



**PALM SPRINGS UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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JUNE 30, 2012

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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, 2012, 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 2011-2012*, 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 previously 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 12, and the budgetary comparison information and schedule of other post employment benefits on pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2012



PALM SPRINGS UNIFIED SCHOOL DISTRICT

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This section of Palm Springs Unified School District's (the District) (2011-2012) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012, with comparative information from June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$35,000,184 more than expenses.
- Total net assets in governmental activities were recorded at \$325,465,773.
- The General Fund reported a positive fund balance of \$84,136,828.

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, 2012

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Assets*, and the *Statement of Revenues, Expenses, and Changes in Fund 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, 2012

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$325.5 million for the fiscal year ended June 30, 2012, an increase of \$35 million, or 12 percent over the prior year. Of this amount, \$39.1 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	
	2012	2011
Assets		
Current and other assets	\$ 204.6	\$ 244.1
Capital assets	482.4	420.7
Total Assets	687.0	664.8
Liabilities		
Current liabilities	18.1	29.3
Long-term obligations	343.5	345.0
Total Liabilities	361.6	374.3
Net Assets		
Invested in capital assets, net of related debt	191.2	151.9
Restricted	95.2	90.1
Unrestricted	39.1	48.5
Total Net Assets	\$ 325.5	\$ 290.5

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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)	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 1.4	\$ 1.1
Operating grants and contributions	60.4	56.5
Capital grants and contributions	33.8	-
General revenues:		
Federal and State aid	104.6	107.1
Property taxes	65.0	65.7
Other general revenues	5.2	10.1
Total Revenues	<u>270.4</u>	<u>240.5</u>
Expenses		
Instruction-related	157.9	153.6
Student support services	26.3	22.9
Administration	12.2	12.8
Maintenance and operations	23.1	22.3
Other	15.9	14.1
Total Expenses	<u>235.4</u>	<u>225.7</u>
Change in Net Assets	<u>\$ 35.0</u>	<u>\$ 14.8</u>

Governmental Activities

As reported in the *Statement of Activities* on page 14, the net cost of all of our governmental activities this year was \$139.8 million, a decrease of \$28.3 million, or 16.8 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$65 million because the cost was paid by those who benefited from the programs (\$1.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$94.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$109.8 million in State funds and other revenues, like interest, and general entitlements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

Table 3

(Amounts in millions)	Total Net Cost of Services	
	2012	2011
Instruction-related	\$ 83.9	\$ 116.0
Student support services	7.6	5.7
Administration	10.9	11.0
Maintenance and operations	22.5	22.0
Other activities	14.9	13.4
Total	\$ 139.8	\$ 168.1

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$179.7 million, which is a decrease of \$30.8 million from last year.

Table 4

	Balances and Activity			
	July 01, 2011	Revenues	Expenditures	June 30, 2012
General Fund	\$ 77,504,784	\$ 190,082,563	\$ 183,450,519	\$ 84,136,828
Building Fund	71,879,055	33,970,476	71,873,731	33,975,800
County School Facilities Fund	3,248,532	33,779,131	33,736,145	3,291,518
Bond Interest and Redemption Fund	31,145,089	24,397,978	26,288,306	29,254,761
Non-Major Governmental Funds	26,746,794	23,470,566	21,129,330	29,088,030
Total	\$ 210,524,254	\$ 305,700,714	\$ 336,478,031	\$ 179,746,937

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 26, 2012. (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 53.)

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$482.4 million in a broad range of capital assets, including land, construction in progress, land improvements, buildings and improvements, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$61.7 million, or 14.7 percent, over last year. Depreciation expense of \$9.9 million was allocated to governmental activities during 2012.

Table 5

(Amounts in millions)

	Governmental Activities	
	2012	2011
Land	\$ 86.5	\$ 86.4
Construction in progress	106.4	88.4
Land improvements	1.2	1.2
Buildings and improvements	285.1	242.1
Furniture and equipment	3.2	2.6
Total	\$ 482.4	\$ 420.7

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

Long-Term Obligations

At the end of this year, the District had \$330.6 million in general obligation bonds outstanding including premium on issuance versus \$343.3 million last year, a decrease of \$12.7 million, or 3.7 percent. Capital leases of \$0.2 million, compensated absences of \$1.3 million, claims liability of \$9.6 million and \$1.8 million of net OPEB obligation are also included:

Table 6

(Amounts in millions)

	Governmental Activities	
	2012	2011
General obligation bonds	\$ 325.5	\$ 338.0
Premium on issuance	5.1	5.3
Capital leases	0.2	-
Compensated absences	1.3	1.2
Claims liability	9.6	3.6
Net OPEB obligation	1.8	0.5
Total	\$ 343.5	\$ 348.6

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012 ARE NOTED BELOW:

- Completed 50 percent of the Rancho Mirage High School construction phase.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District budget for the 2012-2013 year, the District Board and management used the following criteria:

- The categorical flexibility options approved by the State in fiscal year 2008-2009, continue mostly unchanged. Thus, this budget includes flexibility transfers to general operating activity and are projected through fiscal year 2013-2014. The Federal American Recovery and Reinvestment Act (ARRA) funding has sustained the District through three years of financial hardship. The initial funding programs were exhausted by September 2011. The Education Jobs funding continued through September 2012.
- The May Revise proposes a flat funding for K-12, which is based on a 3.24 percent Cost of Living Adjustment (COLA) with a corresponding 22.272 percent deficit factor. Because of the uncertainty of Proposition 30, Tax Initiative, this budget includes a reserve of \$441 per Average Daily Attendance (ADA), a total of \$9,452,200 to address the potential future budgetary cuts to education. No additional cash deferral have been included in the budget at this time.
- The categorical flexibility options approved by the State in fiscal year 2008-2009 continue mostly unchanged. Thus, this budget includes \$5,392,141 in flexibility transfers to general operating activity and are projected through fiscal year 2012-2013. Except for the Education Jobs funding, all the Federal ARRA funding, which has sustained the District through three years of financial hardship, was expended by the end of September 2011. The Education Jobs Fund will be expended by September 2012.
- The proposed budget is balanced and reflects a fund balance which exceeds the 3 percent State required reserve level. Due to the uncertainty of the current proposals and the education funding, the proposed budget is a placeholder to be revised once the State has adopted their budget.

Expenditures are based on the following forecast:

	<u>Staffing Ratio</u>	<u>Enrollment*</u>
Grade Kindergarten through five	31:1	10,167
Grades six through eight	31:1	5,290
Grades nine through twelve	31:1	7,241
Total		<u>22,698</u>

*Does not include Cielo Vista Charter School.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Evelyn Hernandez, Director of Fiscal Services, at Palm Springs Unified School District, 980 E. Tahquitz Canyon Way, Suite 204, Palm Springs, California 92262.

