

PALM SPRINGS UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2007



PALM SPRINGS UNIFIED SCHOOL DISTRICT

OF RIVERSIDE COUNTY

PALM SPRINGS, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Meredy Shoenberger	President	2010
Shari Stewart	Clerk	2008
Donald T. Aikens	Member	2008
Justin Blake	Member	2010
Gary Jeandron	Member	2010

ADMINISTRATION

Lorri S. McCune, Ed.D.	Superintendent
James Novak	Assistant Superintendent, Business Services
Lorraine Becker, Ed.D.	Assistant Superintendent, Innovation Resources and Educational Development
Christine Anderson, Ed.D.	Assistant Superintendent, Educational Services (Effective August 2007)
Mauricio Arellano	Assistant Superintendent, Human Resources
Craig Borba, Ed.D.	Assistant Superintendent, Pupil Personnel Services



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

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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; 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 Educational Agencies 2006-07* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2007, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on pages 46 and 47, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vannuk, Tri, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2007



PALM SPRINGS UNIFIED SCHOOL DISTRICT

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PALM SPRINGS, CALIFORNIA 92262-0119
(760) 416-6000
FAX (760) 416-6015

LORRI S. McCUNE, Ed.D., Superintendent of Schools

BOARD OF EDUCATION: MEREDY SHOENBERGER, *President* — SHARI STEWART, *Clerk*
DONALD T. AIKENS, *Member* — JUSTIN BLAKE, *Member* — GARY JEANDRON, *Member*

This section of Palm Springs Unified School District's (2006-07) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007, with comparative information from June 30, 2006. 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 agency funds, which only report a balance sheet and do not have a measurement focus.

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, 2007

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$52 million more than expenses.
- Total net assets in governmental activities were recorded at \$250,984,419.
- The General Fund reported a positive fund balance of \$41,753,689.
- Purchase of land for new High School in Rancho Mirage.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* 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 assets* and changes in them. Net assets are 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 assets 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 Assets* 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, 2007

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 separate *Statement of Fiduciary Net Assets*. 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, 2007

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$251.0 million for the fiscal year ended June 30, 2007, an increase of \$52 million, or 26.1% over the prior year. Of this amount, \$37.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 196.8	\$ 189.2
Capital assets	293.9	234.8
Total Assets	<u>490.7</u>	<u>424.0</u>
Liabilities		
Current liabilities	36.7	17.7
Long-term obligations	203.0	207.3
Total Liabilities	<u>239.7</u>	<u>225.0</u>
Net Assets		
Invested in capital assets, net of related debt	145.7	28.2
Restricted	67.9	143.4
Unrestricted	37.4	27.4
Total Net Assets	<u>\$ 251.0</u>	<u>\$ 199.0</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. 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)

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 2.4	\$ 2.9
Operating grants and contributions	62.7	52.5
Capital grants and contributions	2.3	6.0
General revenues:		
Unrestricted	109.7	90.5
Property taxes	52.4	50.2
Other general revenues	36.3	23.5
Total Revenues	<u>265.8</u>	<u>225.6</u>
Expenses		
Instruction-related	152.3	139.6
Student support services	18.7	17.0
Administration	9.4	10.4
Maintenance and operations	23.2	21.1
Other	10.2	7.6
Total Expenses	<u>213.8</u>	<u>195.7</u>
Change in Net Assets	<u>\$ 52.0</u>	<u>\$ 29.9</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Governmental Activities

As reported in the *Statement of Activities* on page 14, the net cost of all of our governmental activities this year was \$146.3 million, an increase of \$12.1 million, or 9% from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$52.4 million because the cost was paid by those who benefited from the programs (\$2.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$65.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$146.0 million in State funds and other revenues, like interest, and general entitlements.

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's five 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	
	2007	2006
Instruction-related	\$ 104.6	\$ 93.1
Student support services	5.2	4.7
Administration	7.5	9.0
Maintenance and operations	21.7	20.5
Other activities	7.3	6.9
Totals	\$ 146.3	\$ 134.2

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$159.4 million, which is a decrease of \$13 million from last year.

Table 4

	Balances and Activity			
	July 1, 2006	Revenues	Expenditures	June 30, 2007
General Fund	\$ 29,872,562	\$ 206,201,779	\$ 194,320,652	\$ 41,753,689
Special Reserve Non-Capital Fund	14,998,801	3,121,029	2,838,738	15,281,092
Building Fund	86,767,119	5,625,239	39,823,857	52,568,501
Capital Facilities Fund	25,564,385	8,372,834	7,914,147	26,023,072
Non-Major Governmental Funds	15,257,321	33,729,502	25,194,683	23,792,140
Totals	\$ 172,460,188	\$ 257,050,383	\$ 270,092,077	\$ 159,418,494

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

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 in August 13, 2007. (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 46.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$293.9 million in a broad range of capital assets, including land, construction in progress, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$59.1 million, or 25.2%, over last year. Depreciation expense of \$7.2 million was allocated to governmental activities during 2007.

Table 5

(Amounts in millions)

	Governmental Activities	
	2007	2006
Land	\$ 61.2	\$ 21.3
Construction in progress	19.6	13.7
Land improvements	0.7	0.7
Buildings and improvements	208.6	196.5
Furniture and equipment	3.8	2.6
Totals	\$ 293.9	\$ 234.8

This year's additions of approximately \$66.3 million consist of; land purchases, construction of new and modernization of existing school sites, and equipment required for the operation of schools and support services.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Long-Term Obligations

At the end of this year, the District had \$201.0 million in general obligation bonds outstanding versus \$205.1 million last year, a decrease of 2%. Unpaid accumulated vacation of \$0.7 million, capital leases of \$0.6 million, and \$0.7 million of supplemental early retirement plan are also included:

Table 6

(Amounts in millions)

	Governmental Activities	
	2007	2006
General obligation bonds	\$ 201.0	\$ 205.1
Accumulated vacation	0.7	0.7
Capital lease obligations	0.6	-
Supplemental early retirement plan	0.7	1.5
Totals	\$ 203.0	\$ 207.3

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2006-07 ARE NOTED BELOW:

- Agua Caliente Elementary School Upgrade parking lot and fencing \$ 1,515,227.94
- Ed Wenzlaff Elementary School Modernization project \$ 1,340,798.62
- Julius Corsini Elementary School Modernization project \$ 1,201,311.24
- New Karen Elementary School Land purchase and related costs \$ 2,706,089.32
- Nellie Coffman Middle School Modernization project \$ 6,632,155.92
- New Rancho Mirage High School Land purchase and related costs \$19,548,988.98
- New Rancho Mirage High School New construction costs \$ 3,273,387.63

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2007-08 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Cost of Living Adjustment (COLA) 4.53% and no deficit reductions, 2.4% increased student enrollment.
2. State categorical programs include COLA increases.
3. Developer fee collections estimated at \$5 million based on prior year trends.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment*</u>
Grade kindergarten	31:1	1,815
Grades one through three	20:1	5,820
Grades four and five	31:1	3,612
Grades six through twelve	29.5:1	12,838
Total		<u>24,085</u>

*Does not include Special Education of 760. Total enrollment was 24,845.

