,230	412,803	-
Restricted	2,763,176	102,374,594	13,062,927
Assigned	10,080,811	-	3,474,679
Unassigned	21,819,183	-	-
Total Fund Balances	35,104,400	102,787,397	16,537,606
Total Liabilities and Fund Balances	\$ 53,727,251	\$ 108,235,925	\$ 23,451,492

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 39,615,378	\$ 31,874,134	\$ 237,906,214
-	2,464,025	12,121,087
-	196,435	8,783,306
-	-	714,682
-	274,178	313,529
<u>\$ 39,615,378</u>	<u>\$ 34,808,772</u>	<u>\$ 259,838,818</u>

\$ -	\$ 448,961	\$ 22,057,223
-	2,433,157	8,879,898
-	26,519	2,956,781
-	2,908,637	33,893,902

-	324,178	1,178,211
39,615,378	26,280,124	184,096,199
-	5,295,833	18,851,323
-	-	21,819,183
<u>39,615,378</u>	<u>31,900,135</u>	<u>225,944,916</u>
<u>\$ 39,615,378</u>	<u>\$ 34,808,772</u>	<u>\$ 259,838,818</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds		\$ 225,944,916
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:	\$ 879,664,963	
Accumulated depreciation is:	<u>(200,174,575)</u>	
Net Capital Assets		679,490,388
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		9,863,648
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.		(7,030,174)
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.		16,967,491
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	24,802,551	
Net change in proportionate share of net pension liability	16,750,722	
Differences between projected and actual earnings on pension plan investments	2,697,896	
Differences between expected and actual experience in the measurement of the total pension liability	3,576,931	
Changes in assumptions	<u>50,611,960</u>	
Total Deferred Outflows of Resources Related to Pensions		98,440,060

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2018**

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 year end consist of:

Net change in proportionate share of net pension liability	(1,234,607)	
Difference between projected and actual earnings on pension plan investments	(5,638,234)	
Differences between expected and actual experience in the measurement of the total pension liability	\$ (3,692,436)	
Changes in assumptions	<u>(918,227)</u>	
Total Deferred Inflows of Resources Related to Pensions		(11,483,504)

Deferred outflows of resources related to OPEB 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 OPEB at year end consist of OPEB contributions subsequent to asurement date.

162,482

Deferred inflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year end consist of changes in assumptions.

(945,425)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

\$ (289,691,983)

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	(405,516,960)	
Premium on issuance	(38,584,808)	
Compensated absences (vacations)	(2,139,906)	
Net other postemployment benefits (OPEB) liability	<u>(47,952,713)</u>	
Total Long-Term Obligations		<u>(494,194,387)</u>
Total Net Position - Governmental Activities		<u><u>\$ 227,523,512</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>
REVENUES			
Local Control Funding Formula	\$ 219,122,345	\$ -	\$ -
Federal sources	19,379,247	-	-
Other State sources	24,242,734	-	1,307,481
Other local sources	14,298,688	1,698,329	11,664,358
Total Revenues	<u>277,043,014</u>	<u>1,698,329</u>	<u>12,971,839</u>
EXPENDITURES			
Current			
Instruction	176,538,939	-	-
Instruction-related activities:			
Supervision of instruction	14,308,463	-	-
Instructional library, media, and technology	2,576,135	-	-
School site administration	18,249,832	-	-
Pupil services:			
Home-to-school transportation	5,776,740	-	-
Food services	49,589	-	-
All other pupil services	18,384,379	-	-
Administration:			
Data processing	3,965,518	-	-
All other administration	8,815,547	-	-
Plant services	31,197,351	1,866,730	706,361
Ancillary services	2,865,673	-	-
Other outgo	65,190	-	-
Enterprise services	1,329	-	-
Facility acquisition and construction	-	27,984,711	22,693,786
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>282,794,685</u>	<u>29,851,441</u>	<u>23,400,147</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,751,671)</u>	<u>(28,153,112)</u>	<u>(10,428,308)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,930,110	-	800,790
Transfers out	(1,316,957)	-	(5,167,626)
Net Financing Sources (Uses)	<u>4,613,153</u>	<u>-</u>	<u>(4,366,836)</u>
NET CHANGE IN FUND BALANCES	(1,138,518)	(28,153,112)	(14,795,144)
Fund Balances - Beginning	36,242,918	130,940,509	31,332,750
Fund Balances - Ending	<u>\$ 35,104,400</u>	<u>\$ 102,787,397</u>	<u>\$ 16,537,606</u>

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 8,621,083	\$ 227,743,428
-	11,548,571	30,927,818
198,577	5,570,849	31,319,641
34,335,612	4,210,621	66,207,608
<u>34,534,189</u>	<u>29,951,124</u>	<u>356,198,495</u>
-	8,344,755	184,883,694
-	445,447	14,753,910
-	71,709	2,647,844
-	665,103	18,914,935
-	-	5,776,740
-	13,287,541	13,337,130
-	215,459	18,599,838
-	-	3,965,518
-	1,760,305	10,575,852
-	658,391	34,428,833
-	-	2,865,673
-	-	65,190
-	-	1,329
-	717,008	51,395,505
17,823,561	-	17,823,561
17,180,647	-	17,180,647
<u>35,004,208</u>	<u>26,165,718</u>	<u>397,216,199</u>
<u>(470,019)</u>	<u>3,785,406</u>	<u>(41,017,704)</u>
-	-	6,730,900
-	(1,563,274)	(8,047,857)
-	(1,563,274)	(1,316,957)
(470,019)	2,222,132	(42,334,661)
40,085,397	29,678,003	268,279,577
<u>\$ 39,615,378</u>	<u>\$ 31,900,135</u>	<u>\$ 225,944,916</u>

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 **\$ (42,334,661)**

**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	\$ 52,551,523	
Depreciation expense	<u>(15,986,013)</u>	
Net Expense Adjustment		36,565,510

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 \$172,867.