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 152,761,808
Receivables	51,066,321
Stores inventories	376,944
Deferred charge on issuance	392,070
Capital assets	
Land and construction in process	192,873,955
Other capital assets	441,689,628
Less: Accumulated depreciation	<u>(152,139,416)</u>
Total Capital Assets	<u>482,424,167</u>
Total Assets	<u>687,021,310</u>
LIABILITIES	
Accounts payable	9,965,633
Interest payable	6,026,365
Deferred revenue	480,196
Claims liabilities	1,597,000
Long-term obligations	
Current portion of long-term obligations	11,592,959
Noncurrent portion of long-term obligations	<u>331,893,384</u>
Total Long-Term Obligations	<u>343,486,343</u>
Total Liabilities	<u>361,555,537</u>
NET ASSETS	
Invested in capital assets, net of related debt	191,180,367
Restricted for:	
Debt service	23,228,396
Capital projects	17,765,097
Educational programs	43,840,088
Other activities	10,355,341
Unrestricted	<u>39,096,484</u>
Total Net Assets	<u>\$ 325,465,773</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, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 134,516,358	\$ 33,457	\$ 34,039,399
Instruction-related activities:			
Supervision of instruction	7,662,757	7,023	5,804,855
Instructional library, media, and technology	2,368,218	476	183,169
School site administration	13,309,321	-	81,345
Pupil services:			
Home-to-school transportation	3,235,315	40	2,136,311
Food services	13,123,523	965,006	11,487,021
All other pupil services	9,921,946	5,574	4,100,748
Administration:			
Data processing	2,652,386	180	160
All other administration	9,588,960	46,234	1,325,017
Plant services	23,139,057	20,567	594,026
Ancillary services	1,677,357	-	404
Interest on long-term obligations	14,231,078	-	-
Other outgo	6,953	349,274	671,602
Total Governmental Activities	\$ 235,433,229	\$ 1,427,831	\$ 60,424,057

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

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u> <u>Governmental Activities</u>
\$ 33,779,130	\$ (66,664,372)
-	(1,850,879)
-	(2,184,573)
-	(13,227,976)
-	(1,098,964)
-	(671,496)
-	(5,815,624)
-	(2,652,046)
-	(8,217,709)
-	(22,524,464)
-	(1,676,953)
-	(14,231,078)
-	1,013,923
<u>\$ 33,779,130</u>	<u>(139,802,211)</u>

29,606,846
24,269,271
11,080,350
104,622,734
318,834
4,904,360
<u>174,802,395</u>
35,000,184
290,465,589
<u>\$ 325,465,773</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 41,348,192	\$ 39,139,993	\$ 3,286,569
Receivables	46,992,263	322,707	4,949
Due from other funds	1,117,872	-	-
Stores inventories	181,386	-	-
Total Assets	\$ 89,639,713	\$ 39,462,700	\$ 3,291,518
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,987,935	\$ 5,454,943	\$ -
Due to other funds	1,035,850	31,957	-
Deferred revenue	479,100	-	-
Total Liabilities	5,502,885	5,486,900	-
Fund Balances:			
Nonspendable	281,386	-	-
Restricted	43,840,088	33,975,800	3,291,518
Committed	-	-	-
Assigned	20,558,520	-	-
Unassigned	19,456,834	-	-
Total Fund Balances	84,136,828	33,975,800	3,291,518
Total Liabilities and Fund Balances	\$ 89,639,713	\$ 39,462,700	\$ 3,291,518

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 29,254,761	\$ 25,668,250	\$ 138,697,765
-	3,728,023	51,047,942
-	1,021,543	2,139,415
-	195,558	376,944
<u>\$ 29,254,761</u>	<u>\$ 30,613,374</u>	<u>\$ 192,262,066</u>
\$ -	\$ 405,537	\$ 9,848,415
-	1,118,711	2,186,518
-	1,096	480,196
<u>-</u>	<u>1,525,344</u>	<u>12,515,129</u>
-	245,558	526,944
29,254,761	23,980,831	134,342,998
-	1,634,295	1,634,295
-	3,227,346	23,785,866
-	-	19,456,834
<u>29,254,761</u>	<u>29,088,030</u>	<u>179,746,937</u>
<u>\$ 29,254,761</u>	<u>\$ 30,613,374</u>	<u>\$ 192,262,066</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, 2012**

Total Fund Balance - Governmental Funds		\$ 179,746,937
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	\$ 634,563,583	
Accumulated depreciation is:	<u>(152,139,416)</u>	
Net Capital Assets		482,424,167
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		392,070
In the governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(6,026,365)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance and retiree benefits program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		2,784,936
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	325,482,451	
Premium on issuance	5,082,735	
Capital leases payable	210,677	
Compensated absences (vacations)	1,321,039	
Net OPEB obligation	<u>1,759,070</u>	
Total Long-Term Obligations		<u>(333,855,972)</u>
Total Net Assets - Governmental Activities		<u>\$ 325,465,773</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>
REVENUES			
Revenue limit sources	\$ 114,030,324	\$ -	\$ -
Federal sources	19,309,158	-	-
Other State sources	30,850,299	-	33,736,145
Other local sources	25,407,353	234,331	42,986
Total Revenues	<u>189,597,134</u>	<u>234,331</u>	<u>33,779,131</u>
EXPENDITURES			
Current			
Instruction	115,452,362	-	-
Instruction-related activities:			
Supervision of instruction	6,821,360	-	-
Instructional library, media, and technology	2,231,940	-	-
School site administration	12,384,102	-	-
Pupil services:			
Home-to-school transportation	3,225,405	-	-
Food services	80,821	-	-
All other pupil services	9,412,416	-	-
Administration:			
Data processing	2,402,237	-	-
All other administration	7,856,949	-	-
Plant services	20,680,347	149,765	-
Facility acquisition and construction	38,900	71,702,286	-
Ancillary services	1,614,272	-	-
Other outgo	6,953	-	-
Debt service			
Principal	109,563	-	-
Interest and other	-	21,680	-
Total Expenditures	<u>182,317,627</u>	<u>71,873,731</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,279,507</u>	<u>(71,639,400)</u>	<u>33,779,131</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	165,189	33,736,145	-
Other sources	320,240	-	-
Transfers out	(1,132,892)	-	(33,736,145)
Net Financing Sources (Uses)	<u>(647,463)</u>	<u>33,736,145</u>	<u>(33,736,145)</u>
NET CHANGE IN FUND BALANCES	6,632,044	(37,903,255)	42,986
Fund Balances - Beginning	77,504,784	71,879,055	3,248,532
Fund Balances - Ending	<u>\$ 84,136,828</u>	<u>\$ 33,975,800</u>	<u>\$ 3,291,518</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 4,016,642	\$ 118,046,966
-	11,133,329	30,442,487
196,934	3,849,903	68,633,281
24,184,378	2,989,290	52,858,338
<u>24,381,312</u>	<u>21,989,164</u>	<u>269,981,072</u>
-	4,701,997	120,154,359
-	513,896	7,335,256
-	53,340	2,285,280
-	323,588	12,707,690
-	-	3,225,405
-	12,831,957	12,912,778
-	71,123	9,483,539
-	-	2,402,237
-	1,300,020	9,156,969
-	1,073,100	21,903,212
-	95,120	71,836,306
-	-	1,614,272
-	-	6,953
12,538,988	-	12,648,551
13,749,318	-	13,770,998
<u>26,288,306</u>	<u>20,964,141</u>	<u>301,443,805</u>
<u>(1,906,994)</u>	<u>1,025,023</u>	<u>(31,462,733)</u>
-	1,086,402	34,987,736
16,666	395,000	731,906
-	(165,189)	(35,034,226)
<u>16,666</u>	<u>1,316,213</u>	<u>685,416</u>
(1,890,328)	2,341,236	(30,777,317)
31,145,089	26,746,794	210,524,254
<u>\$ 29,254,761</u>	<u>\$ 29,088,030</u>	<u>\$ 179,746,937</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ (30,777,317)**