The major changes to expenditure items specifically addressed in the budget are:

1. Employee step and column increases.
2. Staffing allocation based on enrollment growth.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 151,586,906
Receivables	25,382,636
Stores inventory	408,860
Noncurrent portion of receivables	19,375,000
Capital assets	
Land and construction in process	80,812,567
Other capital assets	303,421,328
Less: Accumulated depreciation	<u>(90,300,776)</u>
Total Capital Assets	<u>293,933,119</u>
Total Assets	<u>490,686,521</u>
LIABILITIES	
Accounts payable	10,189,737
Interest payable	3,748,464
Deferred revenue	1,478,555
Noncurrent portion of deferred revenue	19,375,000
Claims Liabilities	1,890,261
Current portion of long-term obligations	6,305,002
Noncurrent portion of long-term obligations	<u>196,715,083</u>
Total Liabilities	<u>239,702,102</u>
NET ASSETS	
Invested in capital assets, net of related debt	145,655,220
Restricted for:	
Debt service	12,211,630
Capital projects	24,597,783
Educational programs	26,312,118
Other activities	4,746,511
Unrestricted	<u>37,461,157</u>
Total Net Assets	<u>\$ 250,984,419</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, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$129,754,957	\$ 125,674	\$ 36,785,217	\$ 2,337,812	\$ (90,506,254)
Instruction-related activities:					
Supervision of instruction	8,384,468	151,079	6,704,074	-	(1,529,315)
Instructional library, media, and technology	1,715,898	-	185,697	-	(1,530,201)
School site administration	12,463,028	11,129	1,402,568	-	(11,049,331)
Pupil services:					
Home-to-school transportation	3,476,391	-	2,542,226	-	(934,165)
Food services	7,295,083	1,977,179	5,515,212	-	197,308
All other pupil services	7,900,279	4,213	3,426,167	-	(4,469,899)
Administration:					
Data processing	2,317,606	-	-	-	(2,317,606)
All other administration	7,099,304	97,494	1,858,147	-	(5,143,663)
Plant services	23,179,648	5,383	1,523,489	-	(21,650,776)
Ancillary services	1,460,809	-	2,770,511	-	1,309,702
Interest on long-term obligations	8,702,810	-	-	-	(8,702,810)
Total Governmental Activities	\$213,750,281	\$ 2,372,151	\$ 62,713,308	\$ 2,337,812	(146,327,010)
General revenues and subventions:					
Property taxes, levied for general purposes					30,959,923
Property taxes, levied for debt service					14,109,288
Taxes levied for other specific purposes					7,329,284
Federal and State aid not restricted to specific purposes					109,698,431
Interest and investment earnings					4,194,386
Transfers between agencies					502,935
Miscellaneous					31,499,518
Subtotal, General Revenues					198,293,765
Change in Net Assets					51,966,755
Net Assets - Beginning					199,017,664
Net Assets - Ending					\$250,984,419

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	General Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS			
Deposits and investments	\$ 32,202,886	\$ 11,714,935	\$ 54,024,219
Receivables	22,541,290	93,297	818,825
Due from other funds	2,159,986	6,311,598	-
Stores inventory	289,803	-	-
Total Assets	\$ 57,193,965	\$ 18,119,830	\$ 54,843,044
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 5,299,697	\$ -	\$ 2,263,781
Due to other funds	8,893,337	2,838,738	10,762
Deferred revenue	1,247,242	-	-
Total Liabilities	15,440,276	2,838,738	2,274,543
FUND BALANCES			
Reserved for:			
Legally restricted balances	26,312,118	-	-
Other reservations	389,803	-	-
Unreserved:			
Designated	14,661,957	15,281,092	52,568,501
Undesignated, reported in:			
General Fund	389,811	-	-
Debt service funds	-	-	-
Total Fund Balances	41,753,689	15,281,092	52,568,501
Total Liabilities and Fund Balances	\$ 57,193,965	\$ 18,119,830	\$ 54,843,044

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

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 28,031,461	\$ 20,912,028	\$ 146,885,529
331,734	1,538,685	25,323,831
87,776	3,708,837	12,268,197
-	119,057	408,860
<u>\$ 28,450,971</u>	<u>\$ 26,278,607</u>	<u>\$ 184,886,417</u>

\$ 2,216,557	\$ 309,830	\$ 10,089,865
211,342	1,945,324	13,899,503
-	231,313	1,478,555
<u>2,427,899</u>	<u>2,486,467</u>	<u>25,467,923</u>

-	-	26,312,118
-	119,057	508,860
26,023,072	11,461,453	119,996,075
-	-	389,811
-	12,211,630	12,211,630
<u>26,023,072</u>	<u>23,792,140</u>	<u>159,418,494</u>
<u>\$ 28,450,971</u>	<u>\$ 26,278,607</u>	<u>\$ 184,886,417</u>

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

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

Total Fund Balance - Governmental Funds		\$159,418,494
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	\$384,233,895	
Accumulated depreciation is	(90,300,776)	
Net Capital Assets		293,933,119
In 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.		(3,748,464)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		4,401,355
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	201,015,000	
Capital leases payable	556,080	
Supplemental early retirement plan	731,038	
Compensated absences (vacations)	717,967	
Total Long-Term Obligations		(203,020,085)
Total Net Assets - Governmental Activities		<u>\$250,984,419</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 BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Special Reserve Non-Capital Fund	Building Fund
REVENUES			
Revenue limit sources	\$ 127,730,502	\$ -	\$ -
Federal sources	16,271,332	-	-
Other State sources	38,050,229	-	-
Other local sources	22,964,049	309,431	3,287,427
Total Revenues	<u>205,016,112</u>	<u>309,431</u>	<u>3,287,427</u>
EXPENDITURES			
Current			
Instruction	121,319,844	-	-
Instruction-related activities:			
Supervision of instruction	8,014,702	-	-
Instructional library, media, and technology	1,715,898	-	-
School site administration	12,110,248	-	-
Pupil services:			
Home-to-school transportation	3,476,391	-	-
Food services	176,382	-	-
All other pupil services	7,709,148	-	-
Administration:			
Data processing	2,317,606	-	-
All other administration	8,176,913	-	-
Plant services	20,066,048	-	-
Facility acquisition and construction	1,613,790	-	39,792,432
Ancillary services	1,460,809	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	31,425
Total Expenditures	<u>188,157,779</u>	<u>-</u>	<u>39,823,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>16,858,333</u>	<u>309,431</u>	<u>(36,536,430)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	211,342	2,811,598	2,337,812
Other sources	974,325	-	-
Transfers out	(6,162,873)	(2,838,738)	-
Net Financing Sources (Uses)	<u>(4,977,206)</u>	<u>(27,140)</u>	<u>2,337,812</u>
NET CHANGE IN FUND BALANCES	11,881,127	282,291	(34,198,618)
Fund Balance - Beginning	29,872,562	14,998,801	86,767,119
Fund Balance - Ending	<u>\$ 41,753,689</u>	<u>\$ 15,281,092</u>	<u>\$ 52,568,501</u>

