



**PALM SPRINGS UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and the budgetary comparison information and other postemployment benefits information on pages 55 and 56 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 Schedule of Expenditures of Federal Awards, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other information 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 Schedule of Expenditures of Federal Awards and other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other 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 9, 2013, on our consideration of the Palm Springs Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palm Springs Unified School District's internal control over financial reporting and compliance.

Vavrinok, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2013

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**980 EAST TAHQUITZ CANYON WAY
PALM SPRINGS, CALIFORNIA 92262-0119
(760) 416-6000**

CHRISTINE J. ANDERSON, Ed.D, Superintendent of Schools

BOARD OF EDUCATION: SHARI STEWART, *President* - GARY JEANDRON, *Clerk* - JUSTIN BLAKE, *Member* - RICHARD R. CLAPP, *Member* - KAREN CORNETT, *Member*

This section of Palm Springs Unified School District's (the District) (2012-2013) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013, with comparative information from June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$66,506,678 more than expenses.
- Total net position in governmental activities was recorded at \$391,972,451.
- The General Fund reported a positive fund balance of \$83,788,624.

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 liabilities, 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 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, 2013

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, 2013

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$392 million for the fiscal year ended June 30, 2013, an increase of \$66.5 million, or 20.4 percent over the prior year. Of this amount, \$38 million was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 229.1	\$ 204.6
Capital assets	521.1	482.4
Total Assets	<u>750.2</u>	<u>687.0</u>
Liabilities		
Current liabilities	25.3	18.1
Long-term obligations	332.9	343.5
Total Liabilities	<u>358.2</u>	<u>361.6</u>
Net Position		
Net investment in capital assets	262.9	191.2
Restricted	91.1	95.2
Unrestricted	38.0	39.1
Total Net Position	<u>\$ 392.0</u>	<u>\$ 325.5</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)

	Governmental Activities	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 2.1	\$ 1.4
Operating grants and contributions	58.8	60.4
Capital grants and contributions	66.3	33.8
General revenues:		
Federal and State aid	96.5	104.6
Property taxes	67.9	65.0
Other general revenues	5.6	5.2
Total Revenues	<u>297.2</u>	<u>270.4</u>
Expenses		
Instruction-related	155.4	157.9
Student support services	26.2	26.3
Administration	10.6	12.2
Maintenance and operations	23.0	23.1
Other	15.5	15.9
Total Expenses	<u>230.7</u>	<u>235.4</u>
Change in Net Position	<u>\$ 66.5</u>	<u>\$ 35.0</u>

Governmental Activities

As reported in the *Statement of Activities* on page 15, the net cost of all of our governmental activities this year was \$103.5 million, a decrease of \$36.3 million, or 26 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$67.9 million because the cost was paid by those who benefited from the programs (\$2.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$125.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$102.1 million in State funds and other revenues, like interest, and general entitlements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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

Table 3

(Amounts in millions)

	Total Net Cost of Services	
	2013	2012
Instruction-related	\$ 50.9	\$ 83.9
Student support services	7.2	7.6
Administration	8.6	10.9
Maintenance and operations	22.9	22.5
Other activities	13.9	14.9
Total	\$ 103.5	\$ 139.8

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$195.5 million, which is an increase of \$15.7 million from last year.

Table 4

	Balances and Activity			
	July 01, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 84,136,828	\$ 186,150,648	\$ 186,498,852	\$ 83,788,624
Building Fund	33,975,800	70,640,402	49,547,490	55,068,712
County School Facilities Fund	3,291,518	66,337,367	69,628,885	-
Bond Interest and Redemption Fund	29,254,761	20,752,148	25,893,854	24,113,055
Non-Major Governmental Funds	29,088,030	25,018,229	21,613,748	32,492,511
Total	\$ 179,746,937	\$ 368,898,794	\$ 353,182,829	\$ 195,462,902

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 September 10, 2013. (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 55.)

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$521.1 million in a broad range of capital assets, including land, construction in progress, land improvements, buildings and improvements, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$38.7 million, or 8 percent, over last year. Depreciation expense of \$11.1 million was allocated to governmental activities during 2013.

Table 5

(Amounts in millions)

	Governmental Activities	
	2013	2012
Land	\$ 86.5	\$ 86.5
Construction in progress	102.4	106.4
Land improvements	1.2	1.2
Buildings and improvements	328.7	285.1
Furniture and equipment	2.3	3.2
Total	\$ 521.1	\$ 482.4

This year's additions consist of the completion of the Service Center.

Long-Term Obligations

At the end of this year, the District had \$318.8 million in general obligation bonds outstanding including premium on issuance versus \$330.6 million last year, a decrease of \$11.8 million, or 3.6 percent. Capital leases of \$0.1 million, compensated absences of \$1.3, claims liability of \$9.6 million and \$3.1 million of net OPEB obligation are also included:

Table 6

(Amounts in millions)

	Governmental Activities	
	2013	2012
General obligation bonds	\$ 314.0	\$ 325.5
Premium on issuance	4.8	5.1
Capital leases	0.1	0.2
Compensated absences	1.3	1.3
Claims liability	9.6	9.6
Net OPEB obligation	3.1	1.8
Total	\$ 332.9	\$ 343.5

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2012-2013 ARE NOTED BELOW:

- Completed 98 percent of the Rancho Mirage High School construction phase.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District budget for the 2013-2014 year, the District Board and management used the following criteria:

The May Revised Budget proposed a new funding model, Local Control Funding Formula (LCFF), to allocate State aid. The Cost of Living Adjustments (COLA), 1.565 percent, only apply to selected categorical program that will continue out of the LCFF funding. These programs are:

- Special Education
 - Child Nutrition
 - After School Education and Safety (ASES)
 - Quality Education Investment Act (QEIA)
- Due to uncertainty of the state budget deliberations, the budget was developed using the revenue limit and State categorical programs under their current funding system. The revenue limit funding was calculated using a 1.565 percent COLA with a corresponding 18.997 percent deficit factor. 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 will receive allocations thru the EPA. These funds are not new revenues to the district. These funds are an offset to the state's revenue limit apportionment.
 - The categorical flexibility options approved by the State in fiscal year 2008-2009 remained the same for budget purposes. Thus, this budget includes flexibility transfers to general operating activity, and is projected through fiscal year 2013-2014. Thus, this budget also includes \$5,370,273 in flexibility transfers to general operating activity, and is projected through fiscal year 2012-2013.
 - The proposed budget is balanced and reflects a fund balance which exceeds the three percent State required reserve level. Due to the uncertainty of the current proposals and the education funding, the proposed budget is a placeholder to be revised once the State has adopted their budget.