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	\$ 71,653,261	
Depreciation expense	<u>(9,926,561)</u>	
Net Expense Adjustment		61,726,700

In the Statement of Activities, only the gain on the sale of the unimproved land is reported, whereas in the in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the land sold. (20,168)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by \$124,542. (124,542)

In the Statement of Activities, Other Postemployment Benefits Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation was less than the ARC. (1,314,307)

Proceeds received from capital leases is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. (320,240)

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

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:

General obligation bonds	\$ 12,538,988
Capital lease obligations	109,563

Governmental funds report the effect of premiums, discounts, and issuance costs when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of the amortization of the related items:

Premium on issuance for general obligation bonds	\$ 242,035	
Cost of issuance for general obligation bonds	(18,670)	
Combined Adjustment		223,365

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

(683,445)

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.

(6,358,413)

Change in Net Assets of Governmental Activities \$ 35,000,184

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Internal Service Fund		
	Workers' Compensation	Retiree Benefits	Total
ASSETS			
Current Assets			
Deposits and investments	\$ 7,026,128	\$ 7,037,915	\$ 14,064,043
Receivables	6,550	11,829	18,379
Due from other funds	10,856	36,247	47,103
Total Assets	<u>7,043,534</u>	<u>7,085,991</u>	<u>14,129,525</u>
LIABILITIES			
Current Liabilities			
Accounts payable	117,218	-	117,218
Claim liabilities	1,597,000	-	1,597,000
Total Current Liabilities	<u>1,714,218</u>	<u>-</u>	<u>1,714,218</u>
Noncurrent Liabilities			
Long-term claims liability	9,630,371	-	9,630,371
Total Liabilities	<u>11,344,589</u>	<u>-</u>	<u>11,344,589</u>
NET ASSETS			
Restricted	(4,301,055)	7,085,991	2,784,936
Total Net Assets	<u>\$ (4,301,055)</u>	<u>\$ 7,085,991</u>	<u>\$ 2,784,936</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, 2012**

	Internal Service Fund		
	Workers' Compensation	Retiree Benefits	Total
OPERATING REVENUES			
Charges to other funds	\$ 3,522,344	\$ 1,565,752	\$ 5,088,096
OPERATING EXPENSES			
Professional and contract services	9,766,719	1,787,123	11,553,842
Operating Loss	(6,244,375)	(221,371)	(6,465,746)
NONOPERATING REVENUES			
Interest income	27,835	33,008	60,843
Transfers in	-	46,490	46,490
Total Nonoperating Revenues	27,835	79,498	107,333
Change in Net Assets	(6,216,540)	(141,873)	(6,358,413)
Total Net Assets - Beginning	1,915,485	7,227,864	9,143,349
Total Net Assets - Ending	\$ (4,301,055)	\$ 7,085,991	\$ 2,784,936

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, 2012**

	Internal Service Fund Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 5,067,416
Cash payments to other suppliers of goods or services	(4,103,202)
Net Cash Provided by Operating Activities	<u>964,214</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	<u>46,490</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>63,265</u>
Net Increase in Cash and Cash Equivalents	1,073,969
Cash and Cash Equivalents - Beginning	12,990,074
Cash and Cash Equivalents - Ending	<u>\$ 14,064,043</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVEDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (6,465,746)
Changes in Assets and Liabilities:	
Due from other funds	(20,680)
Accounts payable	(170,154)
Claims liability	7,620,794
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 964,214</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, 2012**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 783,290
Inventory	18,025
Total Assets	<u>\$ 801,315</u>
 LIABILITIES	
Due to student groups	<u>\$ 801,315</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Palm Springs Unified School District (the District) was formed in 1948, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools, four middle schools, three high schools, one continuation high school, an adult education program, and an alternative education program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Charter School

The District has approved a Charter for the Cielo Vista Charter School pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

The District has approved a charter for the Father's Heart Charter School. This Charter is not considered a component unit of the District.

Basis of Presentation - Fund Accounting

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$14,102,110, \$14,109,063, \$50,145, and \$1,752,727, respectively.

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Non-Major Governmental Funds

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

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

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

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Basis of Accounting - Measurement Focus

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

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

Net 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, the internal service funds and the restrictions on their net asset use.

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

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

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

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

Cash and Cash Equivalents

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial Statement of Net 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.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net 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 report \$95,188,922 of restricted net assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Estimates

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

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship, or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 152,761,808
Fiduciary funds	783,290
Total Deposits and Investments	<u>\$ 153,545,098</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 814,876
Cash in revolving	150,000
Investments	152,580,222
Total Deposits and Investments	<u>\$ 153,545,098</u>

Policies and Practices

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

General Authorizations

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

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

Interest Rate Risk

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

Investment Type	Fair Value	Weighted- Average Days to Maturity
Riverside County Investment Pool	\$ 152,763,318	431