(172,867)

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.

(15,643,336)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.

(1,617,761)

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**

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds 17,823,561

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	2,290,850	
Deferred amount on refunding for general obligations bonds	<u>(616,478)</u>	
Combined Adjustment		1,674,372

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. 247,933

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. 1,285,190

Change in Net Position of Governmental Activities \$ (2,172,059)

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
	Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 23,792,218
Receivables	124,667
Due from other funds	193,870
Total Current Assets	24,110,755
LIABILITIES	
Current Liabilities	
Accounts payable	254,521
Due to other funds	97,278
Current portion of long-term claims liability	1,229,000
Total Current Liabilities	1,580,799
Noncurrent Liabilities	
Long-term claims liability	5,562,465
Total Liabilities	7,143,264
NET POSITION	
Restricted	\$ 16,967,491

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges to other funds	\$ 2,238,505
OPERATING EXPENSES	
Payroll costs	136,872
Professional and contract services	2,462,518
Supplies and materials	9,795
Total Operating Expenses	2,609,185
Operating Loss	(370,680)
NONOPERATING REVENUES	
Interest income	338,913
Loss Before Transfers	(31,767)
Transfers in	1,316,957
Change in Net Position	1,285,190
Total Net Position - Beginning	15,682,301
Total Net Position - Ending	\$ 16,967,491

PALM SPRINGS UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	<u>Activities</u> <u>Internal</u> <u>Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,238,505
Cash payments to other suppliers of goods or services	(2,462,518)
Cash payments for administrative expense	(136,872)
Other operating cash payments	(1,408,976)
Net Cash Used in Operating Activities	<u>(1,769,861)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Transfer in	<u>1,316,957</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>338,913</u>
Net Decrease in Cash and Cash Equivalents	(113,991)
Cash and Cash Equivalents - Beginning	23,906,209
Cash and Cash Equivalents - Ending	<u>\$ 23,792,218</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating Loss	\$ (370,680)
Changes in Assets and Liabilities:	
Accounts receivable	(57,847)
Due from other funds	(193,249)
Accounts payable	64,073
Due to other funds	16,648
Claims liability	(1,228,806)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,769,861)</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Agency Funds		Total Fiduciary Funds
	Associate Student Bodies	Warrant Pass-Through	
ASSETS			
Deposits and investments	\$ 1,162,478	\$ 93,918	\$ 1,256,396
Accounts receivable	253,596	-	253,596
Inventory	30,700	-	30,700
Total Assets	\$ 1,446,774	\$ 93,918	\$ 1,540,692
LIABILITIES			
Accounts payable	5,781	93,918	99,699
Due to student groups	1,440,993	-	1,440,993
Total Liabilities	\$ 1,446,774	\$ 93,918	\$ 1,540,692

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018

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 \$9,062,048.

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 that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. 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 operating 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, 2018

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed 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 expended for adult education purposes only.

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 to be used for 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 approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). 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), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51), 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, 2018

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

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JUNE 30, 2018

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, 2018

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, 2018, 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 (Expenses)

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/when incurred.

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, 2018

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, for pension related items, and for OPEB 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 and for OPEB 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment Program (MPP) and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and MPP. For this purpose, the District Plan and MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Accrued Liabilities and Long-Term Obligations

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Fund Balances - Governmental Funds

As of June 30, 2018, 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. The District does not have any committed Fund balance.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$69,900,182 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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. 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 District has implemented the provisions of this Statement as of June 30, 2018.

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;

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- 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;
- 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 District has implemented the provisions of this Statement as of June 30, 2018.

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 District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 261,698,432
Fiduciary funds	1,256,396
Total Deposits and Investments	<u>\$ 262,954,828</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 1,162,478
Cash in revolving	150,000
Investments	261,642,350
Total Deposits and Investments	<u>\$ 262,954,828</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Policies and Practices

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

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

General Authorizations

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average to Maturity in Days</u>
Riverside County Investment Pool	<u>\$ 261,642,350</u>	427

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, 2018</u>	<u>Reported Amount</u>
Riverside County Investment Pool	Not Required	Aaa	<u>\$ 261,642,350</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, 2018, the District's bank balance of \$1,050,020 was exposed to custodial credit risk.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Riverside County Treasury Investment Pool	<u>\$ 261,642,350</u>	<u>\$ 261,642,350</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 4,156,449	\$ -	\$ -	\$ 1,746,296
State Government				
Categorical aid	982,536	-	-	439,499
Lottery	920,235	-	-	39,270
SELPA Master plan	1,597,297	-	-	-
Local Government				
Interest	158,571	500,581	93,547	134,150
Other Local Sources	1,093,510	154,017	319	104,810
Total	<u>\$ 8,908,598</u>	<u>\$ 654,598</u>	<u>\$ 93,866</u>	<u>\$ 2,464,025</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government			
Categorical aid	\$ -	\$ 5,902,745	\$ -
State Government			
Categorical aid	-	1,422,035	-
Lottery	-	959,505	-
SELPA Master plan	-	1,597,297	-
Local Government			
Interest	106,451	993,300	-
Other Local Sources	18,216	1,370,872	253,596
Total	<u>\$ 124,667</u>	<u>\$ 12,245,754</u>	<u>\$ 253,596</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 86,510,439	\$ 16,393	\$ -	\$ 86,526,832
Construction in progress	26,010,176	26,719,685	17,084,679	35,645,182
Total Capital Assets Not Being Depreciated	<u>112,520,615</u>	<u>26,736,078</u>	<u>17,084,679</u>	<u>122,172,014</u>
Capital Assets Being Depreciated				
Land improvements	3,515,599	1,324,777	-	4,840,376
Buildings and improvements	687,354,839	40,415,609	-	727,770,448
Furniture and equipment	23,722,387	1,159,738	-	24,882,125
Total Capital Assets Being Depreciated	<u>714,592,825</u>	<u>42,900,124</u>	<u>-</u>	<u>757,492,949</u>
Less Accumulated Depreciation				
Land improvements	369,771	137,061	-	506,832
Buildings and improvements	166,562,751	14,553,923	-	181,116,674
Furniture and equipment	17,256,040	1,295,029	-	18,551,069
Total Accumulated Depreciation	<u>184,188,562</u>	<u>15,986,013</u>	<u>-</u>	<u>200,174,575</u>
Capital Assets, Net	<u>\$ 642,924,878</u>	<u>\$ 53,650,189</u>	<u>\$ 17,084,679</u>	<u>\$ 679,490,388</u>