Expenditures are based on the following forecast:

	<u>Staffing Ratio</u>	<u>Enrollment*</u>
Grades Kindergarten through five	29:1	10,170
Grades six through eight	30:1	5,316
Grades nine through twelve	29:1	7,090
Total		<u>22,576</u>

*Does not include Cielo Vista Charter School.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 Evelyn Hernandez, Director of Fiscal Services, at Palm Springs Unified School District, 980 E. Tahquitz Canyon Way, Suite 204, Palm Springs, California 92262.

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 195,698,217
Receivables	32,653,187
Stores inventories	303,550
Deferred charge on issuance	373,400
Capital assets	
Land and construction in process	188,922,096
Other capital assets	495,469,260
Less: Accumulated depreciation	<u>(163,255,926)</u>
Total Capital Assets	<u>521,135,430</u>
Total Assets	<u>750,163,784</u>
 LIABILITIES	
Accounts payable	17,068,506
Interest payable	5,888,934
Deferred revenue	261,304
Claims liabilities	2,035,000
Long-term obligations	
Current portion of long-term obligations	12,632,274
Noncurrent portion of long-term obligations	<u>320,305,315</u>
Total Long-Term Obligations	<u>332,937,589</u>
Total Liabilities	<u>358,191,333</u>
 NET POSITION	
Net investment in capital assets	262,894,443
Restricted for:	
Debt service	18,224,121
Capital projects	16,299,898
Educational programs	47,876,049
Other activities	8,656,140
Unrestricted	<u>38,021,800</u>
Total Net Position	<u>\$ 391,972,451</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, 2013**

Functions/Programs	Expenses	Charges for Services and Sales	Program Revenue Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 133,283,406	\$ 126,176	\$ 32,432,436
Instruction-related activities:			
Supervision of instruction	7,039,956	22,739	5,334,220
Instructional library, media, and technology	2,004,223	-	97,849
School site administration	13,036,842	7	102,678
Pupil services:			
Home-to-school transportation	3,342,011	-	2,021,556
Food services	12,684,743	767,022	12,027,499
All other pupil services	10,167,473	17,331	4,203,932
Administration:			
Data processing	2,608,498	2,692	2,508
All other administration	7,947,210	68,484	1,866,557
Plant services	22,984,208	25,290	106,990
Ancillary services	1,475,891	-	1,100
Interest on long-term obligations	14,066,781	-	-
Other outgo	6,942	1,063,461	558,464
Total Governmental Activities	\$ 230,648,184	\$ 2,093,202	\$ 58,755,789

General Revenues and Subventions:
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Taxes levied for other specific purposes
 Federal and State aid not restricted to specific purposes
 Interest and investment earnings
 Miscellaneous
Subtotal, General Revenues
Change in Net Position
 Net Position - Beginning
 Net Position - Ending

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u> <u>Governmental Activities</u>
\$ 66,337,367	\$ (34,387,427)
-	(1,682,997)
-	(1,906,374)
-	(12,934,157)
-	(1,320,455)
-	109,778
-	(5,946,210)
-	(2,603,298)
-	(6,012,169)
-	(22,851,928)
-	(1,474,791)
-	(14,066,781)
-	1,614,983
<u>\$ 66,337,367</u>	<u>(103,461,826)</u>

40,082,014
20,680,829
7,109,783
96,484,654
250,330
5,360,894
<u>169,968,504</u>
66,506,678
325,465,773
<u>\$ 391,972,451</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 65,374,990	\$ 60,326,482	\$ -
Receivables	27,864,481	715,758	334
Due from other funds	1,487,062	334	-
Stores inventories	120,218	-	-
Total Assets	\$ 94,846,751	\$ 61,042,574	\$ 334
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,606,923	\$ 5,940,871	\$ -
Due to other funds	217,959	32,991	334
Deferred revenue	233,245	-	-
Total Liabilities	11,058,127	5,973,862	334
Fund Balances:			
Nonspendable	220,218	-	-
Restricted	47,876,049	55,068,712	-
Committed	-	-	-
Assigned	5,504,918	-	-
Unassigned	30,187,439	-	-
Total Fund Balances	83,788,624	55,068,712	-
Total Liabilities and Fund Balances	\$ 94,846,751	\$ 61,042,574	\$ 334

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 24,113,055	\$ 29,946,915	\$ 179,761,442
-	4,052,642	32,633,215
-	189,722	1,677,118
-	183,332	303,550
<u>\$ 24,113,055</u>	<u>\$ 34,372,611</u>	<u>\$ 214,375,325</u>
\$ -	\$ 396,131	\$ 16,943,925
-	1,455,910	1,707,194
-	28,059	261,304
<u>-</u>	<u>1,880,100</u>	<u>18,912,423</u>
-	233,332	453,550
24,113,055	26,912,968	153,970,784
-	2,045,371	2,045,371
-	3,300,840	8,805,758
-	-	30,187,439
<u>24,113,055</u>	<u>32,492,511</u>	<u>195,462,902</u>
<u>\$ 24,113,055</u>	<u>\$ 34,372,611</u>	<u>\$ 214,375,325</u>