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by Fitch Ratings. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Minimum Rating</u>	<u>Rating June 30, 2012</u>	<u>Fair Value</u>
Riverside County Investment Pool	Not Required	AAA/V1	<u>\$ 152,763,318</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance was not exposed to custodial credit risk.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 1,687,629	\$ -	\$ -	\$ 2,032,447	\$ -	\$ 3,720,076
State Government						
Apportionment	34,643,795	-	-	1,197,655	-	35,841,450
Categorical aid	3,454,362	-	-	384,839	-	3,839,201
Lottery	1,666,666	-	-	55,993	-	1,722,659
SELPA Master plan	3,884,747	-	-	-	-	3,884,747
Local Government						
Interest	54,734	44,308	4,949	25,792	13,404	143,187
Redevelopment Pass-Through	477,395	-	-	-	-	477,395
Other Local Sources	1,122,935	278,399	-	31,297	4,975	1,437,606
Total	<u>\$46,992,263</u>	<u>\$ 322,707</u>	<u>\$ 4,949</u>	<u>\$ 3,728,023</u>	<u>\$ 18,379</u>	<u>\$ 51,066,321</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 86,403,564	\$ 127,043	\$ 20,168	\$ 86,510,439
Construction in progress	88,365,213	69,399,322	51,401,019	106,363,516
Total Capital Assets Not Being Depreciated	<u>174,768,777</u>	<u>69,526,365</u>	<u>51,421,187</u>	<u>192,873,955</u>
Capital Assets Being Depreciated				
Land improvements	1,362,658	-	-	1,362,658
Buildings and improvements	372,586,331	51,401,019	-	423,987,350
Furniture and equipment	14,266,524	2,126,896	53,800	16,339,620
Total Capital Assets Being Depreciated	<u>388,215,513</u>	<u>53,527,915</u>	<u>53,800</u>	<u>441,689,628</u>
Less Accumulated Depreciation				
Land improvements	128,881	27,133	-	156,014
Buildings and improvements	130,477,397	8,401,286	-	138,878,683
Furniture and equipment	11,660,377	1,498,142	53,800	13,104,719
Total Accumulated Depreciation	<u>142,266,655</u>	<u>9,926,561</u>	<u>53,800</u>	<u>152,139,416</u>
Capital Assets, Net	<u>\$ 420,717,635</u>	<u>\$ 113,127,719</u>	<u>\$ 51,421,187</u>	<u>\$ 482,424,167</u>

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 9,163,665
All other general administration	306,474
Plant services	456,422
Total Depreciation Expenses	<u>\$ 9,926,561</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances consist of amounts allocated between funds for various purposes. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds and the Internal Service Fund, are as follows:

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 84	\$ 1,117,788	\$ 1,117,872
Non-Major Governmental Funds	988,747	31,873	923	1,021,543
Internal Service Fund	47,103	-	-	47,103
Total	<u>\$ 1,035,850</u>	<u>\$ 31,957</u>	<u>\$ 1,118,711</u>	<u>\$ 2,186,518</u>

A balance of \$147,310 is due to the Charter School Non-Major Governmental Fund from the General Fund for In Lieu of Property Taxes pass through monies and to cover indirect costs.

A balance of \$868,608 is due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund to cover costs.

The balance of \$129,838 is due to the General Fund from the Charter School Non-Major Governmental Fund for Special Education pro-rata share and to cover costs.

A balance of \$130,093 is due to the General Fund from the Adult Education Non-Major Governmental Fund for a temporary loan to cover costs.

A balance of \$751,841 is due to the General Fund from the Child Development Non-Major Governmental Fund for a temporary loan and indirect costs.

A balance of \$66,805 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 165,189	\$ 165,189
Building Fund	-	33,736,145	-	33,736,145
Non-Major Governmental Funds	1,086,402	-	-	1,086,402
Internal Service Fund	46,490	-	-	46,490
Total	\$ 1,132,892	\$ 33,736,145	\$ 165,189	\$ 35,034,226

The General Fund transferred to the Charter School Non-Major Governmental Fund for their share of Title I and Education Job Funds.	\$ 251,683
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for matching.	818,608
The Cafeteria Non-Major Governmental Fund transferred to the General Fund for reimbursement.	901
The General Fund transferred to the Child Development Non-Major Governmental Fund for cash flow purposes.	16,111
The Charter School Non-Major Governmental Fund transferred to the General Fund for their Special Education encroachment pro-rata share.	125,077
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for three percent revenue.	39,211
The General Fund transferred to the Self-Insurance Internal Service Fund for retiree benefits.	46,490
The County School Facilities Fund transferred to the Building Fund for capital projects reimbursement.	<u>33,736,145</u>
Total	<u>\$ 35,034,226</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 2,285,470	\$ 226,676	\$ 331,958	\$ 117,218	\$ 2,961,322
State apportionment	1,344,159	-	-	-	1,344,159
Salaries and benefits	358,306	-	73,579	-	431,885
Construction	-	5,228,267	-	-	5,228,267
Total	<u>\$ 3,987,935</u>	<u>\$ 5,454,943</u>	<u>\$ 405,537</u>	<u>\$ 117,218</u>	<u>\$ 9,965,633</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 350,800	\$ 1,096	\$ 351,896
State categorical aid	106,084	-	106,084
Other local	22,216	-	22,216
Total	<u>\$ 479,100</u>	<u>\$ 1,096</u>	<u>\$ 480,196</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 338,021,439	\$ -	\$ 12,538,988	\$ 325,482,451	\$ 11,488,972
Premium on issuance	5,324,770	-	242,035	5,082,735	-
Capital leases	-	320,240	109,563	210,677	103,987
Compensated absences	1,196,497	124,542	-	1,321,039	-
Claims liability	3,606,577	6,023,794	-	9,630,371	-
OPEB obligation	444,763	2,854,356	1,540,049	1,759,070	-
	<u>\$ 348,594,046</u>	<u>\$ 9,322,932</u>	<u>\$ 14,430,635</u>	<u>\$ 343,486,343</u>	<u>\$ 11,592,959</u>

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

Payments for capital leases are made in the General Fund.

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

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

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Issued	Redeemed	Bonds Outstanding June 30, 2012
04/09/03	08/01/33	1.05-4.00%	\$20,000,000	\$ 480,000	\$ -	\$ 480,000	\$ -
05/19/04	02/01/18	2.00-4.75%	4,615,000	320,000	-	320,000	-
10/29/04	08/01/33	1.80-4.65%	12,500,000	11,270,000	-	280,000	10,990,000
11/03/05	02/01/23	2.70-4.38%	17,300,000	12,705,000	-	870,000	11,835,000
06/14/06	02/01/36	3.63-4.67%	80,000,000	74,455,000	-	1,680,000	72,775,000
10/23/07	08/01/36	3.40-4.62%	42,000,000	40,635,000	-	740,000	39,895,000
06/15/10	02/01/26	4.37%	19,539,035	18,251,439	-	893,988	17,357,451
01/12/10	08/01/33	2.00-5.00%	110,000,000	104,800,000	-	5,300,000	99,500,000
06/08/11	08/01/32	0.40-5.00%	75,105,000	75,105,000	-	1,975,000	73,130,000
				<u>\$ 338,021,439</u>	<u>\$ -</u>	<u>\$ 12,538,988</u>	<u>\$ 325,482,451</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Debt Service Requirements to Maturity

The bonds mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 11,488,972	\$ 14,404,881	\$ 25,893,853
2014	12,525,584	14,050,163	26,575,747
2015	11,508,677	13,677,973	25,186,650
2016	12,093,511	13,258,232	25,351,743
2017	12,555,186	12,766,062	25,321,247
2018-2022	66,066,881	55,384,961	121,451,843
2023-2027	64,118,640	40,563,016	104,681,656
2028-2032	82,105,000	23,091,950	105,196,950
2033-2037	53,020,000	4,289,188	57,309,188
Total	<u>\$ 325,482,451</u>	<u>\$ 191,486,426</u>	<u>\$ 516,968,877</u>

Capital Lease Summary

	Computers
Balance, July 1, 2011	\$ -
Additions	328,687
Payments	109,563
Balance, June 30, 2012	<u>\$ 219,124</u>

Capital Lease Payments

Year Ending June 30,	Lease Payment
2013	\$ 109,562
2014	109,562
Total	219,124
Less: Amount Representing Interest	8,447
Present Value of Minimum Lease Payments	<u>\$ 210,677</u>

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$1,321,039.