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 14,757,423
All other general administration	493,554
Plant services	735,036
Total Depreciation Expenses	<u>\$ 15,986,013</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, 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	\$ -	\$ 29,676	\$ 5,167,626	\$ 2,432,346	\$ 97,278	\$ 7,726,926
Building Fund	-	-	2,681	-	-	2,681
Special Reserve Fund for Capital Outlay Projects	857,073	-	-	191	-	857,264
Non-Major Governmental Funds	189,256	7,179	-	-	-	196,435
Internal Service Fund	193,250	-	-	620	-	193,870
Total	\$ 1,239,579	\$ 36,855	\$ 5,170,307	\$ 2,433,157	\$ 97,278	\$ 8,977,176

The balance of \$857,073 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund for grant award for solar project.

A balance of \$178,450 is due to the Charter School Non-Major Governmental Fund from the General Fund for in-lieu property tax.

A balance of \$152,817 is due to the Internal Service Fund from the General Fund for teamsters I and II contributions.

A balance of \$5,167,626 is due to the General Fund from the Special Reserve Fund for Capital Outlay Projects for the technology plan

A balance of \$1,331,948 is due to the General Fund from the Charter School 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 \$91,554 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect cost.

The balance of \$97,278 is due to the General Fund from the Internal Service Fund to reduce the transfer for property and liability insurance.

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, 2018**

Operating Transfers

Interfund transfers for the year ended June 30, 2018, 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	\$ -	\$ 5,167,626	\$ 762,484	\$ 5,930,110
Special Reserve Fund for Capital Outlay Projects	-	-	800,790	800,790
Internal Service Funds	1,316,957	-	-	1,316,957
Total	<u>\$ 1,316,957</u>	<u>\$ 5,167,626</u>	<u>\$ 1,563,274</u>	<u>\$ 8,047,857</u>

The General Fund transferred to the Internal Service Fund for future claims.	\$ 1,316,957
The County School Facilities Non-Major Governmental Fund transferred to the Special Reserve Fund for Capital Outlay Projects for future projects.	800,790
The Charter Non-Major Governmental Fund transferred to the General Fund for reimbursement for Special Education contribution.	762,484
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for support of program related expenses.	3,167,626
The Special Reserves Fund for Capital Outlay Projects transferred to the General Fund for the site technology plans.	2,000,000
Total	<u>\$ 8,047,857</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, 2018**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Vendor payables	\$ 4,752,409	\$ 479,019	\$ 71,836	\$ 321,987
State principal apportionment	7,376,359	-	-	68,718
Salaries and benefits	2,234,394	-	-	57,676
Construction	-	4,932,654	1,671,743	580
Due to grantor governments	89,848	-	-	-
Total	<u>\$ 14,453,010</u>	<u>\$ 5,411,673</u>	<u>\$ 1,743,579</u>	<u>\$ 448,961</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Fund
Vendor payables	\$ 254,521	\$ 5,879,772	\$ 99,699
State principal apportionment	-	7,445,077	-
Salaries and benefits	-	2,292,070	-
Construction	-	6,604,977	-
Due to grantor governments	-	89,848	-
Total	<u>\$ 254,521</u>	<u>\$ 22,311,744</u>	<u>\$ 99,699</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 972,155	\$ -	\$ 972,155
State categorical aid	1,955,181	17,808	1,972,989
Other local	2,926	8,711	11,637
Total	<u>\$ 2,930,262</u>	<u>\$ 26,519</u>	<u>\$ 2,956,781</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, 2017 (as Restated)	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 423,340,521	\$ -	\$ 17,823,561	\$ 405,516,960	\$ 19,208,911
Premium on issuance	40,875,658	-	2,290,850	38,584,808	-
Compensated absences	1,967,039	172,867	-	2,139,906	-
Claims liability	8,020,271	219,622	1,448,428	6,791,465	1,229,000
Net other postemployment benefits (OPEB) liability	47,117,895	1,012,338	177,520	47,952,713	-
	<u>\$ 521,321,384</u>	<u>\$ 1,404,827</u>	<u>\$ 21,740,359</u>	<u>\$ 500,985,852</u>	<u>\$ 20,437,911</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 net other postemployment benefits (OPEB) liability are made in the General Fund.