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

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 582,339	\$ 128,312,841
-	5,555,614	21,826,946
-	5,906,784	43,957,013
8,372,834	17,093,868	52,027,609
<u>8,372,834</u>	<u>29,138,605</u>	<u>246,124,409</u>
-	2,238,941	123,558,785
-	369,766	8,384,468
-	-	1,715,898
-	352,780	12,463,028
-	-	3,476,391
-	7,118,701	7,295,083
-	191,131	7,900,279
-	-	2,317,606
310,465	363,196	8,850,574
948,492	449,228	21,463,768
6,443,848	5,540	47,855,610
-	-	1,460,809
-	4,145,000	4,145,000
-	7,622,588	7,654,013
<u>7,702,805</u>	<u>22,856,871</u>	<u>258,541,312</u>
<u>670,029</u>	<u>6,281,734</u>	<u>(12,416,903)</u>
-	4,568,899	9,929,651
-	21,998	996,323
(211,342)	(2,337,812)	(11,550,765)
<u>(211,342)</u>	<u>2,253,085</u>	<u>(624,791)</u>
458,687	8,534,819	(13,041,694)
25,564,385	15,257,321	172,460,188
<u>\$ 26,023,072</u>	<u>\$ 23,792,140</u>	<u>\$ 159,418,494</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds		\$(13,041,694)
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 assets 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	\$66,262,425	
Depreciation expense	<u>(7,165,083)</u>	
Net Expense Adjustment		59,097,342
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(974,325)
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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). Vacation and special termination benefits used was greater than the amounts earned by \$739,370.		739,370
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.		4,145,000
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.		418,245
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.		(1,467,042)
An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net change in assets of the internal service fund is reported with governmental activities.		3,049,859
Change in Net Assets of Governmental Activities		<u><u>\$ 51,966,755</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 4,701,377
Receivables	58,805
Due from other funds	1,631,306
Total Current Assets	<u>6,391,488</u>
LIABILITIES	
Current Liabilities	
Accounts payable	99,872
Claim Liabilities	1,890,261
Total Current Liabilities	<u>1,990,133</u>
NET ASSETS	
Unrestricted	<u>\$ 4,401,355</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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES	
Local and intermediate sources	\$ 2,650,590
OPERATING EXPENSES	
Professional and contract services	1,417,474
Operating Income	<u>1,233,116</u>
NONOPERATING REVENUES	
Interest income	<u>195,629</u>
Total Nonoperating Revenues	<u>195,629</u>
Income Before Transfers	<u>1,428,745</u>
Transfers In	<u>1,621,114</u>
Change in Net Assets	3,049,859
Total Net Assets - Beginning	<u>1,351,496</u>
Total Net Assets - Ending	<u>\$ 4,401,355</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 2,650,590
Cash payments for other operating expenses	(3,075,810)
Net Cash Used from Operating Activities	<u>(425,220)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>1,621,114</u>
Net Cash Provided from Noncapital Financing Activities	<u>1,621,114</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>195,629</u>
Net Cash Provided from Investing Activities	<u>195,629</u>
Net Increase in Cash and Cash Equivalents	1,391,523
Cash and Cash Equivalents - Beginning	3,309,854
Cash and Cash Equivalents - Ending	<u>\$ 4,701,377</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:	
Operating income	\$ 1,233,116
Changes in assets and liabilities:	
Receivables	(23,402)
Due from other funds	(1,622,880)
Accounts payable	(24,085)
Claim liabilities	12,031
NET CASH USED FROM OPERATING ACTIVITIES	<u>\$ (425,220)</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 730,906</u>
LIABILITIES	
Due to student groups	<u>\$ 730,906</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Palm Springs Unified School 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 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. The District has no component units.

Other Related Entities

Joint Powers Authorities The District is associated with two joint powers authorities. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

- Riverside Schools' Insurance Authority (RSIA)
- Riverside Employer/Employees' Partnership (REEP)

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, 2007

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Special Reserve Non-Capital Fund The Special Reserve Non-Capital Fund is used to account for specific revenue sources set aside by the District.

Building Fund The Building Fund is used to account for proceeds from bond issuances to be used for the acquisition, construction, or improvement of major capital facilities.

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Special Reserve Retiree Benefits Fund The Special Reserve Retiree Benefits Funds is used to account for resources committed to fund the future obligation of retiree health benefits.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. The District maintains the following capital projects funds:

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

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term obligations principal, interest, and related costs. The District maintains the following debt service fund:

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, 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 Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance worker's compensation fund that is accounted for in an internal service fund.

Fiduciary Fund Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is comprised of agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

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

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

Net assets 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 assets restricted for other activities result from special revenue 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 balance 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 assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

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

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

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

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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.

Stores Inventory

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 assets. 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 assets.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Compensated Absences

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

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

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.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets 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 assets are available. The government-wide financial statements reports \$67,868,042 of restricted net assets.

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 nonoperating revenues and expenses.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2008. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	\$151,586,906
Fiduciary funds	730,906
Total Deposits and Investments	<u>\$152,317,812</u>

Deposits and investments as of June 30, 2007, consist of the following:

Cash on hand and in banks	\$ 741,372
Cash in revolving	100,000
Investments	151,476,440
Total Deposits and Investments	<u>\$152,317,812</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Policies and Practices

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

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

General Authorizations

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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 county pool.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
County Pool	<u>\$151,309,816</u>	416*

* Weighted average days to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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 Legal Rating</u>	<u>Rating as of June 30, 2007</u>	<u>Fair Value</u>
County Pool	Not Required	Not Required	<u>\$151,309,816</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. As of June 30, 2007, the District maintained cash deposits in the amount of \$731,633 with one financial institution. Of the deposit balances, amounts on deposit up to \$100,000 are covered by Federal Deposit Insurance Corporation (FDIC) insurance at each institution. The deposits in excess of \$100,000 at anyone institution are collateralized with securities held by the pledging financial institutions' trust departments or agents, but not in the District's name and are therefore considered collateralized risk deposits.