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds		\$ 195,462,902
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:	\$ 684,391,356	
Accumulated depreciation is:	<u>(163,255,926)</u>	
Net Capital Assets		521,135,430
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		373,400
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.		(5,888,934)
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.		4,194,593
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	313,993,479	
Premium on issuance	4,840,700	
Capital leases payable	106,690	
Compensated absences (vacations)	1,310,846	
Net OPEB obligation	<u>3,053,225</u>	
Total Long-Term Obligations		<u>(323,304,940)</u>
Total Net Position - Governmental Activities		<u>\$ 391,972,451</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>
REVENUES			
Revenue limit sources	\$ 115,368,490	\$ -	\$ -
Federal sources	16,508,745	-	-
Other State sources	32,488,068	-	66,318,571
Other local sources	21,382,757	244,219	18,796
Total Revenues	<u>185,748,060</u>	<u>244,219</u>	<u>66,337,367</u>
EXPENDITURES			
Current			
Instruction	117,501,255	-	-
Instruction-related activities:			
Supervision of instruction	6,574,866	-	-
Instructional library, media, and technology	1,940,694	-	-
School site administration	12,662,551	-	-
Pupil services:			
Home-to-school transportation	3,340,941	-	-
Food services	88,550	-	-
All other pupil services	10,048,564	-	-
Administration:			
Data processing	2,608,377	-	-
All other administration	5,915,708	-	-
Plant services	20,844,985	9,738	-
Facility acquisition and construction	600,195	49,520,632	-
Ancillary services	1,468,117	-	-
Other outgo	6,942	-	-
Debt service			
Principal	103,987	-	-
Interest and other	5,575	17,120	-
Total Expenditures	<u>183,711,307</u>	<u>49,547,490</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,036,753</u>	<u>(49,303,271)</u>	<u>66,337,367</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	402,588	70,396,183	-
Transfers out	(2,787,545)	-	(69,628,885)
Net Financing Sources (Uses)	<u>(2,384,957)</u>	<u>70,396,183</u>	<u>(69,628,885)</u>
NET CHANGE IN FUND BALANCES	(348,204)	21,092,912	(3,291,518)
Fund Balances - Beginning	84,136,828	33,975,800	3,291,518
Fund Balances - Ending	<u>\$ 83,788,624</u>	<u>\$ 55,068,712</u>	<u>\$ -</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 4,009,529	\$ 119,378,019
-	11,605,265	28,114,010
171,150	3,860,275	102,838,064
20,580,998	4,547,908	46,774,678
<u>20,752,148</u>	<u>24,022,977</u>	<u>297,104,771</u>
-	4,890,157	122,391,412
-	424,740	6,999,606
-	53,409	1,994,103
-	301,064	12,963,615
-	-	3,340,941
-	12,570,926	12,659,476
-	65,667	10,114,231
-	-	2,608,377
-	1,645,330	7,561,038
-	937,564	21,792,287
-	322,303	50,443,130
-	-	1,468,117
-	-	6,942
11,488,972	-	11,592,959
14,404,882	-	14,427,577
<u>25,893,854</u>	<u>21,211,160</u>	<u>280,363,811</u>
<u>(5,141,706)</u>	<u>2,811,817</u>	<u>16,740,960</u>
-	995,252	71,794,023
-	(402,588)	(72,819,018)
-	592,664	(1,024,995)
(5,141,706)	3,404,481	15,715,965
29,254,761	29,088,030	179,746,937
<u>\$ 24,113,055</u>	<u>\$ 32,492,511</u>	<u>\$ 195,462,902</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ 15,715,965**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 49,827,773	
Depreciation expense	(11,116,510)	
Net Expense Adjustment		38,711,263

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 more than the amounts earned by \$10,193.

10,193

In the Statement of Activities, Other Postemployment Benefits Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation was less than the ARC.

(1,294,155)

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	11,488,972
Capital lease obligations	103,987

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2013

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	\$ 242,035	
Cost of issuance for general obligation bonds	<u>(18,670)</u>	
Combined Adjustment		\$ 223,365

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus, requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

137,431

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net change in assets of the internal service fund is reported with governmental activities.

1,409,657

Change in Net Position of Governmental Activities

\$ 66,506,678

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Internal Service Fund			Total
	Workers' Compensation	Retiree Benefits	Property and Liability	
ASSETS				
Current Assets				
Deposits and investments	\$ 8,702,899	\$ 7,081,379	\$ 152,497	\$ 15,936,775
Receivables	6,396	13,152	424	19,972
Due from other funds	23,648	7,428	-	31,076
Total Current Assets	<u>8,732,943</u>	<u>7,101,959</u>	<u>152,921</u>	<u>15,987,823</u>
LIABILITIES				
Current Liabilities				
Accounts payable	112,148	163	12,270	124,581
Due to other funds	-	-	1,000	1,000
Claim liabilities	2,035,000	-	-	2,035,000
Total Current Liabilities	<u>2,147,148</u>	<u>163</u>	<u>13,270</u>	<u>2,160,581</u>
Noncurrent Liabilities				
Long-term claims liability	9,632,649	-	-	9,632,649
Total Liabilities	<u>11,779,797</u>	<u>163</u>	<u>13,270</u>	<u>11,793,230</u>
NET POSITION				
Restricted	(3,046,854)	7,101,796	139,651	4,194,593
Total Net Position	<u>\$ (3,046,854)</u>	<u>\$ 7,101,796</u>	<u>\$ 139,651</u>	<u>\$ 4,194,593</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Internal Service Fund			Total
	Workers' Compensation	Retiree Benefits	Property and Liability	
OPERATING REVENUES				
Charges to other funds	\$ 3,522,568	\$ 1,719,217	\$ 155,000	\$ 5,396,785
OPERATING EXPENSES				
Payroll costs	73,338	-	33,335	106,673
Professional and contract services	2,217,761	1,761,968	877,775	4,857,504
Supplies and materials	2,965	-	95,072	98,037
Total Operating Expenses	2,294,064	1,761,968	1,006,182	5,062,214
Operating Income/(Loss)	1,228,504	(42,751)	(851,182)	334,571
NONOPERATING REVENUES				
Interest income	25,697	23,876	518	50,091
Transfers in	-	34,680	990,315	1,024,995
Total Nonoperating Revenues	25,697	58,556	990,833	1,075,086
Change in Net Position	1,254,201	15,805	139,651	1,409,657
Total Net Position - Beginning	(4,301,055)	7,085,991	-	2,784,936
Total Net Position - Ending	\$ (3,046,854)	\$ 7,101,796	\$ 139,651	\$ 4,194,593

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Internal Service Fund Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 5,412,812
Cash payments to other suppliers of goods or services	(4,613,573)
Net Cash Provided by Operating Activities	<u>799,239</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	<u>1,024,995</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>48,498</u>
Net Increase in Cash and Cash Equivalents	1,872,732
Cash and Cash Equivalents - Beginning	14,064,043
Cash and Cash Equivalents - Ending	<u><u>\$ 15,936,775</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVEDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 334,571
Changes in Assets and Liabilities:	
Due from other funds	16,027
Accounts payable	7,363
Due to other funds	1,000
Claims liability	440,278
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 799,239</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 838,786
Inventory	<u>14,174</u>
Total Assets	<u><u>\$ 852,960</u></u>
 LIABILITIES	
Due to student groups	<u><u>\$ 852,960</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

As of June 25, 2013, the District had notified the Charter Schools Division that Charter School Father's Heart is revoked and will not be renewed as set forth by the facts in the February 25, 2013 notice of violation, and additional materials submitted to the Board during the April 23, 2013, board meeting. The charter failed to correct or remedy the violations. This Charter is not considered a component unit of the District.

Basis of Presentation - Fund Accounting

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in assets and fund balance and a decrease in revenues of \$12,603,242, \$12,603,242, and \$50,663, respectively.

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

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), or the 2004 State School Facilities Fund (Proposition 55) 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.).

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

Non-Major Governmental Funds

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

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.

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 asset use 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 net asset use.

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

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

Cash and Cash Equivalents

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Investments

Investments held at June 30, 2013, 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.

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 \$5,000. 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.

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, 2013

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.