Payments for claims liability are made from the Internal Service Fund.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2017	Issued	Redeemed	Outstanding June 30, 2018
06/15/10	02/01/26	4.37%	\$ 19,539,035	\$ 12,280,521	\$ -	\$ 1,148,561	\$ 11,131,960
01/12/10	08/01/33	2.00-5.00%	110,000,000	6,350,000	-	2,680,000	3,670,000
06/08/11	08/01/32	0.40-5.00%	75,105,000	66,070,000	-	1,300,000	64,770,000
07/17/13	08/01/33	3.00-4.25%	20,425,000	50,740,000	-	4,935,000	45,805,000
11/05/13	08/01/37	3.00-5.00%	70,000,000	16,430,000	-	1,440,000	14,990,000
07/17/14	08/01/36	3.00-5.00%	100,085,000	94,255,000	-	3,080,000	91,175,000
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	-	3,240,000	96,760,000
				<u>\$ 423,340,521</u>	<u>\$ -</u>	<u>\$ 17,823,561</u>	<u>\$ 405,516,960</u>

Debt Service Requirements to Maturity

The bond mature through 2038 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	20,646,292	14,440,004	35,086,296
2024-2028	105,982,348	53,650,782	159,633,130
2029-2033	148,335,000	27,143,413	175,478,413
2034-2038	58,150,000	5,265,982	63,415,982
Total	<u>\$ 405,516,960</u>	<u>\$ 161,902,631</u>	<u>\$ 567,419,591</u>

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$2,139,906.

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 \$6,791,465 discounted at June 30, 2018.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plan:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 46,209,140	\$ 162,482	\$ 945,425	\$ 1,012,338
Medicare Premium Payment (MPP) Program	1,743,573	-	-	(177,520)
Total	<u>\$ 47,952,713</u>	<u>\$ 162,482</u>	<u>\$ 945,425</u>	<u>\$ 834,818</u>

The details of each plan are as follows:

District Plan

Plan administration

The District's Governing Board administers the Postemployment Benefits Plan (the Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Plan membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	143
Active employees	2,082
	<u>2,225</u>

Benefits provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Palm Springs Unified School District's Governing Board (the Governing Board) has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Palm Springs Teachers Association (PSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payments is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, PSTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$2,357,253 in benefits.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$46,209,140 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.90 percent
Health care cost trend rates	8.00 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the July 1, 2017 valuation were based on the results of an actual experience study for the period June 30, 2016 to July 1, 2017.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 45,196,802
Service cost	\$ 2,563,184
Interest	1,680,193
Differences between expected and actual experience	181,335
Changes of assumptions or other inputs	(1,055,121)
Benefit payments	(2,357,253)
Net change in total OPEB liability	<u>1,012,338</u>
Balance at June 30, 2018	<u>\$ 46,209,140</u>

Sensitivity of the total OPEB liability to changes in the discount rate

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.9%)	\$ 49,827,815
Current discount rate (3.9%)	46,209,140
1% increase (4.9%)	42,879,450

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (7.0%)	\$ 43,524,155
Current discount rate (8.0%)	46,209,140
1% increase (9.0%)	48,921,220

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,012,338. At June 30, 2018, the District reported deferred outflows of resources and deferred inflow of resources related to the OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	162,482	-
Changes of assumptions	-	945,425
Total	<u>\$ 162,482</u>	<u>\$ 945,425</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (90,843)
2020	(90,843)
2021	(90,843)
2022	(90,843)
2022	(90,843)
Thereafter	(328,728)
	<u>\$ (782,943)</u>

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Medicare Premium Payment 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 MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the STRP DB Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District's benefit payments. In accordance with California Education Code Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$1,743,573 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.4144 percent and 0.4105 percent, resulting in an net increase in the proportionate share of 0.0039 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(177,520).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016 was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 1,930,257
Current discount rate (3.58%)	1,743,573
1% increase (4.58%)	1,561,984

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the Medicare costs trend rates. The following presents the District's proportionate share of the net OPEB 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>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,575,585
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,743,573
1% increase (4.7% Part A and 5.1% Part B)	1,909,884

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 – FUND BALANCE

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	39,351	-	-	-	274,178	313,529
Prepaid expenditures	301,879	412,803	-	-	-	714,682
Total Nonspendable	<u>441,230</u>	<u>412,803</u>	<u>-</u>	<u>-</u>	<u>324,178</u>	<u>1,178,211</u>
Restricted						
Legally restricted programs	2,763,176	-	-	-	7,918,690	10,681,866
Capital projects	-	102,374,594	13,062,927	-	18,361,434	133,798,955
Debt services	-	-	-	39,615,378	-	39,615,378
Total Restricted	<u>2,763,176</u>	<u>102,374,594</u>	<u>13,062,927</u>	<u>39,615,378</u>	<u>26,280,124</u>	<u>184,096,199</u>
Assigned						
Anderson grants	23,306	-	-	-	7	23,313
Local grants	50,890	-	-	-	12,001	62,891
Mentor grants	6,024	-	-	-	-	6,024
The Foundation for PSUSD	7,433	-	-	-	-	7,433
Assistance league PS desert area	155	-	-	-	-	155
Donations and fees	151,916	-	-	-	89,583	241,499
Site discretionary	414,429	-	-	-	107,955	522,384
Local Control Accountability Plan	6,654,416	-	-	-	-	6,654,416
MAA reimbursement	489,920	-	-	-	-	489,920
Textbooks	40,749	-	-	-	-	40,749
District computer insurance	7,582	-	-	-	-	7,582
District computer replacement	118,406	-	-	-	-	118,406
24/7 computer insurance	850	-	-	-	-	850
Use of facilities	124,161	-	-	-	-	124,161
Light up program	5,039	-	-	-	-	5,039
District office move budget	92,718	-	-	-	-	92,718
ROTC supplies	24,499	-	-	-	-	24,499
School sites carryover	123,456	-	-	-	-	123,456
Operational expectations	1,744,862	-	-	-	4,761,012	6,505,874
Catering	-	-	-	-	325,275	325,275
Energy efficiency	-	-	3,474,679	-	-	3,474,679
Total Assigned	<u>10,080,811</u>	<u>-</u>	<u>3,474,679</u>	<u>-</u>	<u>5,295,833</u>	<u>18,851,323</u>
Unassigned						
Economic uncertainties	8,906,773	-	-	-	-	8,906,773
Remaining unassigned	12,912,410	-	-	-	-	12,912,410
Total Unassigned	<u>21,819,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,819,183</u>
Total	<u>\$35,104,400</u>	<u>\$102,787,397</u>	<u>\$16,537,606</u>	<u>\$39,615,378</u>	<u>\$31,900,135</u>	<u>\$225,944,916</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT - CLAIMS