Uninsured and collateralized with securities held by the pledging financial institution's trust departments or agents, but not in the name of the District	<u>\$ 631,633</u>
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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds
Federal Government					
Categorical aid	\$ 3,615,506	\$ -	\$ -	\$ -	\$ 922,081
State Government					
Apportionment	8,442,770	-	-	-	449,846
Categorical aid	3,070,842	-	-	-	20,524
Lottery	1,689,363	-	-	-	-
Local Government					
Interest	714,133	93,297	818,825	298,652	98,725
Other Local Sources	5,008,676	-	-	33,082	47,509
Total	<u>\$ 22,541,290</u>	<u>\$ 93,297</u>	<u>\$ 818,825</u>	<u>\$ 331,734</u>	<u>\$ 1,538,685</u>

	Internal Service Fund	Total Governmental Activities
Federal Government		
Categorical aid	\$ -	\$ 4,537,587
State Government		
Apportionment	-	8,892,616
Categorical aid	-	3,091,366
Lottery	-	1,689,363
Local Government		
Interest	58,805	2,082,437
Other Local Sources	-	5,089,267
Total	<u>\$ 58,805</u>	<u>\$ 25,382,636</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 21,289,116	\$ 39,962,476	\$ -	\$ 61,251,592
Construction in progress	13,745,404	24,106,243	18,290,672	19,560,975
Total Capital Assets Not Being Depreciated	35,034,520	64,068,719	18,290,672	80,812,567
Capital Assets Being Depreciated				
Land improvements	730,959	-	-	730,959
Buildings and improvements	274,186,924	18,290,672	-	292,477,596
Furniture and equipment	8,019,067	2,193,706	-	10,212,773
Total Capital Assets Being Depreciated	282,936,950	20,484,378	-	303,421,328
Less Accumulated Depreciation				
Land improvements	17,884	14,619	-	32,503
Buildings and improvements	77,655,044	6,161,830	-	83,816,874
Furniture and equipment	5,462,765	988,634	-	6,451,399
Total Accumulated Depreciation	83,135,693	7,165,083	-	90,300,776
Capital Assets, Net	\$ 234,835,777	\$ 77,388,014	\$ 18,290,672	\$ 293,933,119

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 6,614,417
All other general administration	221,216
Plant services	329,450
Total Depreciation Expenses	\$ 7,165,083

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts allocated between funds for various purposes. Interfund receivable and payable balances at June 30, 2007, between major and non-major governmental funds, are as follows:

Due To	Due From					Total
	General Fund	Special Reserve Non-Capital Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 10,762	\$ 211,342	\$ 1,937,882	\$ 2,159,986
Special Reserve Non-Capital Fund	6,311,598	-	-	-	-	6,311,598
Capital Facilities Fund	82,953	-	-	-	4,823	87,776
Non-Major Governmental Funds	1,868,389	1,838,738	-	-	1,710	3,708,837
Internal Service Fund	630,397	1,000,000	-	-	909	1,631,306
Total	\$8,893,337	\$2,838,738	\$ 10,762	\$211,342	\$ 1,945,324	\$13,899,503

Operating Transfers

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 211,342	\$ -	\$ 211,342
Special Reserve Non-Capital Fund	2,811,598	-	-	-	2,811,598
Building Fund	-	-	-	2,337,812	2,337,812
Non-Major Governmental Funds	3,351,275	1,217,624	-	-	4,568,899
Internal Service Fund	-	1,621,114	-	-	1,621,114
Total	\$6,162,873	\$2,838,738	\$ 211,342	\$ 2,337,812	\$11,550,765

The General Fund transferred to the Deferred Maintenance Fund for required match.	\$ 891,423
The General Fund transferred to the Special Reserve Non-Capital Fund for mandated costs reserve.	2,811,598
The General Fund transferred to the Special Reserve Retiree Benefits Fund for future funding of retiree benefits.	2,459,852
The Special Reserve Other Fund transferred to the Special Reserve Retiree Benefits Fund for retiree benefits.	1,217,624
The Special Reserve Other Fund transferred to the Internal Service Fund for workers compensation.	1,621,114
The Capital Facilities Fund transferred to the General Fund for capital projects reimbursement.	211,342
The County School Facilities Fund transferred to the Building Fund for capital projects reimbursement.	2,337,812
Total	\$11,550,765

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 3,570,927	\$ -	\$ -	\$ 244,839	\$ 99,872	\$ 3,915,638
State apportionment	1,153,437	-	-	-	-	1,153,437
Salaries and benefits	479,937	-	-	45,027	-	524,964
Construction	-	2,263,781	2,098,964	-	-	4,362,745
Other	95,396	-	117,593	19,964	-	232,953
Total	\$ 5,299,697	\$ 2,263,781	\$ 2,216,557	\$ 309,830	\$ 99,872	\$ 10,189,737

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 693,864	\$ 6,663	\$ 700,527
State categorical aid	551,752	217,475	769,227
Other local	1,626	7,175	8,801
Total	\$ 1,247,242	\$ 231,313	\$ 1,478,555

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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, 2006	Additions	Deductions	Balance June 30, 2007	Due in One Year
General obligation bonds	\$205,160,000	\$ -	\$ 4,145,000	\$201,015,000	\$ 5,330,000
Accumulated vacation - net	726,299	-	8,332	717,967	-
Capital leases	-	974,325	418,245	556,080	243,964
Supplemental early retirement program	1,462,076	-	731,038	731,038	731,038
	<u>\$207,348,375</u>	<u>\$ 974,325</u>	<u>\$ 5,302,615</u>	<u>\$203,020,085</u>	<u>\$ 6,305,002</u>

- Payments on general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for accumulated vacation, capital leases and supplemental early retirement program are made in the General Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Issued	Redeemed	Bonds Outstanding June 30, 2007
02/01/01	02/01/30	3.0-4.95	\$ 10,000,000	\$ 9,165,000	\$ -	\$ 190,000	\$ 8,975,000
06/01/01	02/01/20	2.75-4.90	19,510,000	15,615,000	-	820,000	14,795,000
11/01/01	08/01/31	2.05-4.70	20,000,000	18,490,000	-	365,000	18,125,000
07/16/02	02/01/19	1.60-4.75	9,265,000	7,360,000	-	460,000	6,900,000
10/02/02	02/01/21	1.08-4.40	14,470,000	12,190,000	-	605,000	11,585,000
08/07/02	08/01/33	1.47-4.95	10,000,000	9,530,000	-	175,000	9,355,000
04/09/03	08/01/33	1.05-4.00	20,000,000	19,530,000	-	385,000	19,145,000
05/19/04	02/01/18	2.00-4.75	4,615,000	4,235,000	-	205,000	4,030,000
10/29/04	08/01/33	1.80-4.65	12,500,000	12,455,000	-	215,000	12,240,000
11/03/05	02/01/23	2.70-4.38	17,300,000	16,590,000	-	725,000	15,865,000
06/14/06	02/01/36	3.63-4.67	80,000,000	80,000,000	-	-	80,000,000
				<u>\$ 205,160,000</u>	<u>\$ -</u>	<u>\$ 4,145,000</u>	<u>\$ 201,015,000</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2008	\$ 5,330,000	\$ 8,959,894	\$ 14,289,894
2009	5,845,000	8,738,926	14,583,926
2010	6,245,000	8,496,376	14,741,376
2011	6,565,000	8,241,663	14,806,663
2012	6,820,000	7,975,279	14,795,279
2013-2017	39,400,000	35,358,917	74,758,917
2018-2022	40,615,000	26,197,890	66,812,890
2023-2027	31,295,000	17,861,400	49,156,400
2028-2032	37,360,000	9,527,239	46,887,239
2033-2036	21,540,000	1,798,433	23,338,433
Total	<u>\$ 201,015,000</u>	<u>\$ 133,156,016</u>	<u>\$ 334,171,016</u>

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$717,967.

Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

	Servers
Balance, July 1, 2006	\$ -
Additions	1,035,945
Payments	418,245
Balance, June 30, 2007	<u>\$ 617,700</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2008	\$ 280,628
2009	280,628
2010	56,444
Total	<u>617,700</u>
Less: Amount Representing Interest	61,620
Present Value of Minimum Lease Payments	<u>\$ 556,080</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Supplemental Employee Retirement Plan (SERP)

The District offered an early retirement incentive to qualified employees under a qualified plan of section 401 A of the Internal Revenue Code. Eligibility requirements are that the employees attain age 55 with at least ten years of service with the District. The retiree receives an annual benefit payment equal to five percent of their final annual salary schedule. This benefit is paid out annually to the retirees in equal installments. Currently, there are 56 employees participating in the plan and the District's obligation to those retirees, as of June 30, 2007 is \$731,038, of which \$731,038 will be repaid in the 2007-08 fiscal year.

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved						
Revolving cash	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000
Stores inventory	289,803	-	-	-	119,057	408,860
Restricted programs	26,312,118	-	-	-	-	26,312,118
Total Reserved	26,701,921	-	-	-	119,057	26,820,978
Unreserved						
Designated						
Economic uncertainties	7,849,431	9,443,140	-	-	1,711,371	19,003,942
Other designation	6,812,526	5,837,952	52,568,501	26,023,072	9,750,082	100,992,133
Total Designated	14,661,957	15,281,092	52,568,501	26,023,072	11,461,453	119,996,075
Undesignated	389,811	-	-	-	12,211,630	12,601,441
Total Unreserved	15,051,768	15,281,092	52,568,501	26,023,072	23,673,083	132,597,516
Total	\$ 41,753,689	\$ 15,281,092	\$ 52,568,501	\$ 26,023,072	\$ 23,792,140	\$ 159,418,494

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service up to age 65. Currently, 120 employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees and their dependents. During the year, expenditures of \$1,058,313 were recognized for retirees' health care benefits.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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 claims liability claims filed against it. Claims liabilities are based on estimates of the ultimate costs of reported claims. An estimate for claims incurred, but not yet reported is included.

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 represent the changes in approximate aggregate liabilities of the District from July 1, 2005 to June 30, 2007:

	Workers' Compensation
Liability Balance, June 30, 2005	\$ 1,087,395
Claims and changes in estimates	1,909,645
Claims payments	1,878,230
Liability Balance, June 30, 2006	4,875,270
Claims and changes in estimates	(1,711,247)
Claims payments	(1,273,762)
Liability Balance, June 30, 2007	\$ 1,890,261
Assets available to pay claims at June 30, 2007	<u>\$ 6,391,488</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$7,563,074, \$6,938,750, and \$6,298,188, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death 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, CA 95814.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 2006-2007 was 9.124 percent of annual 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, 2007, 2006, and 2005, were \$2,376,288, \$2,429,775, and \$2,342,915, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$4,140,898 (4.517 percent of salaries subject to STRS). No contributions were made to PERS for the year ended June 30, 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

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, 2007.

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, 2007.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Construction Commitments

	Remaining Construction Commitments	Expected Date of Completion
CAPITAL PROJECTS		
Aqua Caliente Elementary - Modernization	\$ 58,285	Aug-09
Edward Wenzlaff Elementary - Modernization	1,161,566	Aug-10
Katherine Finchey Elementary - Office	41,352	Aug-09
Julius Corsini Elementary - Modernization	26,679	Aug-08
Bubbling Wells Elementary - Relocatables	10,529	Aug-08
Rio Vista Elementary - Expansion	1,433,751	Aug-08
Hacienda Elementary - Expansion	195,725	Aug-09
Karen Elementary - Construction	1,246,300	Aug-09
West Elementary - Construction	838,899	Aug-09
DeVall Elementary - Construction	1,250,000	Aug-10
Lunch Shelters	229,081	Aug-08
Nellie Coffman Middle School - Phase III	1,726,894	Aug-09
New Middle School - Construction	1,704,217	Aug-10
Cathedral City High School - Expansion	282,038	Aug-08
Desert Hot Springs High School - Expansion	209,919	Aug-08
Rancho Mirage High School - Construction	3,192,209	Aug-10
	<u>\$ 13,607,444</u>	

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Riverside Schools' Insurance Authority (RSIA) and the Riverside Employer/Employees' Partnership for Benefits (REEP) joint powers authorities. The District pays an annual premium to each entity for its health, workers' compensation, and property 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, 2007, the District made payments of \$826,987 and \$22,944,243, to RSIA and REEP, respectively, for health, worker's compensation and property liability coverage.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 15 - LAND PURCHASE

During 2006-07, the District purchased a parcel of land from a developer in the amount of \$38,750,000. The District paid for half of the purchase through current financial resources, and entered into an agreement, whereby the developer would be given a credit for any future developer fees owed to the District in future years. The total amounted to \$19,375,000, as of June 30, 2007.

	<u>Land Purchase</u>
Long-Term Receivable/Deferred Developer Fee Revenue Balance, Beginning of Year	\$ -
Current Year Additions	19,375,000
Developer Fees Received Fiscal Year 2006-2007	-
Long-Term Receivable/Deferred Revenue, End of Year	<u>\$ 19,375,000</u>

The related long-term deferred revenue and developer fee receivable have been recorded respectively as a liability and an asset in accordance with governmental accounting principles generally accepted in the United States of America.

NOTE 16 - SUBSEQUENT EVENTS

On August 10, 2005, the District issued \$40,000,000 of General Obligation Bonds. The bonds mature from August 1, 2006 through August 1, 2024 and yield 3.1 - 5.2 percent. The bonds were issued to finance construction.

REQUIRED SUPPLEMENTARY INFORMATION

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variations -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$124,887,660	\$127,730,502	\$127,730,502	\$ -
Federal sources	15,994,743	18,589,588	16,271,332	(2,318,256)
Other State sources	20,082,877	35,241,419	38,050,229	2,808,810
Other local sources	17,282,253	22,568,577	22,964,049	395,472
Total Revenues ¹	178,247,533	204,130,086	205,016,112	886,026
EXPENDITURES				
Current				
Instruction	111,236,576	128,131,853	121,319,844	6,812,009
Instruction-related activities:				
Supervision of instruction	7,754,130	8,209,625	8,014,702	194,923
Instructional library, media, and technology	1,660,111	1,757,630	1,715,898	41,732
School site administration	11,716,523	12,404,777	12,110,248	294,529
Pupil services:				
Home-to-school transportation	3,585,777	4,067,067	3,476,391	590,676
Food services	181,932	206,351	176,382	29,969
All other pupil services	7,951,720	9,019,015	7,709,148	1,309,867
General administration:				
Data processing	2,403,068	2,540,991	2,317,606	223,385
All other general administration	8,478,438	8,965,053	8,176,913	788,140
Plant services	19,429,551	20,866,882	20,066,048	800,834
Facility acquisition and construction	1,562,600	1,678,196	1,613,790	64,406
Ancillary services	1,510,553	1,655,204	1,460,809	194,395
Other outgo	15,000	15,000	-	15,000
Total Expenditures ¹	177,485,980	199,517,644	188,157,779	11,359,865
Excess of Revenues Over Expenditures	761,553	4,612,442	16,858,333	12,245,891
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	180,000	211,342	31,342
Other sources	-	-	974,325	974,325
Transfers out	(989,380)	(6,162,873)	(6,162,873)	-
Net Financing Sources (Uses)	(689,380)	(5,982,873)	(4,977,206)	1,005,667
NET CHANGE IN FUND BALANCES	72,173	(1,370,431)	11,881,127	13,251,558
Fund Balance - Beginning	29,872,562	29,872,562	29,872,562	-
Fund Balance - Ending	\$ 29,944,735	\$ 28,502,131	\$ 41,753,689	\$ 13,251,558