Claims Liability

The District has an outstanding long-term liability for incurred but not reported claims for the District's workers' compensation insurance program in the amount of \$9,630,371 at June 30, 2012.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$2,832,118, and contributions made by the District during the year were \$1,519,338. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$22,238 and \$(20,711), respectively, which resulted in an increase to the net OPEB obligation of \$1,314,307. As of June 30, 2012, the net OPEB obligation was \$1,759,070. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund
Nonspendable			
Revolving cash	\$ 100,000	\$ -	\$ -
Stores inventories	181,386	-	-
Total Nonspendable	<u>281,386</u>	<u>-</u>	<u>-</u>
Restricted			
Legally restricted	43,840,088	-	-
Capital projects	-	33,975,800	3,291,518
Debt services	-	-	-
Total Restricted	<u>43,840,088</u>	<u>33,975,800</u>	<u>3,291,518</u>
Committed			
Adult education program	-	-	-
Deferred maintenance	-	-	-
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>
Assigned			
MAA	1,914,332	-	-
Dell refund	42,356	-	-
Unrestricted carryover	1,985,576	-	-
Carryover	97,840	-	-
Other assignments	16,518,416	-	-
Total Assigned	<u>20,558,520</u>	<u>-</u>	<u>-</u>
Unassigned			
Economic uncertainties	16,962,745	-	-
Remaining unassigned	2,494,089	-	-
Total Unassigned	<u>19,456,834</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 84,136,828</u>	<u>\$ 33,975,800</u>	<u>\$ 3,291,518</u>

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
\$ -	\$ 50,000	\$ 150,000
-	195,558	376,944
-	245,558	526,944
-	7,570,405	51,410,493
-	16,410,426	53,677,744
29,254,761	-	29,254,761
<u>29,254,761</u>	<u>23,980,831</u>	<u>134,342,998</u>
-	38,240	38,240
-	1,596,055	1,596,055
-	1,634,295	1,634,295
-	-	1,914,332
-	-	42,356
-	-	1,985,576
-	-	97,840
-	3,227,346	19,745,762
-	3,227,346	23,785,866
-	-	16,962,745
-	-	2,494,089
-	-	19,456,834
<u>\$ 29,254,761</u>	<u>\$ 29,088,030</u>	<u>\$ 179,746,937</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Plan Description

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

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Palm Springs Teachers Association (PSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the District contributed \$1,519,338 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 2,832,118
Interest on net OPEB obligation	22,238
Adjustment to annual required contribution	<u>(20,711)</u>
Annual OPEB cost (expense)	2,833,645
Contributions made	<u>(1,519,338)</u>
Increase in net OPEB obligation	1,314,307
Net OPEB obligation, beginning of year	444,763
Net OPEB obligation, end of year	<u><u>\$ 1,759,070</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Trend Information

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

Year Ended June 30,	Annual OPEB Costs	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$ 1,333,807	\$ 1,239,176	93%	\$ 481,049
2011	1,333,808	1,370,094	103%	444,763
2012	2,833,645	1,519,338	54%	1,759,070

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 1, 2011	\$ -	\$ 24,280,898	\$ 24,280,898	0%	\$ 125,996,825	19%

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

Actuarial Methods and Assumptions

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

NOTE 11 - RISK MANAGEMENT - CLAIMS

Description

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

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

Claims Liabilities

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

Unpaid Claim Liabilities

The Internal Service Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities of the District from July 1, 2010 to June 30, 2012:

	Workers' Compensation
Liability Balance, July 1, 2010	\$ 2,761,481
Claims and changes in estimates	3,025,819
Claims payments	(2,180,723)
Liability Balance, June 30, 2011	3,606,577
Claims and changes in estimates	9,354,085
Claims payments	(1,733,291)
Liability Balance, June 30, 2012	<u>\$ 11,227,371</u>
Assets available to pay claims at June 30, 2012	<u>\$ 7,043,534</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$7,041,192, \$7,152,514, and \$7,425,350, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$4,060,413, \$4,072,521, and \$3,874,604, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,639,498 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

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, 2012.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Construction Commitments</u>	<u>Date of Completion</u>
District-Wide Energy Conservation	\$ 4,000,000	August 2013
District-Wide Phone System Modernization	5,000,000	December 2013
District-Wide Kitchen Renovations	11,000,000	December 2014
Palm Springs High School	4,600,000	August 2013
Ed Wenzlaff Alternative Education	5,000,000	August 2014
Cabot Yerxa (Elementary 16)	400,000	December 2012
Desert Springs	20,000,000	December 2016
Jalisco (Elementary 18)	31,050,000	January 2014
Rancho Mirage High School	31,000,000	June 2013
Raymond Cree	255,000	October 2012
	<u>\$ 112,305,000</u>	

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

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

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

During the year ended June 30, 2012, the District made payments of \$764,560 and \$26,065,248, to So Cal ReLiEF and REEP, respectively, for health and property and liability coverage.

NOTE 15 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

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REQUIRED SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 115,123,753	\$ 114,455,228	\$ 114,030,324	\$ (424,904)
Federal sources	17,681,908	21,668,486	19,309,158	(2,359,328)
Other State sources	22,508,958	26,398,440	30,850,299	4,451,859
Other local sources	19,538,388	21,268,835	25,407,353	4,138,518
Total Revenues ¹	174,853,007	183,790,989	189,597,134	5,806,145
EXPENDITURES				
Current				
Certificated salaries	81,836,639	84,620,364	84,381,811	238,553
Classified salaries	25,465,931	25,766,121	25,512,250	253,871
Employee benefits	40,781,348	41,449,834	45,503,741	(4,053,907)
Books and supplies	7,124,874	10,035,099	6,196,867	3,838,232
Services and operating expenditures	19,440,956	21,418,698	20,905,044	513,654
Capital outlay	130,275	400,633	222,471	178,162
Other outgo	(931,357)	1,727,997	(514,120)	2,242,117
Debt Service				
Principal	60,582	111,129	109,563	1,566
Total Expenditures ¹	173,909,248	185,529,875	182,317,627	3,212,248
Excess (Deficiency) of Revenues Over Expenditures	943,759	(1,738,886)	7,279,507	9,018,393
OTHER FINANCING SOURCES (USES)				
Transfers in	2,241,000	2,345,835	165,189	(2,180,646)
Other sources	-	-	320,240	320,240
Transfers out	(106,353)	(1,095,978)	(1,132,892)	(36,914)
Net Financing Sources (Uses)	2,134,647	1,249,857	(647,463)	(1,897,320)
NET CHANGE IN FUND BALANCE	3,078,406	(489,029)	6,632,044	7,121,073
Fund Balance - Beginning	77,504,784	77,504,784	77,504,784	-
Fund Balance - Ending	\$ 80,583,190	\$ 77,015,755	\$ 84,136,828	\$ 7,121,073