Description

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

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

Claims Liabilities

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

Unpaid Claim Liabilities

The Internal Service Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities of the District from July 1, 2016 to June 30, 2018:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2016	\$ 11,798,976
Claims and changes in estimates	(2,389,386)
Claims payments	<u>(1,389,319)</u>
Liability Balance, June 30, 2017	8,020,271
Claims and changes in estimates	219,622
Claims payments	<u>(1,448,428)</u>
Liability Balance, June 30, 2018	<u>\$ 6,791,465</u>
Assets available to pay claims at June 30, 2018	<u>\$ 24,110,755</u>

NOTE 12 - 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).

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 211,702,726	\$ 72,584,234	\$ 10,565,277	\$ 24,681,548
CalPERS	77,989,257	25,855,826	918,227	15,764,339
Total	\$ 289,691,983	\$ 98,440,060	\$ 11,483,504	\$ 40,445,887

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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The STRP provisions and benefits in effect at June 30, 2018, 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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and the District's total contributions were \$18,029,951.

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

At June 30, 2018, 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	\$ 211,702,726
State's proportionate share of the net pension liability associated with the District	125,241,544
Total	<u>\$ 336,944,270</u>

The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively was 0.2289 percent and 0.2308 percent, resulting in a net decrease in the proportionate share of 0.0019 percent.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$24,681,548. In addition, the District recognized pension expense and revenue of \$12,606,764 for support provided by the State. At June 30, 2018, 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	\$ 18,029,951	\$ -
Net change in proportionate share of net pension liability	14,550,984	1,234,607
Differences between projected and actual earnings on pension plan investments	-	5,638,234
Differences between expected and actual experience in the measurement of the total pension liability	782,897	3,692,436
Changes of assumptions	39,220,402	-
Total	<u>\$ 72,584,234</u>	<u>\$ 10,565,277</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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
2019	\$ (4,687,273)
2020	3,546,882
2021	511,440
2022	(5,009,283)
Total	<u>\$ (5,638,234)</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 of Resources
2019	\$ 8,997,435
2020	8,997,435
2021	8,997,435
2022	8,997,437
2023	7,176,051
Thereafter	6,461,447
Total	<u>\$ 49,627,240</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, 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, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.10 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 (7.10 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 (6.10%)	\$ 310,846,811
Current discount rate (7.10%)	211,702,726
1% increase (8.10%)	131,240,581

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, 2016 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, 2018

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, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	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%	6.50%
Required employer contribution rate	15.531%	15.531%

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, 2018, are presented above and the total District contributions were \$6,772,600

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$6,772,600. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively was 0.3267 percent and 0.3258 percent, resulting in a net increase in the proportionate share of 0.0009 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$15,764,339. At June 30, 2018, 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	\$ 6,772,600	
Net change in proportionate share of net pension liability	2,199,738	-
Difference between projected and actual earnings on pension plan investments	2,697,896	-
Differences between expected and actual experience in the measurement of the total pension liability	2,794,034	-
Changes of assumptions	11,391,558	918,227
Total	<u>\$ 25,855,826</u>	<u>\$ 918,227</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
2019	\$ (73,103)
2020	3,112,785
2021	1,135,579
2022	(1,477,365)
Total	<u>\$ 2,697,896</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The deferred outflows 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 of Resources
2019	\$ 5,913,985
2020	5,581,105
2021	3,972,013
Total	<u>\$ 15,467,103</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	0.9%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 114,747,188
Current discount rate (7.15%)	77,989,257
1% increase (8.15%)	47,495,474

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$10,184,825 (9.328 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 13 - 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, 2018.

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, 2018.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Construction Commitments</u>	<u>Date of Completion</u>
DHS 4 Portables	\$ 1,000,000	2018-2019
DHS CTE Building	10,000,000	2019-2020
PSHS Seismic	43,000,000	2020-2021
Agua Caliente Re-built	46,177,014	2018-2019
Elementary Shade Structures - 15 sites	3,300,000	2018-2019
CCHS Solar - Pool	1,000,000	2018-2019
PSHS Restroom Building	525,000	2018-2019
M&O Roofing Projects various sites	8,000,000	2018-2019
NNC Chiller	6,000,000	2018-2019
KF Parking Lot	1,250,000	2018-2019
TBP Parking Lot	1,400,000	2018-2019
CCE Parking Lot	1,750,000	2018-2019
RV Parking Lot	1,750,000	2018-2019
PROP39 Energy - PSHS HVAC Project	4,000,000	2018-2019
Solar Shade Canopies LAN, SS, DAC	6,250,000	2018-2019
DAC-Tenant Improvements	1,000,000	2018-2019
CCHS & DHSHS Marquees	300,000	2018-2019
ECE Classroom and Playground at EW	500,000	2018-2019
Land Purchase DAC Adjacent	400,000	2018-2019
	<u>\$ 137,602,014</u>	

NOTE 14 - 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, 2018, the District made payments of \$1,069,014, \$19,970,048, and 4,689,871 to So Cal ReLiEF, CVT, and RSRMA, respectively, for health and property and liability coverage.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 15 – RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting Postemployment Benefits Other Than Pension*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide - Statement of Net Position