¹ On behalf payments of \$4,140,898 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SPECIAL RESERVE NON-CAPITAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Other local sources	\$ 150,000	\$ 295,000	\$ 309,431	\$ 14,431
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,811,598	2,811,598
Transfers out	-	(2,838,738)	(2,838,738)	-
Net Financing Sources (Uses)	-	(2,838,738)	(27,140)	2,811,598
NET CHANGE IN FUND BALANCES	150,000	(2,543,738)	282,291	2,826,029
Fund Balance - Beginning	14,998,801	14,998,801	14,998,801	-
Fund Balance - Ending	<u>\$ 15,148,801</u>	<u>\$ 12,455,063</u>	<u>\$ 15,281,092</u>	<u>\$ 2,826,029</u>

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SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

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 - Adult Basic Education and ESL	84.002A	14508	\$ 79,425
Adult Education - Adult Secondary Education	84.002	13978	1,800
Adult Education - English Literacy and Civics Education	84.002A	14109	15,000
No Child Left Behind Act (2001)			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	6,444,991
Title I, Part B - Reading First Program	84.357	14328	975,000
Title I, Part A - School Improvement, School Assistance and Intervention Teams	84.010	14417	75,000
Title I, Part A - School Improvement SAIT Corrective Action Plans	84.010A	14579	174,487
Title I, Part A - Program Improvement District Intervention	84.010	14581	170,765
Title I - Even Start Family Literacy	84.213	14331	172,500
Title I, Part F - Comprehensive School Reform (CSR)	84.332	14325	156,988
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	787,732
Title II, Part A - Principal Training	84.367	14344	8,591
Title II, Part B - CA Mathematics and Science Partnerships	84.366	14512	463,208
Title II, Part D - Enhancing Education Through Technology, Formula Grant	84.318	14334	63,584
Title II, Part D - Enhancing Education Through Competitive Grants	84.318	14368	507,035
Title III - Immigrant Education Program	84.365	14346	108,246
Title III - Limited English Proficiency (LEP)	84.365	10084	460,828
Title IV, Part A - Safe and Drug-Free Schools and Communities	84.186	14347	103,514
Title V, Part A - Innovative Education Strategies	84.298A	14354	28,049
Title X, McKinney - Vento Homeless Assistance Grants	84.196	14332	298
Small Learning Communities	84.215L	10215	74,826
California Alternate Performance Assessment (CAPA)	84.369	14488	1,585
Advance Placement Fee Reimbursements Program	84.330	14303	3,074
Vocational and Applied Technology Education Act - Carl D. Perkins			
Title IIC - Adult Education	84.048	13923	3,742
Title IIC - Secondary Education	84.048	13924	198,394
Subtotal			<u>11,078,662</u>
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement, Part B	84.027	13379	2,744,611
Federal Preschool Grants, Part B	84.173	13430	76,174
Preschool Local Entitlement, Part B	84.027A	13682	117,406
Preschool Staff Development, Part B	84.173A	13431	1,253
Subtotal			<u>2,939,444</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, 2007**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13524	\$ 4,197,945
Especially Needy Breakfast	10.553	13526	602,093
Meal Supplement	10.553	13755	44,293
Forest Reserve	10.665	10044	1,968
Food Distribution	10.550	13389	312,431
Subtotal			<u>5,158,730</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
LEA Medi-Cal Billing Option	93.778	10013	169,312
Medical Administrative Activities Program	93.778	10013	215,304
Child Development - Federal Child Care	93.596	13609	295,872
Child Development - Quality Improvement Activities	93.575	13942	2,723
Childcare Healthy Families	93.000	[1]	290
Passed through Riverside County Office of Education (RCOE)			
Head Start	93.600	10016	1,688,265
Subtotal			<u>2,371,766</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Program	12.000	[1]	178,258
U.S. DEPARTMENT OF JUSTICE			
Title II - Delinquency and Violence Prevention	16.540	[1]	98,056
			<u>\$ 21,824,916</u>

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2007

ORGANIZATION

The Palm Springs Unified School District was established in 1948 and consists of an area comprising approximately 477 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>
Meredy Shoenberger	President	2010
Shari Stewart	Clerk	2008
Donald T. Aikens	Member	2008
Justin Blake	Member	2010
Gary Jeandron	Member	2010

ADMINISTRATION

Lorri S. McCune, Ed.D.	Superintendent
James Novak	Assistant Superintendent, Business Services
Lorraine Becker, Ed.D.	Assistant Superintendent, Innovation Resources and Educational Development
Christine Anderson, Ed.D.	Assistant Superintendent, Educational Services (Effective August 2007)
Mauricio Arellano	Assistant Superintendent, Human Resources
Craig Borba, Ed.D.	Assistant Superintendent, Pupil Personnel Services

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	Second Period Report (Revised)	Annual Report
ELEMENTARY		
Kindergarten	1,614	1,625
First through third	5,334	5,347
Fourth through sixth	5,202	5,192
Seventh and eighth	3,388	3,373
Home and hospital	5	6
Special education	430	437
Total Elementary	15,973	15,980
SECONDARY		
Regular classes	5,911	5,816
Continuation education	295	284
Opportunity schools	81	75
Home and hospital	8	10
Special education	256	256
Total Secondary	6,551	6,441
Total K-12	22,524	22,421
CLASSES FOR ADULTS		
Concurrently enrolled	4	6
Not concurrently enrolled	266	281
Total Classes for Adults	270	287
Grand Total	22,794	22,708
		Hours of Attendance
SUMMER SCHOOL		
Elementary		205,609
High school		168,365
Total Hours		373,974

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2007**

Grade Level	1982-83	1986-87	2006-07	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	36,000	36,000	180	175	Complied
Grades 1 - 3	49,280	50,400				
Grade 1			51,885	180	175	Complied
Grade 2			51,885	180	175	Complied
Grade 3			51,885	180	175	Complied
Grades 4 - 5	49,280	54,000				
Grade 4			54,000	180	175	Complied
Grade 5			54,000	180	175	Complied
Grades 6 - 8	49,280	54,000				
Grade 6			57,860	180	N/A	Complied
Grade 7			57,860	180	N/A	Complied
Grade 8			57,860	180	N/A	Complied
Grades 9 - 12	64,218	64,800				
Grade 9			64,800	180	N/A	Complied
Grade 10			64,800	180	N/A	Complied
Grade 11			64,800	180	N/A	Complied
Grade 12			64,800	180	N/A	Complied