¹ On behalf payments of \$4,639,498 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund is included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
April 1, 2008	\$ -	\$ 16,672,766	\$ 16,672,766	0%	\$ 118,937,191	14%
June 1, 2011	-	24,280,898	24,280,898	0%	125,996,825	19%

The District has placed \$7,085,991 in the Internal Service Fund as being expressly for the purpose of funding the future liability associated with the District's OPEB obligation. This designation is not allowed to be included in the actuarial value of assets noted above. If this amount had been placed into a restricted irrevocable trust in accordance with GASB Statement No. 43 guidelines, as of year-end, the calculation of the actuarial value of assets would have been \$7,085,991. The unfunded AAL would have been \$17,194,907. The funded ratio would have been 29 percent, and the UAAL as a percentage of covered payroll, would have been 14 percent, accordingly.

SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education - Adult Basic Education & ESL	84.002A	14508	\$ 45,832
Adult Basic Education - Adult Secondary	84.002	13978	24,077
Adult Basic Education - English Literacy and Civics Education	84.002A	14109	<u>51,100</u>
Total Adult Education - Basic Grants to States Cluster			<u>121,009</u>
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	163,625
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,133,058
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	4,848
Basic Local Assistance ARRA, Part B, Section 611	84.391	15003	343,198
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	59,010
Preschool Grants ARRA, Part B, Section 619	84.392	15000	1,031
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	128,130
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	115,218
Preschool Local Entitlement ARRA, Part B, Section 611	84.391	15002	70,827
Preschool Staff Development, Part B, Section 619	84.173A	13431	632
Total Special Education (IDEA) Cluster			<u>3,855,952</u>
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low-Income and Neglected - Reallocation Funds	84.010	14981	6,248,069
Title I, Part A, ARRA Basic Grants Low Income and Neglected	84.389	15005	<u>528,517</u>
Total Title I, Part A Cluster			<u>6,776,586</u>
Education Jobs Fund	84.410	25152	3,090,105
ARRA, State Fiscal Stabilization Fund (SFSF)	84.394	25008	100
Title I, Part B, Reading First Program LEA Grants	84.357	14787	20,429

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	\$ 36,734
Title II, Part A, Improving Teacher Quality Local Grants Education Technology State Grants Cluster	84.367	14341	1,150,385
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	20,503
ARRA, Title II, Part D, Enhancing Education Through Technology (EETT) Formula Grants	84.386	15019	110,002
ARRA, Title II, Part D, Enhancing Education Through Technology, Competitive Grants (EETT)	84.386	15126	247,962
Total Education Technology State Grants Cluster			378,467
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	660,303
Title V, Part B, Public Charter Schools Grant Program Smaller Learning Communities	84.282	14531	245,583
	84.215L	[2]	49,796
Total U.S. Department of Education			16,549,074
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	6,384
Passed through California Department of Education (CDE):			
Child Nutrition Cluster			
Basic School Breakfast Program	10.553	13525	
Especially Needy Breakfast	10.553	13526	2,407,515
National School Lunch Program	10.555	13524	7,379,697
Meal Supplement	10.555	13396	198,757
Summer Food Service Program Operations	10.559	13004	122,628
Summer Food Service Sponsor Admin	10.559	13006	12,849
Food Distribution	10.555	13524	579,826
Total Child Nutrition Cluster			10,701,272
Fresh Fruit and Vegetable Program	10.582	14968	65,465
Breakfast Startup or Summer Food Service Startup	[1]	23668	
Network Grants	[1]	[2]	191,321
Total U.S. Department of Agriculture			10,964,442

[1] Catalog Number not available

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF DEFENSE			
Department of Defense Education Activity	12.030	[2]	
Junior Reserve Officer Training Corps - Air Force	12.000	[2]	\$ 182,001
Total U.S. Department of Defense			<u>182,001</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	660,371
Medi-Cal Administrative Activities Program	93.778	10060	657,699
Total Medicaid Cluster			<u>1,318,070</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	1,684,791
Total U.S. Department of Health and Human Services			<u>3,002,861</u>
Total Federal Programs			<u>\$ 30,698,378</u>

[2] 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, 2012

ORGANIZATION

The Palm Springs Unified School District was established in 1948, and consists of an area comprising approximately 498 square miles. The District operates fifteen elementary schools, four middle schools, three high schools, one continuation high school, an adult education program, and an alternative education program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard Clapp	President	2012
Karen Cornett	Clerk	2012
Justin Blake	Member	2014
Gary Jeandron	Member	2014
Shari Stewart	Member	2014

ADMINISTRATION

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

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,543	1,548
First through third	4,714	4,717
Fourth through sixth	4,801	4,801
Seventh and eighth	3,229	3,213
Opportunity schools	7	8
Home and hospital	3	3
Special education	426	433
Total Elementary	<u>14,723</u>	<u>14,723</u>
SECONDARY		
Regular classes	6,046	5,971
Continuation education	383	360
Opportunity schools	46	49
Home and hospital	8	9
Special education	265	264
Total Secondary	<u>6,748</u>	<u>6,653</u>
Total K-12	<u>21,471</u>	<u>21,376</u>
CIELO VISTA CHARTER SCHOOL		
Kindergarten	117	118
First through third	322	321
Fourth through sixth	311	307
Total	<u>750</u>	<u>746</u>
CIELO VISTA CHARTER SCHOOL - Classroom Based Instruction		
Kindergarten	117	118
First through third	321	321
Fourth through sixth	311	307
Total	<u>749</u>	<u>746</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	29,568	36,000	33,600	36,000	180	175	Complied
Grades 1 - 3	49,280	45,995	50,400	47,040				
Grade 1					52,350	180	175	Complied
Grade 2					52,350	180	175	Complied
Grade 3					52,350	180	175	Complied
Grades 4 - 6	49,280	45,995	54,000	50,400				
Grade 4					54,000	180	175	Complied
Grade 5					54,000	180	175	Complied
Grade 6	49,280		54,000		56,295	180		Complied
Grades 7 - 8		45,995		50,400			N/A	
Grade 7					56,295	180	N/A	Complied
Grade 8					56,295	180	N/A	Complied
Grades 9 - 12	64,218	59,937	64,800	60,480				
Grade 9					64,840	180	N/A	Complied
Grade 10					64,840	180	N/A	Complied
Grade 11					64,840	180	N/A	Complied
Grade 12					64,840	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	29,568	36,000	33,531	57,730	180	N/A	Complied
Grades 1 - 3	49,280	45,995	50,400	46,944				
Grade 1					57,730	180	N/A	Complied
Grade 2					57,730	180	N/A	Complied
Grade 3					57,730	180	N/A	Complied
Grades 4 - 5	49,280	45,995	54,000	50,297				
Grade 4					59,070	180	N/A	Complied
Grade 5					59,070	180	N/A	Complied
Grade 6					59,070	180	N/A	Complied