Net Position - Beginning	\$ 265,397,458
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(35,701,887)</u>
Net Position - Beginning as Restated	<u><u>\$ 229,695,571</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 219,413,722	\$ 217,696,082	\$ 219,122,345	\$ 1,426,263
Federal sources	16,309,085	23,309,942	19,379,247	(3,930,695)
Other State sources	19,008,646	25,121,968	24,242,734	(879,234)
Other local sources	12,839,612	13,621,729	14,298,688	676,959
Total Revenues ¹	267,571,065	279,749,721	277,043,014	(2,706,707)
EXPENDITURES				
Current				
Certificated salaries	121,045,105	122,734,789	123,576,688	(841,899)
Classified salaries	42,030,552	42,000,944	41,204,753	796,191
Employee benefits	73,927,005	73,861,034	72,756,367	1,104,667
Books and supplies	13,452,312	20,292,480	11,983,787	8,308,693
Services and operating expenditures	30,556,013	36,715,008	33,544,256	3,170,752
Capital outlay	428,719	1,274,385	989,808	284,577
Other outgo	(1,001,929)	(1,093,683)	(1,260,974)	167,291
Total Expenditures ¹	280,437,777	295,784,957	282,794,685	12,990,272
Excess (Deficiency) of Revenues Over Expenditures	(12,866,712)	(16,035,236)	(5,751,671)	10,283,565
OTHER FINANCING SOURCES (USES)				
Transfers in	11,119,053	6,944,641	5,930,110	(1,014,531)
Transfers out	(1,221,539)	(1,395,813)	(1,316,957)	78,856
Net Financing Sources (Uses)	9,897,514	5,548,828	4,613,153	(935,675)
NET CHANGE IN FUND BALANCE	(2,969,198)	(10,486,408)	(1,138,518)	9,347,890
Fund Balance - Beginning	36,242,918	36,242,918	36,242,918	-
Fund Balance - Ending	\$ 33,273,720	\$ 25,756,510	\$ 35,104,400	\$ 9,347,890

¹ On behalf payments of \$10,184,825 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

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND
RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 2,563,184
Interest	1,680,193
Difference between expected and actual experience	181,335
Changes of assumptions	(1,055,121)
Benefit payments	<u>(2,357,253)</u>
Net change in total OPEB liability	1,012,338
Total OPEB liability - beginning	<u>45,196,802</u>
Total OPEB liability - ending (a)	<u><u>\$ 46,209,140</u></u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The District's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018**

Year ended June 30,	<u>2017</u>
District's proportion of the net OPEB liability	<u>0.4144%</u>
District's proportionate share of the net OPEB liability	<u>\$ 1,743,573</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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 THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.2289%</u>	<u>0.2308%</u>
District's proportionate share of the net pension liability	\$ 211,702,726	\$ 186,675,227
State's proportionate share of the net pension liability associated with the District	<u>125,241,544</u>	<u>106,270,877</u>
Total	<u>\$ 336,944,270</u>	<u>\$ 292,946,104</u>
District's covered - employee payroll	<u>\$ 122,773,402</u>	<u>\$ 113,836,850</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>172.43%</u>	<u>163.98%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.3267%</u>	<u>0.3258%</u>
District's proportionate share of the net pension liability	<u>\$ 77,989,257</u>	<u>\$ 64,353,119</u>
District's covered - employee payroll	<u>\$ 41,678,190</u>	<u>\$ 40,021,930</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>187.12%</u>	<u>160.79%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.2203%</u>	<u>0.0750%</u>
\$ 148,312,147	\$ 116,093,098
<u>78,440,776</u>	<u>70,102,025</u>
<u>\$ 226,752,923</u>	<u>\$ 186,195,123</u>
<u>\$ 98,694,989</u>	<u>\$ 106,231,697</u>
<u>150.27%</u>	<u>109.28%</u>
<u>74%</u>	<u>77%</u>
<u>0.3013%</u>	<u>0.2952%</u>
<u>\$ 44,414,852</u>	<u>\$ 33,509,892</u>
<u>\$ 32,838,170</u>	<u>\$ 33,782,389</u>
<u>135.25%</u>	<u>99.19%</u>
<u>79%</u>	<u>83%</u>

See accompanying note to required supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 18,029,951	\$ 15,444,894
Contributions in relation to the contractually required contribution	<u>18,029,951</u>	<u>15,444,894</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 124,947,685</u>	<u>\$ 122,773,402</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 6,772,600	\$ 5,788,267
Contributions in relation to the contractually required contribution	<u>6,772,600</u>	<u>5,788,267</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 43,606,980</u>	<u>\$ 41,678,190</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 12,214,694	\$ 8,764,115
<u>12,214,694</u>	<u>8,764,115</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 113,836,850</u>	<u>\$ 98,694,989</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 4,741,398	\$ 3,865,381
<u>4,741,398</u>	<u>3,865,381</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 40,021,930</u>	<u>\$ 32,838,170</u>
<u>11.85%</u>	<u>11.77%</u>

See accompanying note to required supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

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 Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation..

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

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.