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF REVENUES AND EXPENDITURES
PROPOSITION 10 GRANTS
FOR THE YEAR ENDED JUNE 30, 2007**

	Proposition 10		
	Agreement Number		
	07-9432-OP	7014 LS-07	07-SR-004
	07/01/06- 12/31/06	01/01/07- 06/30/07	07/01/06- 06/30/07
REVENUES			
State categorical aid	\$ 125,578	\$ 67,825	\$ 289,075
Interest	-	422	3,699
	<u>\$ 125,578</u>	<u>\$ 68,247</u>	<u>\$ 292,774</u>
EXPENDITURES			
Personnel and benefits	98,448	43,483	220,252
Operating expenditures	27,130	24,764	72,522
	<u>\$ 125,578</u>	<u>\$ 68,247</u>	<u>\$ 292,774</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2007, Unaudited Actuals	\$ 41,363,878
Increase in:	
Receivables	314,718
Decrease in:	
Accounts payable	<u>75,093</u>
Total Fund Balance, June 30, 2007, Audited Financial Statement	<u>\$ 41,753,689</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$199,257,374	\$205,016,112	\$179,643,924	\$162,468,953
Other sources and transfers in	225,000	1,185,667	448,376	330,000
Total Revenues and Other Sources	199,482,374	206,201,779	180,092,300	162,798,953
Expenditures	194,673,825	188,157,779	171,917,898	153,417,249
Other uses and transfers out	919,991	6,162,873	6,692,826	2,014,721
Total Expenditures and Other Uses	195,593,816	194,320,652	178,610,724	155,431,970
INCREASE IN FUND BALANCE	\$ 3,888,558	\$ 11,881,127	\$ 1,481,576	\$ 7,366,983
ENDING FUND BALANCE	\$ 45,642,247	\$ 41,753,689	\$ 29,872,562	\$ 28,390,986
AVAILABLE RESERVES²	\$ 15,330,181	\$ 17,682,382	\$ 15,651,798	\$ 15,922,811
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	7.8%	9.3%	9.0%	10.2%
LONG-TERM OBLIGATIONS	N/A	\$203,020,085	\$207,348,375	\$131,099,266
AVERAGE DAILY ATTENDANCE AT P-2⁴	23,030	22,524	21,862	21,462

The General Fund balance has increased by \$13,362,703 over the past two years. The fiscal year 2007-2008 budget projects a further increase of \$3,888,558 (9.3 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 each of the past three years and anticipates incurring an operating surplus during the 2007-2008 fiscal year. Total long-term obligations have increased by \$71,920,819 over the past two years.

Average daily attendance has increased by 1,062 over the past two years. Additional growth of 506 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

³ On behalf payments of \$4,140,898, \$3,799,071, and \$3,448,353 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2007, 2006, and 2005, respectively.

⁴ Excludes Adult ADA.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Palm Springs Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

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.

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 requirement, whichever is greater, as required by Education Code Section 46201.

Schedule of Revenues and Expenditures – 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2007**

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

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SUPPLEMENTARY INFORMATION - UNAUDITED

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2007**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 663,335	\$ 172,597	\$ 1,902,633	\$ 2,846,708
Receivables	115,396	383,368	955,634	38,066
Due from other funds	-	6,073	11,788	13,500
Stores inventory	-	-	119,057	-
Total Assets	\$ 778,731	\$ 562,038	\$ 2,989,112	\$ 2,898,274
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 45,248	\$ 130,651	\$ 125,772	\$ 8,159
Due to other funds	239,069	417,517	1,283,915	-
Deferred revenue	217,443	13,870	-	-
Total Liabilities	501,760	562,038	1,409,687	8,159
FUND BALANCES				
Reserved for:				
Other reservations	-	-	119,057	-
Unreserved:				
Designated	276,971	-	1,460,368	2,890,115
Undesignated, reported in:				
Debt service funds	-	-	-	-
Total Fund Balances	276,971	-	1,579,425	2,890,115
Total Liabilities and Fund Balances	\$ 778,731	\$ 562,038	\$ 2,989,112	\$ 2,898,274

See accompanying note to supplementary information - unaudited.

Special Reserve Retiree Benefits Fund	Special Reserve Capital Outlay Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ 3,085,095	\$ 30,030	\$ -	\$ 12,211,630	\$ 20,912,028
40,999	399	4,823	-	1,538,685
3,677,476	-	-	-	3,708,837
-	-	-	-	119,057
<u>\$ 6,803,570</u>	<u>\$ 30,429</u>	<u>\$ 4,823</u>	<u>\$ 12,211,630</u>	<u>\$ 26,278,607</u>
\$ -	\$ -	\$ -	\$ -	\$ 309,830
-	-	4,823	-	1,945,324
-	-	-	-	231,313
-	-	4,823	-	2,486,467
-	-	-	-	119,057
6,803,570	30,429	-	-	11,461,453
-	-	-	12,211,630	12,211,630
<u>6,803,570</u>	<u>30,429</u>	<u>-</u>	<u>12,211,630</u>	<u>23,792,140</u>
<u>\$ 6,803,570</u>	<u>\$ 30,429</u>	<u>\$ 4,823</u>	<u>\$ 12,211,630</u>	<u>\$ 26,278,607</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Revenue limit sources	\$ 582,339	\$ -	\$ -	\$ -
Federal sources	99,967	298,884	5,156,763	-
Other State sources	248,349	1,950,692	381,162	872,524
Other local sources	101,042	48,923	2,320,486	100,867
Total Revenues	1,031,697	2,298,499	7,858,411	973,391
EXPENDITURES				
Current				
Instruction	633,303	1,605,638	-	-
Instruction-related activities:				
Supervision of instruction	7,497	362,269	-	-
School site administration	352,780	-	-	-
Pupil services:				
Food services	-	28,978	7,089,723	-
All other pupil services	710	190,421	-	-
Administration:				
All other administration	35,383	45,688	282,125	-
Plant services	56,865	59,965	7,976	324,422
Facility acquisition and construction	-	5,540	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	1,086,538	2,298,499	7,379,824	324,422
Excess (Deficiency) of Revenues				
Over Expenditures	(54,841)	-	478,587	648,969
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	891,423
Other sources	-	-	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	-	-	-	891,423
NET CHANGE IN FUND BALANCES	(54,841)	-	478,587	1,540,392
Fund Balance - Beginning	331,812	-	1,100,838	1,349,723
Fund Balance - Ending	\$ 276,971	\$ -	\$ 1,579,425	\$ 2,890,115

See accompanying note to supplementary information - unaudited.