Deferred 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Unassigned - all other spendable amounts. The District currently does not have any unassigned funds.

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 \$91,056,208 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, 2013

Estimates

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

Budgetary Data

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

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

Property Tax

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

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 195,698,217
Fiduciary funds	838,786
Total Deposits and Investments	<u>\$ 196,537,003</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 838,786
Cash in revolving	150,000
Investments	195,548,217
Total Deposits and Investments	<u>\$ 196,537,003</u>

Policies and Practices

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Riverside County Investment Pool.

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

Investment Type	Fair Value	Weighted- Average Days to Maturity
Riverside County Investment Pool	<u>\$ 152,763,318</u>	<u>515</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013</u>	<u>Fair Value</u>
Riverside County Investment Pool	Not Required	AAA/V1	<u>\$ 152,763,318</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, 2013, the District's bank balance was not exposed to custodial credit risk.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 2,647,129	\$ -	\$ -	\$ 2,179,061	\$ -	\$ 4,826,190
State Government						
Apportionment	14,505,178	-	-	731,627	-	15,236,805
Categorical aid	3,528,937	-	-	871,979	-	4,400,916
Lottery	1,758,522	-	-	60,485	-	1,819,007
SELPA Master plan	3,816,030	-	-	-	-	3,816,030
Local Government						
Interest	43,819	49,514	334	21,769	11,886	127,322
Other Local Sources	1,564,866	666,244	-	187,721	8,086	2,426,917
Total	<u>\$27,864,481</u>	<u>\$ 715,758</u>	<u>\$ 334</u>	<u>\$ 4,052,642</u>	<u>\$ 19,972</u>	<u>\$ 32,653,187</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 86,510,439	\$ -	\$ -	\$ 86,510,439
Construction in progress	106,363,516	49,155,504	53,107,363	102,411,657
Total Capital Assets Not Being Depreciated	<u>192,873,955</u>	<u>49,155,504</u>	<u>53,107,363</u>	<u>188,922,096</u>
Capital Assets Being Depreciated				
Land improvements	1,362,658	-	-	1,362,658
Buildings and improvements	423,987,350	53,107,363	-	477,094,713
Furniture and equipment	16,339,620	672,269	-	17,011,889
Total Capital Assets Being Depreciated	<u>441,689,628</u>	<u>53,779,632</u>	<u>-</u>	<u>495,469,260</u>
Less Accumulated Depreciation				
Land improvements	156,014	27,253	-	183,267
Buildings and improvements	138,878,683	9,478,397	-	148,357,080
Furniture and equipment	13,104,719	1,610,860	-	14,715,579
Total Accumulated Depreciation	<u>152,139,416</u>	<u>11,116,510</u>	<u>-</u>	<u>163,255,926</u>
Capital Assets, Net	<u>\$ 482,424,167</u>	<u>\$ 91,818,626</u>	<u>\$ 53,107,363</u>	<u>\$ 521,135,430</u>

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 10,262,161
All other general administration	343,213
Plant services	511,136
Total Depreciation Expenses	<u>\$ 11,116,510</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - 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, 2013, between major and non-major governmental funds and the Internal Service Fund, are as follows:

Due To	Due From					Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 32,991	\$ -	\$ 1,453,071	\$ 1,000	\$ 1,487,062
Building Fund	-	-	334	-	-	334
Non-Major Governmental Funds	189,695	-	-	27	-	189,722
Internal Service Fund	28,264	-	-	2,812	-	31,076
Total	<u>\$ 217,959</u>	<u>\$ 32,991</u>	<u>\$ 334</u>	<u>\$ 1,455,910</u>	<u>\$ 1,000</u>	<u>\$ 1,708,194</u>

- A balance of \$163,611 is due to the Charter School Non-Major Governmental Fund from the General Fund for In Lieu of Property Taxes pass through monies and to cover indirect costs.
- The balance of \$260,506 is due to the General Fund from the Charter School Non-Major Governmental Fund for Special Education pro-rata share and to cover costs.
- A balance of \$100,092 is due to the General Fund from the Adult Education Non-Major Governmental Fund for a temporary loan to cover costs.
- A balance of \$760,044 is due to the General Fund from the Child Development Non-Major Governmental Fund for a temporary loan and indirect costs.
- A balance of \$78,573 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.
- A balance of \$92,010 is due to the General Fund from the Capital Facilities Non-Major Governmental Fund to cover 3 percent admin costs.
- A balance of \$161,846 is due to the General Fund from the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for email upgrades, generator replacements, and payroll costs.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 402,588	\$ 402,588
Building Fund	767,298	69,628,885		70,396,183
Non-Major Governmental Funds	995,252	-	-	995,252
Internal Service Fund	1,024,995	-	-	1,024,995
Total	<u>\$ 2,787,545</u>	<u>\$ 69,628,885</u>	<u>\$ 402,588</u>	<u>\$ 72,819,018</u>

The General Fund transferred to the Charter School Non-Major Governmental Fund for their share of Title I Funds.	\$ 119,620
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for matching.	875,457
The General Fund transferred to the Building Fund for capital projects reimbursement.	767,298
The General Fund transferred to the Child Development Non-Major Governmental Fund for cash flow purposes.	175
The Charter School Non-Major Governmental Fund transferred to the General Fund for their Special Education encroachment pro-rata share.	151,243
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for three percent revenue.	92,010
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund as a contribution to the project paid from the General Fund.	159,335
The General Fund transferred to the Self-Insurance Internal Service Fund for retiree benefits.	1,024,995
The County School Facilities Fund transferred to the Building Fund for capital projects reimbursement.	<u>69,628,885</u>
Total	<u>\$ 72,819,018</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, 2013**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 2,667,076	\$ 2,428,114	\$ 279,083	\$ 124,581	\$ 5,498,854
State apportionment	7,413,302	-	59,556	-	7,472,858
Salaries and benefits	526,545	-	57,492	-	584,037
Construction	-	3,512,757	-	-	3,512,757
Total	<u>\$ 10,606,923</u>	<u>\$ 5,940,871</u>	<u>\$ 396,131</u>	<u>\$ 124,581</u>	<u>\$ 17,068,506</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 148,102	\$ 1,096	\$ 149,198
State categorical aid	83,798	-	83,798
Other local	1,345	26,963	28,308
Total	<u>\$ 233,245</u>	<u>\$ 28,059</u>	<u>\$ 261,304</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation bonds	\$ 325,482,451	\$ -	\$ 11,488,972	\$ 313,993,479	\$ 12,525,584
Premium on issuance	5,082,735	-	242,035	4,840,700	-
Capital leases	210,677	-	103,987	106,690	106,690
Compensated absences	1,321,039	-	10,193	1,310,846	-
Claims liability	9,630,371	2,278	-	9,632,649	-
OPEB obligation	1,759,070	2,920,072	1,625,917	3,053,225	-
	<u>\$ 343,486,343</u>	<u>\$ 2,922,350</u>	<u>\$ 13,471,104</u>	<u>\$ 332,937,589</u>	<u>\$ 12,632,274</u>

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

Payments for capital leases are made in the General Fund.