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SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

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	\$ 172,363	\$ -
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	10,603,686	138,058
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	12,565	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	1,131,564	42,154
English Language Acquisition Grants				
Title III, Part A, Immigrant Education Program	84.365	15146	28,466	1,665
Title III, Part A, English Learner Student Program	84.365	14346	464,812	-
Total English Language Acquisition Grants			493,278	1,665
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,070,958	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	5,535	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	49,834	-
Preschool Grants ARRA, Part B, Section 619	84.392	15000		
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	165,017	-
Preschool Capacity Building, Part B, Sec 619	84.173A	13839	8,571	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	264,064	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	774	-
Total Special Education Cluster			3,564,753	-
Total U.S. Department of Education			15,978,209	181,877

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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	\$ 8,723	\$ -
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	2,240,548	-
National School Lunch Program	10.555	13524	7,896,714	-
Summer Food Service Program	10.559	13004	173,566	-
Summer Food Service Program	10.559	13006	18,132	-
Food Distribution	10.555	13524	183,337	-
Total Child Nutrition Cluster			<u>10,512,297</u>	<u>-</u>
CACFP Claims, Centers and Family Day Care	10.558	13393	1,036,274	-
Total U.S. Department of Agriculture			<u>11,557,294</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	842,200	-
Medical Administrative Activities Program	93.778	10060	230,987	-
Total Medi-Cal Assistance Program			<u>1,073,187</u>	<u>-</u>
Passed through Riverside County Office of Education:				
Head Start	93.600	10016	2,373,684	-
Total U.S. Department of Health and Human Services			<u>3,446,871</u>	<u>-</u>
U.S. DEPARTMENT OF DEFENSE				
Junior Reserve Officer Training Corps, Air Force	12.000	[1]	228,973	-
Total Federal Programs			<u>\$ 31,211,347</u>	<u>\$ 181,877</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, 2018

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>
James Williamson	President	2018
Richard Clapp	Clerk	2020
John Gerardi	Member	2018
Karen Cornett	Member	2018
Madonna Gerrell	Member	2020

ADMINISTRATION

Sandra Lyon	Superintendent
Brian J. Murray	Assistant Superintendent, Business Services
Mike Swize	Assistant Superintendent, Educational Services
Tony Signoret	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, 2018**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,043.48	6,049.55
Fourth through sixth	4,815.76	4,804.70
Seventh and eighth	3,138.94	3,113.19
Ninth through twelfth	6,760.49	6,674.17
Total Regular ADA	<u>20,758.67</u>	<u>20,641.61</u>
Extended Year Special Education		
Transitional kindergarten through third	4.05	4.05
Fourth through sixth	1.98	1.98
Seventh and eighth	2.77	2.77
Ninth through twelfth	6.03	6.03
Total Extended Year Special Education	<u>14.83</u>	<u>14.83</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	3.37	4.25
Seventh and eighth	0.38	0.65
Ninth through twelfth	1.90	2.55
Total Special Education, Nonpublic, Nonsectarian Schools	<u>5.65</u>	<u>7.45</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.38	0.38
Seventh and eighth	0.05	0.05
Ninth through twelfth	0.18	0.17
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.61</u>	<u>0.60</u>
Total ADA	<u><u>20,779.76</u></u>	<u><u>20,664.49</u></u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

CIELO VISTA CHARTER SCHOOL

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	378.67	377.90
Fourth through sixth	366.23	365.49
Seventh and eighth	181.42	181.20
Total Regular ADA	<u>926.32</u>	<u>924.59</u>
Classroom based ADA		
Regular ADA		
Transitional kindergarten through third	378.67	377.90
Fourth through sixth	366.23	365.49
Seventh and eighth	181.42	181.20
Total Classroom Based ADA	<u>926.32</u>	<u>924.59</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-87 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,895	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,895	180	N/A	Complied
Grade 2		54,895	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		60,528	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,528	180	N/A	Complied
Grade 8		60,528	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1986-87 Minutes Requirement	2017-2018 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,320	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		57,255	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		62,145	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

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Summarized below are the fund balance reconciliation between the Unaudited Actual Financial Report and the audited financial statements.

	<u>Cafeteria Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 8,562,930
Decrease in:	
Inventory	(784,048)
Total Fund Balance, June 30, 2018, Audited Financial Statement	<u>\$ 7,778,882</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND⁴				
Revenues	\$ 292,069,665	\$ 283,187,102	\$ 270,562,908	\$ 261,314,712
Other sources and transfers in	11,280,313	5,930,110	6,084,162	6,164,031
Total Revenues and Other Sources	<u>303,349,978</u>	<u>289,117,212</u>	<u>276,647,070</u>	<u>267,478,743</u>
Expenditures	301,060,198	282,794,685	275,501,463	256,225,438
Other uses and transfers out	1,556,970	1,316,957	1,131,578	4,936,643
Total Expenditures and Other Uses	<u>302,617,168</u>	<u>284,111,642</u>	<u>276,633,041</u>	<u>261,162,081</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 732,810</u>	<u>\$ 5,005,570</u>	<u>\$ 14,029</u>	<u>\$ 6,316,662</u>
ENDING FUND BALANCE	<u>\$ 26,775,162</u>	<u>\$ 26,042,352</u>	<u>\$ 21,036,782</u>	<u>\$ 21,022,753</u>
AVAILABLE RESERVES²	<u>\$ 16,643,826</u>	<u>\$ 21,819,183</u>	<u>\$ 17,312,015</u>	<u>\$ 9,740,680</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>5.5%</u>	<u>7.7%</u>	<u>6.5%</u>	<u>3.5%</u>
LONG-TERM OBLIGATIONS³	<u>N/A</u>	<u>\$500,985,852</u>	<u>\$ 521,321,384</u>	<u>\$ 392,038,355</u>
AVERAGE DAILY ATTENDANCE AT P-2³	<u>20,448</u>	<u>20,780</u>	<u>20,899</u>	<u>21,220</u>

The General Fund balance has increased by \$5,019,599 over the past two years. The fiscal year 2018-2019 budget projects an increase of \$732,810 (2.81 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 an operating surplus in each of the past three years and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$108,947,497 over the past two years.