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY OF THE PROPOSITION 10 GRANT
FOR THE YEAR ENDED JUNE 30, 2012**

	Proposition 10 Agreement Number
	<u>7014 LS-11</u>
	<u>July 1, 2011 - June 30, 2012</u>
REVENUES	
State categorical aid	<u>\$ 340,067</u>
EXPENDITURES	
Personnel and benefits	\$ 336,794
Operating expenditures	3,273
	<u>\$ 340,067</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, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND ⁵				
Revenues	\$ 173,813,509	\$ 189,546,989	\$ 184,366,839	\$ 192,085,368
Other sources and transfers in	1,720,000	2,238,156	743,513	2,978,417
Total Revenues and Other Sources	175,533,509	191,785,145	185,110,352	195,063,785
Expenditures	181,888,952	182,317,627	180,838,726	190,898,584
Other uses and transfers out	2,047,281	1,139,845	1,701,938	114,492
Total Expenditures and Other Uses	183,936,233	183,457,472	182,540,664	191,013,076
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (8,402,724)</u>	<u>\$ 8,327,673</u>	<u>\$ 2,569,688</u>	<u>\$ 4,050,709</u>
ENDING FUND BALANCE	<u>\$ 61,625,041</u>	<u>\$ 70,027,765</u>	<u>\$ 61,700,092</u>	<u>\$ 59,130,404</u>
AVAILABLE RESERVES ²	<u>\$ 20,327,858</u>	<u>\$ 19,456,834</u>	<u>\$ 21,911,390</u>	<u>\$ 15,804,436</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>11.1%</u>	<u>10.9%</u>	<u>12.3%</u>	<u>8.4%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$343,486,343</u>	<u>\$ 348,594,046</u>	<u>\$ 358,845,107</u>
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	<u>21,434</u>	<u>21,471</u>	<u>21,445</u>	<u>22,413</u>

The General Fund balance has increased by \$10,897,361 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$8,402,724 (12 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 but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have decreased by \$15,358,764 over the past two years.

Average daily attendance has decreased by 942 over the past two years. Additional decline of 37 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$4,639,498, \$3,830,316, and \$3,949,588 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012, 2011, and 2010, respectively.

⁴ Excludes Charter School ADA.

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

See accompanying note to supplementary information.

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2012**

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

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 475,783	\$ 27,178	\$ 711,401	\$ 3,957,696
Receivables	1,502,584	121,102	144,180	1,937,236
Due from other funds	147,310	20,053	895	2,804
Stores inventories	-	-	-	195,558
Total Assets	\$ 2,125,677	\$ 168,333	\$ 856,476	\$ 6,093,294
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 23,574	\$ -	\$ 102,616	\$ 182,791
Due to other funds	129,838	130,093	752,764	66,805
Deferred revenue	-	-	1,096	-
Total Liabilities	153,412	130,093	856,476	249,596
Fund Balances:				
Nonspendable	50,000	-	-	195,558
Restricted	1,922,265	-	-	5,648,140
Committed	-	38,240	-	-
Assigned	-	-	-	-
Total Fund Balances	1,972,265	38,240	-	5,843,698
Total Liabilities and Fund Balances	\$ 2,125,677	\$ 168,333	\$ 856,476	\$ 6,093,294

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ 809,738	\$ 16,462,297	\$ 3,224,157	\$ 25,668,250
853	18,879	3,189	3,728,023
818,608	31,873	-	1,021,543
-	-	-	195,558
<u>\$ 1,629,199</u>	<u>\$ 16,513,049</u>	<u>\$ 3,227,346</u>	<u>\$ 30,613,374</u>
\$ 33,144	\$ 63,412	\$ -	\$ 405,537
-	39,211	-	1,118,711
-	-	-	1,096
<u>33,144</u>	<u>102,623</u>	<u>-</u>	<u>1,525,344</u>
-	-	-	245,558
-	16,410,426	-	23,980,831
1,596,055	-	-	1,634,295
-	-	3,227,346	3,227,346
<u>1,596,055</u>	<u>16,410,426</u>	<u>3,227,346</u>	<u>29,088,030</u>
<u>\$ 1,629,199</u>	<u>\$ 16,513,049</u>	<u>\$ 3,227,346</u>	<u>\$ 30,613,374</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Charter School Fund</u>	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>
REVENUES				
Revenue limit sources	\$ 4,016,642	\$ -	\$ -	\$ -
Federal sources	245,583	121,009	-	10,766,737
Other State sources	845,683	20,053	1,976,697	1,007,470
Other local sources	138,373	18,111	(2,908)	1,240,068
Total Revenues	<u>5,246,281</u>	<u>159,173</u>	<u>1,973,789</u>	<u>13,014,275</u>
EXPENDITURES				
Current				
Instruction	3,053,670	121,993	1,526,334	-
Instruction-related activities:				
Supervision of instruction	133,796	-	380,100	-
Instructional library, media and technology	53,340	-	-	-
School site administration	308,020	15,568	-	-
Pupil services:				
Food services	-	-	4,681	12,827,276
All other pupil services	47,847	-	23,276	-
Administration:				
All other administration	314,165	-	20,396	506,752
Plant services	239,440	-	35,113	7,803
Facility acquisition and construction	-	-	-	-
Total Expenditures	<u>4,150,278</u>	<u>137,561</u>	<u>1,989,900</u>	<u>13,341,831</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>1,096,003</u>	<u>21,612</u>	<u>(16,111)</u>	<u>(327,556)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	251,683	-	16,111	-
Other sources	-	-	-	-
Transfers out	(125,077)	-	-	(901)
Net Financing Sources (Uses)	<u>126,606</u>	<u>-</u>	<u>16,111</u>	<u>(901)</u>
NET CHANGE IN FUND BALANCES	1,222,609	21,612	-	(328,457)
Fund Balances - Beginning	749,656	16,628	-	6,172,155
Fund Balances - Ending	<u>\$ 1,972,265</u>	<u>\$ 38,240</u>	<u>\$ -</u>	<u>\$ 5,843,698</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 4,016,642
-	-	-	11,133,329
-	-	-	3,849,903
1,640	1,383,328	210,678	2,989,290
<u>1,640</u>	<u>1,383,328</u>	<u>210,678</u>	<u>21,989,164</u>
-	-	-	4,701,997
-	-	-	513,896
-	-	-	53,340
-	-	-	323,588
-	-	-	12,831,957
-	-	-	71,123
-	458,707	-	1,300,020
269,241	515,503	6,000	1,073,100
30,058	65,062	-	95,120
<u>299,299</u>	<u>1,039,272</u>	<u>6,000</u>	<u>20,964,141</u>
(297,659)	344,056	204,678	1,025,023
818,608	-	-	1,086,402
-	-	395,000	395,000
-	(39,211)	-	(165,189)
<u>818,608</u>	<u>(39,211)</u>	<u>395,000</u>	<u>1,316,213</u>
520,949	304,845	599,678	2,341,236
1,075,106	16,105,581	2,627,668	26,746,794
<u>\$ 1,596,055</u>	<u>\$ 16,410,426</u>	<u>\$ 3,227,346</u>	<u>\$ 29,088,030</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Administrative Activities Program funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2012. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 30,442,487
Medi-Cal Billing Option	93.778	(46,694)
Medi-Cal Administrative Activities Program	93.778	302,585
Total Schedule of Expenditures of Federal Awards		<u>\$ 30,698,378</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title I, Part A, Basic Grants Low-Income and Neglected - Reallocation Funds	84.010	<u>\$ 37,054</u>