Payments for accumulated vacation are typically paid by the fund for which the employee worked.

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

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2013
				Bonds Outstanding July 1, 2012	Issued	Redeemed	
10/29/04	08/01/33	1.80-4.65%	\$ 12,500,000	\$ 10,990,000	\$ -	\$ 290,000	\$ 10,700,000
11/03/05	02/01/23	2.70-4.38%	17,300,000	11,835,000	-	915,000	10,920,000
06/14/06	02/01/36	3.63-4.67%	80,000,000	72,775,000	-	1,760,000	71,015,000
10/23/07	08/01/36	3.40-4.62%	42,000,000	39,895,000	-	780,000	39,115,000
06/15/10	02/01/26	4.37%	19,539,035	17,357,451	-	933,972	16,423,479
01/12/10	08/01/33	2.00-5.00%	110,000,000	99,500,000	-	2,655,000	96,845,000
06/08/11	08/01/32	0.40-5.00%	75,105,000	73,130,000	-	4,155,000	68,975,000
				<u>\$ 325,482,451</u>	<u>\$ -</u>	<u>\$ 11,488,972</u>	<u>\$ 313,993,479</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Debt Service Requirements to Maturity

The bonds mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2014	\$ 12,525,584	\$ 14,050,164	\$ 26,575,748
2015	11,508,677	13,677,974	25,186,651
2016	12,093,511	13,258,232	25,351,743
2017	12,555,186	12,766,062	25,321,248
2018	13,463,562	12,249,122	25,712,684
2019-2023	64,449,611	52,434,333	116,883,944
2024-2028	66,782,348	37,415,924	104,198,272
2029-2033	85,575,000	19,022,098	104,597,098
2034-2037	35,040,000	2,207,640	37,247,640
Total	<u>\$ 313,993,479</u>	<u>\$ 177,081,549</u>	<u>\$ 491,075,028</u>

Capital Lease Summary

Balance, July 1, 2012	<u>\$ 219,124</u>
Payments	<u>109,562</u>
Balance, June 30, 2013	<u>\$ 109,562</u>

Capital Lease Payments

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2014	\$ 109,562
Less: Amount Representing Interest	2,872
Present Value of Minimum Lease Payments	<u>\$ 106,690</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$1,310,846.

Claims Liability

The District has an outstanding long-term liability for incurred but not reported claims for the District's workers' compensation insurance program in the amount of \$9,632,649 at June 30, 2013.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$2,832,118, and contributions made by the District during the year were \$1,544,005. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$87,954 and \$(81,912), respectively, which resulted in an increase to the net OPEB obligation of \$1,294,155. As of June 30, 2013, the net OPEB obligation was \$3,053,225. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund
Nonspendable			
Revolving cash	\$ 100,000	\$ -	\$ -
Stores inventories	120,218	-	-
Total Nonspendable	<u>220,218</u>	<u>-</u>	<u>-</u>
Restricted			
Legally restricted programs	47,876,049	-	-
Capital projects	-	55,068,712	-
Debt services	-	-	24,113,055
Total Restricted	<u>47,876,049</u>	<u>55,068,712</u>	<u>24,113,055</u>
Committed			
Adult education program	-	-	-
Deferred maintenance program	-	-	-
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>
Assigned			
MAA	1,381,459	-	-
Unrestricted carryover	3,910,589	-	-
Carryover	212,870	-	-
Other assignments	-	-	-
Total Assigned	<u>5,504,918</u>	<u>-</u>	<u>-</u>
Unassigned			
Economic uncertainties	18,058,832	-	-
Remaining unassigned	12,128,607	-	-
Total Unassigned	<u>30,187,439</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 83,788,624</u>	<u>\$ 55,068,712</u>	<u>\$ 24,113,055</u>

Non-Major Governmental Funds	Total
\$ 50,000	\$ 150,000
183,332	303,550
<u>233,332</u>	<u>453,550</u>
8,656,140	56,532,189
18,256,828	73,325,540
-	24,113,055
<u>26,912,968</u>	<u>153,970,784</u>
41,428	41,428
<u>2,003,943</u>	<u>2,003,943</u>
<u>2,045,371</u>	<u>2,045,371</u>
-	1,381,459
-	3,910,589
-	212,870
<u>3,300,840</u>	<u>3,300,840</u>
<u>3,300,840</u>	<u>8,805,758</u>
-	18,058,832
-	12,128,607
-	30,187,439
<u>\$ 32,492,511</u>	<u>\$ 195,462,902</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Palm Springs Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and dependents. Membership of the Plan consists of 135 retirees and beneficiaries currently receiving benefits, and 1,807 active Plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Palm Springs Teachers Association (PSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2012-2013, the District contributed \$1,544,005 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 2,832,118
Interest on net OPEB obligation	87,954
Adjustment to annual required contribution	<u>(81,912)</u>
Annual OPEB cost (expense)	2,838,160
Contributions made	<u>(1,544,005)</u>
Increase in net OPEB obligation	1,294,155
Net OPEB obligation, beginning of year	<u>1,759,070</u>
Net OPEB obligation, end of year	<u><u>\$ 3,053,225</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Trend Information

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

Year Ended June 30,	Annual OPEB Costs	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2011	\$ 1,333,808	\$ 1,370,094	103%	\$ 444,763
2012	2,833,645	1,519,338	54%	1,759,070
2013	2,838,160	1,544,005	54%	3,053,225

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 1, 2011	\$ -	\$ 24,280,898	\$ 24,280,898	0%	\$ 116,269,588	21%

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

Actuarial Methods and Assumptions

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

On the June 1, 2011 actuarial valuation, the entry-age normal actuarial cost method was used. The actuarial assumptions included a five percent investment rate of return, based on assumed long-term return on plan assets or employer assets, as appropriate. Healthcare cost trend rates were assumed at an ultimate rate of four percent based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. The level percentage payroll method was used to allocate amortization cost by year.