Average daily attendance has decreased by 440 over the past two years. A decrease of 332 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 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 Excludes Charter School ADA.

⁴ 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.

⁵ Long-term obligations have been restated as of June 30, 2017 due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

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

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Charter School Fund	Adult Education Fund	Child Development Fund
ASSETS			
Deposits and investments	\$ 6,588,470	\$ 385,944	\$ 907,276
Receivables	71,503	7,361	310,310
Due from other funds	178,810	482	699
Stores inventories	-	-	-
Total Assets	\$ 6,838,783	\$ 393,787	\$ 1,218,285
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 116,658	\$ 39,259	\$ 179,598
Due to other funds	1,331,948	224	1,005,541
Unearned revenue	-	-	17,808
Total Liabilities	1,448,606	39,483	1,202,947
Fund Balances:			
Nonspendable	50,000	-	-
Restricted	369,619	354,304	15,338
Assigned	4,970,558	-	-
Total Fund Balances	5,390,177	354,304	15,338
Total Liabilities and Fund Balances	\$ 6,838,783	\$ 393,787	\$ 1,218,285

See accompanying note to supplementary information.

Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
\$ 5,790,994	\$ 18,201,394	\$ 56	\$ 31,874,134
1,913,492	161,224	135	2,464,025
9,265	7,179	-	196,435
274,178	-	-	274,178
<u>\$ 7,987,929</u>	<u>\$ 18,369,797</u>	<u>\$ 191</u>	<u>\$ 34,808,772</u>
\$ 108,562	\$ 4,884	\$ -	\$ 448,961
91,774	3,479	191	2,433,157
8,711	-	-	26,519
<u>209,047</u>	<u>8,363</u>	<u>191</u>	<u>2,908,637</u>
274,178	-	-	324,178
7,179,429	18,361,434	-	26,280,124
325,275	-	-	5,295,833
<u>7,778,882</u>	<u>18,361,434</u>	<u>-</u>	<u>31,900,135</u>
<u>\$ 7,987,929</u>	<u>\$ 18,369,797</u>	<u>\$ 191</u>	<u>\$ 34,808,772</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, 2018**

	Charter School Fund	Adult Education Fund	Child Development Fund
REVENUES			
Local Control Funding Formula	\$ 8,621,083	\$ -	\$ -
Federal sources	-	-	-
Other State sources	670,768	266,628	3,019,293
Other local sources	119,719	4,899	701
Total Revenues	9,411,570	271,527	3,019,994
EXPENDITURES			
Current			
Instruction	5,995,657	70,124	2,278,974
Instruction-related activities:			
Supervision of instruction	5,359	2,605	437,483
Instructional library, media and technology	71,709	-	-
School site administration	665,103	-	-
Pupil services:			
Food services	-	-	103,840
All other pupil services	98,043	91,361	26,055
Administration:			
All other administration	649,672	7,972	136,223
Plant services	423,034	19,829	37,200
Facility acquisition and construction	-	-	-
Total Expenditures	7,908,577	191,891	3,019,775
Excess (Deficiency) of Revenues Over Expenditures	1,502,993	79,636	219
OTHER FINANCING SOURCES (USES)			
Transfers out	(762,484)	-	-
NET CHANGE IN FUND BALANCES	740,509	79,636	219
Fund Balances - Beginning	4,649,668	274,668	15,119
Fund Balances - Ending	\$ 5,390,177	\$ 354,304	\$ 15,338

See accompanying note to supplementary information.

Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 8,621,083
11,548,571	-	-	11,548,571
813,561	-	800,599	5,570,849
795,544	3,289,567	191	4,210,621
<u>13,157,676</u>	<u>3,289,567</u>	<u>800,790</u>	<u>29,951,124</u>
-	-	-	8,344,755
-	-	-	445,447
-	-	-	71,709
-	-	-	665,103
13,183,701	-	-	13,287,541
-	-	-	215,459
612,978	353,460	-	1,760,305
103,991	74,337	-	658,391
-	717,008	-	717,008
<u>13,900,670</u>	<u>1,144,805</u>	<u>-</u>	<u>26,165,718</u>
<u>(742,994)</u>	<u>2,144,762</u>	<u>800,790</u>	<u>3,785,406</u>
-	-	(800,790)	(1,563,274)
(742,994)	2,144,762	-	2,222,132
8,521,876	16,216,672	-	29,678,003
<u>\$ 7,778,882</u>	<u>\$ 18,361,434</u>	<u>\$ -</u>	<u>\$ 31,900,135</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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-Cal Billing Option) funds that in the previous period were recorded as revenues but were unspent. These balances have been expended in the current year.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 30,927,818
Medi-Cal Billing Option	93.778	283,529
Total Schedule of Expenditures of Federal Awards		<u>\$ 31,211,347</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. Note: County Office of Education have met their target funding.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

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.

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INDEPENDENT AUDITOR'S REPORTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
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, 2018, 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 December 12, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palm Springs Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palm Springs Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Palm Springs Unified School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palm Springs Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
December 12, 2018



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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT 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 (the District) 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 major Federal programs for the year ended June 30, 2018. 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, 2018.

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
December 12, 2018



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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 (the District) compliance with the types of compliance requirements as identified in the *2017-2018 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, 2018.

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 *2017-2018 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

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, 2018.

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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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 an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

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 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 determination of funding for 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
December 12, 2018

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</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>84.010</u>	<u>Title I, Part A, Basic Grants Low Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A, Supporting Effective Instruction</u>
<u>93.778</u>	<u>Medi-Cal Assistance Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 936,340</u>
Auditee qualified as low-risk auditee?	<u>No</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, 2018**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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 meet 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.

Current Status

Implemented.