Special Reserve Retiree Benefits Fund	Special Reserve Capital Outlay Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 582,339
-	-	-	-	5,555,614
-	-	2,337,812	116,245	5,906,784
154,936	1,508	-	14,366,106	17,093,868
<u>154,936</u>	<u>1,508</u>	<u>2,337,812</u>	<u>14,482,351</u>	<u>29,138,605</u>
-	-	-	-	2,238,941
-	-	-	-	369,766
-	-	-	-	352,780
-	-	-	-	7,118,701
-	-	-	-	191,131
-	-	-	-	363,196
-	-	-	-	449,228
-	-	-	-	5,540
-	-	-	4,145,000	4,145,000
-	-	-	7,622,588	7,622,588
-	-	-	11,767,588	22,856,871
<u>154,936</u>	<u>1,508</u>	<u>2,337,812</u>	<u>2,714,763</u>	<u>6,281,734</u>
3,677,476	-	-	-	4,568,899
-	-	-	21,998	21,998
-	-	(2,337,812)	-	(2,337,812)
<u>3,677,476</u>	<u>-</u>	<u>(2,337,812)</u>	<u>21,998</u>	<u>2,253,085</u>
3,832,412	1,508	-	2,736,761	8,534,819
2,971,158	28,921	-	9,474,869	15,257,321
<u>\$ 6,803,570</u>	<u>\$ 30,429</u>	<u>\$ -</u>	<u>\$ 12,211,630</u>	<u>\$ 23,792,140</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED
JUNE 30, 2007**

NOTE 1 - PURPOSE OF SCHEDULES

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

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

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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palm Springs Unified School District as of and for the year ended June 30, 2007, which collectively comprise Palm Springs Unified School District's basic financial statements and have issued our report thereon dated December 1, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palm Springs Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palm Springs Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Palm Springs Unified School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Palm Springs Unified School District in a separate letter dated December 1, 2007.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vanumb, Tsi, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2007



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Palm Springs Unified School District
Palm Springs, California

Compliance

We have audited the compliance of Palm Springs Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Palm Springs Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Palm Springs Unified School District's management. Our responsibility is to express an opinion on Palm Springs Unified School District's compliance based on our audit.

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. Our audit does not provide a legal determination of Palm Springs Unified School District's compliance with those requirements.

In our opinion, Palm Springs Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Palm Springs Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Palm Springs Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Palm Springs Unified School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannich, Tai, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palm Springs Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 1, 2007. 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 2006-07, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Palm Springs Unified School District's management. 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:

Table with 3 columns: Item, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Accounting (Attendance reporting, Kindergarten continuance, Independent study, Continuation education, Adult education, Regional occupational centers and programs), Instructional Time (School districts, County offices of education, Community day schools, Morgan-Hart Class Size Reduction), and Instructional Materials (General requirements, K-8 only, 9-12 only).

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Yes, see below
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
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	3	Not Applicable

We did not perform testing for Step 2 of Alternative Pension Plans, because the District did not offer an alternative pension plan for its full-time, permanent employees.

Based on our audit, we found that for the items tested, the Palm Springs Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Palm Springs Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Palm Springs Unified School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannuk, Tei, Day & Co, LLP

Rancho Cucamonga, California
December 1, 2007

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, 2007**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.600</u>	<u>Head Start</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster</u>
<u>84.357</u>	<u>Title I, Part B - Reading First</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 654,747</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

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

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Governing Board
Palm Springs Unified School District
Palm Springs, California

In planning and performing our audit of the financial statements of Palm Springs Unified School District, for the year ended June 30, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined and combining financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2007 on the government-wide financial statements of Palm Springs Unified School District.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

ASSOCIATED STUDENT BODY ACCOUNTS

Nellie Coffman Middle School

Finding

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

Recommendation

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

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

2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

SITE CASH

Palm Springs High School

Findings

1. Monies on hand were not receipted.
2. A cash transmittal is not prepared for the deposit sent to the District.
3. Deposits are not timely.
4. Receipts dates are not in sequence.

Recommendation

Sites should be instructed to issue receipts for all cash collections and deposit all cash collections in a timely manner. All receipts should be written in sequential order and all cash collections must be receipted.

Della S. Lindley Elementary

Finding

Prenumbered receipts are not being written to record the receipt of cash collections for lost/damaged library books.

Recommendation

All sites to complete prenumbered receipts for all cash collections. This will strengthen the controls over cash collections and provide an audit trail for site cash collections.

Finding

Deposits are not being made by the librarian to the District Office. Instead, cash collections from lost/damaged library books are deposited into the Parent Teacher Organization (PTG) bank account. Furthermore, library monies in the PTG account are being used to purchase new books.

Recommendation

Deposits should be made to the District Office in a timely manner. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely. Any disbursement of District funds should be authorized by the District.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

District Office

Findings

During our examination, it came to our attention that the District does not maintain a complete and current equipment inventory. In order to adequately safeguard assets and to comply with Federal and State requirements, the District's fixed assets accounting system should provide for the following:

- Maintain detail records indicating asset description, acquisition date and costs, funding source, location and serial/identification.
- Such detailed property records should be periodically checked by physical inventory with differences reconciled and records adjusted to reflect shortages.
- Procedures in place governing the disposition of property and equipment including monitoring the disposition of property acquired with grant funds.

Recommendation

We recommend that the District's management review its procedures relating to the fixed assets accounting system and implement appropriate modifications to ensure safeguarding of assets and compliance with Federal and State requirements.

Current Status

Implemented.

SITE CASH

Desert Springs Middle School, Rio Vista Elementary, Raymond Cree Middle School, Desert Hot Springs High School, and Julius Corsini Elementary

Finding

Deposits are not being made timely, and this could result in cash balances being maintained at the site, which severely decreases the safeguarding of the asset.

Recommendation

Deposits should be made regularly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Current Status

Implemented.

Cathedral City High School, Mt. San Jacinto Continuation

Finding

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

Recommendations

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

1. **Potential Income**-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.
2. **Receipts/Fundraiser Deposits**-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. **Analysis**-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. **Recap**-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Current Status

Implemented for sites noted above, see current year finding for new schools tested.

Desert Hot Springs

Finding

In reviewing the financial statements for the student body accounts we noted that the Spirit Club had a negative balance of a significant amount. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each group's best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the groups account.

Current Status

Implemented.

San Jacinto Continuation School

Finding

The monthly bank statement was not reconciled correctly for our year end testing, therefore, the site is not aware of their available cash balance or if the financial records of the clubs accurately reflect true financial information.

Recommendation

Monthly bank reconciliation's must be done in order to ensure that the cash balance reported on the books is accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. Differences between these two amounts could be caused by mis-postings to the student body accounts.

Current Status

Not implemented.

Findings

The following problems were noted during a cursory review:

- The bank reconciliation was done incorrectly.
- No financial statements available.
- The information necessary to perform our audit was unavailable.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel. A periodic review should be made by the District of the sites progress towards the deficiencies mentioned above.

Current Status

Not implemented.

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

Yannick, Tri, Day & Co., LLP
Rancho Cucamonga, California
December 1, 2007