NOTE 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, 2012 to June 30, 2013:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2011	\$ 3,606,577
Claims and changes in estimates	9,354,085
Claims payments	<u>(1,733,291)</u>
Liability Balance, June 30, 2012	11,227,371
Claims and changes in estimates	2,658,039
Claims payments	<u>(2,217,761)</u>
Liability Balance, June 30, 2013	<u>\$ 11,667,649</u>
Assets available to pay claims at June 30, 2013	<u>\$ 8,732,943</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$7,025,268, \$7,041,192, and \$7,152,514, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$4,237,300, \$4,060,413, and \$4,072,521, respectively, and equal 100 percent of the required contributions for each year.

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 \$4,645,851 (5.176 percent of the 2010-11 creditable compensation subject to STRS). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 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, 2013.

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, 2013.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

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

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

During the year ended June 30, 2013, the District made payments of \$786,003 and \$25,654,309, to So Cal ReLiEF and REEP, respectively, for health and property and liability coverage.

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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, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final to Actual
REVENUES				
Revenue limit sources	\$ 114,841,305	\$ 115,363,479	\$ 115,368,490	\$ 5,011
Federal sources	14,833,302	18,376,121	16,508,745	(1,867,376)
Other State sources	24,800,418	27,552,348	32,488,068	4,935,720
Other local sources	1,938,484	20,765,848	21,382,757	616,909
Total Revenues ¹	156,413,509	182,057,796	185,748,060	3,690,264
EXPENDITURES				
Current				
Certificated salaries	84,750,231	84,552,749	83,722,331	830,418
Classified salaries	25,876,713	26,081,820	25,709,008	372,812
Employee benefits	42,057,675	42,111,603	46,326,120	(4,214,517)
Books and supplies	6,633,279	13,448,816	6,687,230	6,761,586
Services and operating expenditures	21,978,989	23,946,892	21,299,373	2,647,519
Capital outlay	1,343,440	2,240,279	722,136	1,518,143
Other outgo	(860,938)	(858,201)	(864,453)	6,252
Debt Service				
Principal	103,987	103,987	103,987	-
Interest	5,576	5,576	5,575	1
Total Expenditures ¹	181,888,952	191,633,521	183,711,307	7,922,214
Excess (Deficiency) of Revenues Over Expenditures	(25,475,443)	(9,575,725)	2,036,753	11,612,478
OTHER FINANCING SOURCES (USES)				
Transfers in	1,720,000	1,982,381	402,588	(1,579,793)
Transfers out	(2,047,281)	(2,930,330)	(2,787,545)	142,785
Net Financing Sources (Uses)	(327,281)	(947,949)	(2,384,957)	(1,437,008)
NET CHANGE IN FUND BALANCE	(25,802,724)	(10,523,674)	(348,204)	10,175,470
Fund Balance - Beginning	84,136,828	84,136,828	84,136,828	-
Fund Balance - Ending	\$ 58,334,104	\$ 73,613,154	\$ 83,788,624	\$ 10,175,470

¹ On behalf payments of \$4,645,851 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund is included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 1, 2008	\$ -	\$ 16,672,766	\$ 16,672,766	0%	\$ 118,937,191	14%
June 1, 2011	-	24,280,898	24,280,898	0%	116,269,588	21%

The District has placed \$7,101,796 in the Internal Service Fund as being expressly for the purpose of funding the future liability associated with the District's OPEB obligation. This designation is not allowed to be included in the actuarial value of assets noted above. If this amount had been placed into a restricted irrevocable trust in accordance with GASB Statement No. 43 guidelines, as of year-end, the calculation of the actuarial value of assets would have been \$7,101,796. The unfunded AAL would have been \$17,179,102. The funded ratio would have been 29 percent, and the UAAL as a percentage of covered payroll, would have been 15 percent, accordingly.

SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education - Adult Basic Education & ESL	84.002A	14508	\$ 31,282
Adult Basic Education - Adult Secondary	84.002	13978	7,133
Adult Basic Education - English Literacy and Civics Education	84.002A	14109	<u>25,007</u>
Total Adult Education - Basic Grants to States Cluster			<u>63,422</u>
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	231,723
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,146,053
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	6,888
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	75,166
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	169,748
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	406,382
Preschool Staff Development, Part B, Section 619	84.173A	13431	<u>644</u>
Total Special Education (IDEA) Cluster			<u>3,804,881</u>
Early Intervention Grants, Part C			
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low-Income and Neglected - Reallocation Funds	84.010	14981	7,396,940
Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	757
Education Jobs Fund	84.410	25152	2,065
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	12,469
Title II, Part A Cluster			
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	1,170,583
Title II, Part A, Administrator Training (Formerly Principal Training)	84.367	14344	<u>6,062</u>
Total Title II, Part A Cluster			<u>1,176,645</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (continued)			
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	\$ 2,464
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	797,998
Title V, Part A - Innovative Education Strategies	84.298A	14354	65,472
Total U.S. Department of Education			<u>13,554,836</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	6,555
Passed through California Department of Education (CDE):			
Child Nutrition Cluster			
Especially Needy Breakfast	10.553	13526	2,448,584
National School Lunch Program	10.555	13524	7,332,224
Meal Supplement	10.555	13396	116,093
Summer Food Service Program Operations	10.559	13004	132,732
Summer Food Service Sponsor Admin	10.559	13006	13,899
Food Distribution	10.555	13524	665,411
Total Child Nutrition Cluster			<u>10,708,943</u>
Centers and Family Day Care	10.558	13393	832,900
Network Grants	[1]	[2]	221,581
Total U.S. Department of Agriculture			<u>11,769,979</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps - Air Force	12.000	[2]	156,175
Total U.S. Department of Defense			<u>156,175</u>

[1] CFDA Number not available

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	\$ 535,437
Medical Administrative Activities Program	93.778	10060	868,208
Total Medicaid Cluster			<u>1,403,645</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	<u>1,681,015</u>
Total U.S. Department of Health and Human Services			<u>3,084,660</u>
Total Federal Programs			<u><u>\$ 28,565,650</u></u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

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>
Shari Stewart	President	2014
Gary Jeandron	Clerk	2014
Justin Blake	Member	2014
Karen Cornett	Member	2016
Richard Clapp	Member	2016

ADMINISTRATION

Christine Anderson, Ed.D.	Superintendent
Lisa Howell	Assistant Superintendent, Business Services
Mike Swize	Assistant Superintendent, Educational Services
Mauricio Arellano	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,551	1,553
First through third	4,778	4,784
Fourth through sixth	4,668	4,667
Seventh and eighth	3,255	3,238
Opportunity schools	8	11
Home and hospital	3	3
Special education	419	429
Total Elementary	<u>14,682</u>	<u>14,685</u>
SECONDARY		
Regular classes	5,951	5,837
Continuation education	371	350
Opportunity schools	48	52
Home and hospital	7	8
Special education	263	260
Total Secondary	<u>6,640</u>	<u>6,507</u>
Total K-12	<u>21,322</u>	<u>21,192</u>
CIELO VISTA CHARTER SCHOOL		
Kindergarten	146	145
First through third	330	328
Fourth through sixth	285	284
Total	<u>761</u>	<u>757</u>
CIELO VISTA CHARTER SCHOOL - Classroom Based Instruction		
Kindergarten	146	145
First through third	328	327
Fourth through sixth	284	282
Total	<u>758</u>	<u>754</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013**

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	36,000	180	175	Complied
Grades 1 - 3	49,280	47,911	50,400	49,000				
Grade 1					52,000	180	175	Complied
Grade 2					52,000	180	175	Complied
Grade 3					52,000	180	175	Complied
Grades 4 - 6	49,280	47,911	54,000	52,500				
Grade 4					54,000	180	175	Complied
Grade 5					54,000	180	175	Complied
Grade 6					57,766	180		Complied
Grades 7 - 8	49,280	47,911	54,000	52,500				
Grade 7					57,766	180	N/A	Complied
Grade 8					57,766	180	N/A	Complied
Grades 9 - 12	64,218	62,434	64,800	63,000				
Grade 9					64,840	180	N/A	Complied
Grade 10					64,840	180	N/A	Complied
Grade 11					64,840	180	N/A	Complied
Grade 12					64,840	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	57,730	180	N/A	Complied
Grades 1 - 3	49,280	47,911	50,400	49,000				
Grade 1					57,730	180	N/A	Complied
Grade 2					57,730	180	N/A	Complied
Grade 3					57,730	180	N/A	Complied
Grades 4 - 5	49,280	47,911	54,000	52,500				
Grade 4					59,070	180	N/A	Complied
Grade 5					59,070	180	N/A	Complied
Grade 6					59,070	180	N/A	Complied

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY OF THE PROPOSITION 10 GRANT
FOR THE YEAR ENDED JUNE 30, 2013**

	Proposition 10 Agreement Number	
	7014 LS-11	13316-AQ
	July 1, 2012 -	July 1, 2012 -
	June 30, 2013	June 30, 2013
REVENUES		
State categorical aid	\$ 187,294	\$ 38,122
EXPENDITURES		
Personnel and benefits	\$ 180,908	\$ 37,039
Operating expenditures	6,386	1,083
	\$ 187,294	\$ 38,122

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, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND ⁵				
Revenues	\$ 182,349,136	\$ 185,697,397	\$ 189,546,989	\$ 184,366,839
Other sources and transfers in	3,944,500	402,588	2,238,156	743,513
Total Revenues and Other Sources	186,293,636	186,099,985	191,785,145	185,110,352
Expenditures	198,292,225	183,711,307	182,317,627	180,838,726
Other uses and transfers out	1,962,490	2,794,487	1,139,845	1,701,938
Total Expenditures and Other Uses	200,254,715	186,505,794	183,457,472	182,540,664
INCREASE (DECREASE) IN FUND BALANCE	\$ (13,961,079)	\$ (405,809)	\$ 8,327,673	\$ 2,569,688
ENDING FUND BALANCE	\$ 55,660,877	\$ 69,621,956	\$ 70,027,765	\$ 61,700,092
AVAILABLE RESERVES ²	\$ 25,752,508	\$ 30,187,439	\$ 19,456,834	\$ 21,911,390
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	12.9%	16.6%	10.9%	12.3%
LONG-TERM OBLIGATIONS	N/A	\$332,937,589	\$ 343,486,343	\$ 348,594,046
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	21,332	21,322	21,471	21,445

The General Fund balance has increased by \$7,921,864 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$13,961,079 (20.05 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have decreased by \$15,656,457 over the past two years.

Average daily attendance has decreased by 123 over the past two years. Growth of 10 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 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.

³ On behalf payments of \$4,645,851, \$4,639,498, and \$3,830,316, has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011, respectively.

⁴ Excludes Charter School ADA.

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

See accompanying note to supplementary information.

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Cielo Vista Charter School	Yes
Father's Heart Charter School	No

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 1,671,682	\$ 116,919	\$ 624,303	\$ 3,789,660
Receivables	1,285,266	24,603	242,604	2,324,275
Due from other funds	163,638	-	10,523	15,561
Stores inventories	-	-	-	183,332
Total Assets	\$ 3,120,586	\$ 141,522	\$ 877,430	\$ 6,312,828
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 103,954	\$ 2	\$ 77,434	\$ 109,963
Due to other funds	260,607	100,092	762,069	79,286
Deferred revenue	-	-	28,059	-
Total Liabilities	364,561	100,094	867,562	189,249
Fund Balances:				
Nonspendable	50,000	-	-	183,332
Restricted	2,706,025	-	9,868	5,940,247
Committed	-	41,428	-	-
Assigned	-	-	-	-
Total Fund Balances	2,756,025	41,428	9,868	6,123,579
Total Liabilities and Fund Balances	\$ 3,120,586	\$ 141,522	\$ 877,430	\$ 6,312,828

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ 2,021,704	\$ 18,284,805	\$ 3,437,842	\$ 29,946,915
1,058	114,406	60,430	4,052,642
-	-	-	189,722
-	-	-	183,332
<u>\$ 2,022,762</u>	<u>\$ 18,399,211</u>	<u>\$ 3,498,272</u>	<u>\$ 34,372,611</u>
\$ 18,819	\$ 50,373	\$ 35,586	\$ 396,131
-	92,010	161,846	1,455,910
-	-	-	28,059
<u>18,819</u>	<u>142,383</u>	<u>197,432</u>	<u>1,880,100</u>
-	-	-	233,332
-	18,256,828	-	26,912,968
2,003,943	-	-	2,045,371
-	-	3,300,840	3,300,840
<u>2,003,943</u>	<u>18,256,828</u>	<u>3,300,840</u>	<u>32,492,511</u>
<u>\$ 2,022,762</u>	<u>\$ 18,399,211</u>	<u>\$ 3,498,272</u>	<u>\$ 34,372,611</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, 2013**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 4,009,529	\$ -	\$ -	\$ -
Federal sources	-	63,422	-	11,541,843
Other State sources	1,017,091	976	2,000,911	841,297
Other local sources	49,594	17,616	42,434	991,186
Total Revenues	<u>5,076,214</u>	<u>82,014</u>	<u>2,043,345</u>	<u>13,374,326</u>
EXPENDITURES				
Current				
Instruction	3,147,232	67,722	1,675,203	-
Instruction-related activities:				
Supervision of instruction	136,792	-	287,948	-
Instructional library, media and technology	53,409	-	-	-
School site administration	289,960	11,104	-	-
Pupil services:				
Food services	-	-	2,802	12,568,124
All other pupil services	54,520	-	11,147	-
Administration:				
All other administration	328,466	-	24,966	517,963
Plant services	250,452	-	31,586	8,358
Facility acquisition and construction	-	-	-	-
Total Expenditures	<u>4,260,831</u>	<u>78,826</u>	<u>2,033,652</u>	<u>13,094,445</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>815,383</u>	<u>3,188</u>	<u>9,693</u>	<u>279,881</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	119,620	-	175	-
Transfers out	(151,243)	-	-	-
Net Financing Sources (Uses)	<u>(31,623)</u>	<u>-</u>	<u>175</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	783,760	3,188	9,868	279,881
Fund Balances - Beginning	1,972,265	38,240	-	5,843,698
Fund Balances - Ending	<u>\$ 2,756,025</u>	<u>\$ 41,428</u>	<u>\$ 9,868</u>	<u>\$ 6,123,579</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 4,009,529
-	-	-	11,605,265
-	-	-	3,860,275
2,792	3,125,776	318,510	4,547,908
<u>2,792</u>	<u>3,125,776</u>	<u>318,510</u>	<u>24,022,977</u>
-	-	-	4,890,157
-	-	-	424,740
-	-	-	53,409
-	-	-	301,064
-	-	-	12,570,926
-	-	-	65,667
-	773,935	-	1,645,330
277,283	356,742	13,143	937,564
193,078	56,687	72,538	322,303
<u>470,361</u>	<u>1,187,364</u>	<u>85,681</u>	<u>21,211,160</u>
(467,569)	1,938,412	232,829	2,811,817
875,457	-	-	995,252
-	(92,010)	(159,335)	(402,588)
<u>875,457</u>	<u>(92,010)</u>	<u>(159,335)</u>	<u>592,664</u>
407,888	1,846,402	73,494	3,404,481
1,596,055	16,410,426	3,227,346	29,088,030
<u>\$ 2,003,943</u>	<u>\$ 18,256,828</u>	<u>\$ 3,300,840</u>	<u>\$ 32,492,511</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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 Administrative Activities Program funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2013. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 28,114,010
Medi-Cal Billing Option	93.778	(81,233)
Medi-Cal Administrative Activities Program	93.778	532,873
Total Schedule of Expenditures of Federal Awards		<u>\$ 28,565,650</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. 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

Summary of Proposition 10 Grants

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

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 AUDITORS' REPORTS

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

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, 2013, 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 9, 2013.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies; as item 2013-1.

Compliance and Other Matters

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

Palm Springs Unified School District's Response to Findings

Palm Springs Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs; as item 2013-1. Palm Springs Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Vavriak, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Palm Springs Unified School District
Palm Springs, California

Report on Compliance for Each Major Federal Program

We have audited Palm Springs Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Palm Springs Unified School District's (the District) major Federal programs for the year ended June 30, 2013. 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 requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palm Springs Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Palm Springs Unified School District
Palm Springs, California

Report on State Compliance

We have audited Palm Springs Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* 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, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. 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 opinion. Our audit does not provide a legal determination of Palm Springs Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Palm Springs Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Yes
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes

We did not perform procedures specific to the work experience program related to continuation, as the District does not operate this program.

Vavrinok, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major 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 - Reallocation Funds</u>
<u>93.600</u>	<u>Head Start</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 856,970</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' 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, 2013

The following findings represent significant deficiencies, and/or instances of noncompliance 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

2013-1 30000 – Fiscal Condition (Negative Net Position – Internal Service Fund Workers' Compensation)

Significant Deficiency

Criteria or Specific Requirements

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for timely reporting of financial information to management and those charged with governance.

Condition

The District has established an Internal Service Fund to account for workers' compensation expenses and related costs associated with District employees. At June 30, 2013, the Internal Service Workers' Compensation Fund has a deficit net assets balance in the amount of \$ 3,046,854. The financial statement impact of this situation is that the Internal Service Workers' Compensation Fund is operating on a cash basis whereby the cash received from the other funds are enough to cover its current cash outflows.

Questioned costs

There were no questioned costs associated with the condition found.

Context

The conditions identified were determined through review of the District Internal Service Fund financial statements, fund balance and current year activity related to the workers' compensation account.

Effect

There currently is no direct effect on the District other than the reporting of a negative net position within the worker's compensation. The Internal Service Fund is operating on a cash basis whereby the cash received from the other funds are enough to cover its current cash outflows.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Cause

The District until the 2011-2012 fiscal year had not previously recognized the entire amount associated with the District's actuarially determined liability related to its workers' compensation.

Recommendation

The District must continue to evaluate its ability to fund its workers' compensation program on an accrual basis within a reasonable period. Accordingly, the District's premium contribution should continue to increase.

Corrective Action Plan

The District requested a special review of the claims and activities that resulted in the increased liability reported in the actuarial report completed in 2011-2012. Additionally, the premium contribution has been increased to 4.25 percent of payroll and will be adjusted accordingly, based upon actual fund activity. After a careful review of the claims activity, staff believes the projected increase in liability was the direct result of the change in reporting process. Another actuarial study will be completed next year and is projected to result in a dramatic decrease in the estimated liability. This decrease in liability will result a corresponding decrease to expenditures for the fund each year. The current deficit net asset balance of \$3,046,854 is expected to be nearly eliminated by the end of 2013-2014.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

2012-1 30000

Significant Deficiency

Finding

The District has established an Internal Service Fund to account for workers' compensation expenses and related costs associated with District employees. At June 30, 2012, the Internal Service Fund has a deficit net assets balance in the amount of \$4,301,055. The financial statement impact of this situation is that the Internal Service Fund is operating on a cash basis whereby the cash received from the other funds are enough to cover its current cash outflows. The District has not previously recognized the entire amount associated with the District's actuarially determined liability related to its workers' compensation.

The District requested a special review of the claims and activities that resulted in the increased liability reported in the actuarial report completed in 2011-2012. Additionally, the premium contribution has been increased to 3 percent of payroll and will be adjusted accordingly, based upon actual fund activity. After a careful review of the claims activity, staff believes the projected increase in liability was the direct result of the change in reporting process. Another actuarial study will be completed next year and is projected to result in a dramatic decrease in the estimated liability. This decrease in liability will result a corresponding decrease to expenditures for the fund each year. The current deficit net asset balance of \$4,301,055 is expected to be eliminated by the end of 2013-2014.

Recommendation

The District must continue to evaluate its ability to fund its workers' compensation program on an accrual basis within a reasonable period. Accordingly, the District's premium contribution should continue to increase.

Current Status

Not implemented; see current year finding 2013-1.