Local Education Agency Organization Structure

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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 requirements, whichever is greater, as required by *Education Code* Section 46201.

Summary of Proposition 10 Grants

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited 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, 2012, which collectively comprise Palm Springs Unified School District's basic financial statements and have issued our report thereon dated November 21, 2012. 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.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

Internal Control Over Financial Reporting

Management of Palm Springs Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Palm Springs Unified School District's internal control over financial reporting 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting; 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 November 19, 2012.

Palm Springs Unified School District's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Palm Springs Unified School District's response and, accordingly, express no opinion on it.

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Palm Springs Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Palm Springs Unified School District's major Federal programs for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Palm Springs Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

November 21, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Palm Springs Unified School District
 Palm Springs, California

We have audited Palm Springs Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011-2012*, applicable to Palm Springs Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above 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 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 2011-2012*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Palm Springs Unified School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Palm Springs Unified School District's compliance with those requirements.

In our opinion, Palm Springs Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes, See Below

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Yes

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

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.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
November 21, 2012

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, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</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?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II, Part A, Improving Teacher Quality Local Grants</u>
<u>84.318 and 84.386 (ARRA)</u>	<u>Education Technology State Grants Cluster (Includes ARRA)</u>
<u>10.553, 10.555 and 10.559</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 920,951</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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

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

2012-1 30000

Significant Deficiency

Criteria or Specific Requirements

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

Condition

The District has established an Internal Service Fund to account for workers' compensation expenses and related costs associated with District employees. At June 30, 2012, the Internal Service Fund has a deficit net assets balance in the amount of \$4,301,055.

Questioned costs

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through review and testing related to the District's Internal Service Fund.

Effect

The financial statement impact of this situation is that the Internal Service Fund is operating on a cash basis whereby the cash received from the other funds are enough to cover its current cash outflows.

Cause

The District has not previously recognized the entire amount associated with the District's actuarially determined liability related to its workers' compensation.

Recommendation

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Corrective Action Plan

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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



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 (the District), for the year ended June 30, 2012, 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 November 21, 2012, on the government-wide financial statements of Palm Springs Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

ASSOCIATED STUDENT BODY (ASB)

Painted Hills Middle School, Cathedral City High School, Mt. San Jacinto Continuation High School

Revenue Potentials

Observation

Revenue potential forms (Activity Request Forms) to document and control fund-raising activities as they occur were noted as incomplete as the sales analysis portion was not completed. 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 forms (Activity Request Forms) 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 cost so that profits can be determined.

Governing Board
Palm Springs Unified School District

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.

Cathedral City High School

Inventory Listing

Observation

The student store does not maintain a perpetual inventory of the merchandise purchased or sold; therefore, no accountability exists for the inventory. In addition, the ASB student store account does not include all student store sales and expenditure activity, as well as the inventory balance.

Recommendation

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the FCMAT ASB Guide, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the ASB of the site. In addition, the student store inventory should be accounted for in a separate account from student store sales and operations.

Financial Statements

Observation

The student store monthly inventory and ASB petty cash account are not recognized on the ASB financial statements; therefore, the site does not appear to be aware of its year-end inventory balance and monthly ASB petty cash balance.

Recommendation

The student store inventory and petty cash account should be listed as individual assets on the ASB's financial statements; this would ensure the inventory and petty cash are reconciled properly to the monthly inventory count and monthly petty cash counts.

Painted Hills Middle School

Ticket Reports and Logs

Observation

A master ticket log is not being used by the site to account for all tickets on hand and used during the year. In addition, "Ticket Control Sheets" are not prepared in order to calculate the number of tickets sold and the total revenue generated based on the selling price per ticket.

Recommendation

A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the "Ticket Control Sheet" is returned, the form should be reconciled to the log. The "Ticket Control Sheet" should also note beginning and ending ticket numbers sold and at what price, this makes it possible to reconcile cash collected to tickets actually sold.

ASB Cash Collections

Observation

It appears that the site does not provide adequate controls over cash receipts when money is deposited to the ASB Clerk. During the time of the audit the auditor noted that no pre-numbered receipts were being used for the collection of cash being deposited to the ASB after fundraising activities.

Recommendation

When the school site collects cash, receipting procedures should be utilized. At the end of each day all cash collected should be reconciled to receipts. A copy of the pre-numbered receipt should be kept as further documentation to support all ASB bank deposits.

James Workman Middle School

ASB Cash Collections

Observation

It appears that the site does not provide adequate controls over cash receipts. During the time of the audit the auditor noted that no receipts were being issued for the collection of cash.

Recommendation

When the school site collects site cash, receipting procedures should be utilized. At the end of each day all cash collected should be reconciled to receipts.

ASB Inventory

Observation

The ASB and clubs do not maintain an inventory of the merchandise purchased or sold, therefore no accountability exists for the inventory.

Recommendation

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Inventory Listing

Observation

The student store does not maintain a perpetual inventory of the merchandise purchased or sold; therefore, no accountability exists for the inventory. In addition, the ASB student store account includes all student stores, sales and expenditure activity, as well as the inventory balance.

Recommendation

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the FCMAT ASB Guide, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the ASB of the site. In addition, the student store inventory should be accounted for in a separate account from student store sales and operations.

Prohibited Disbursements

Observation

The ASB had questionable prohibited disbursements in the amount of \$343.26, which was used to purchase six iTunes gift cards and three Ipod Shuffles using ASB funds.

Recommendation

Expenditure of ASB funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a District responsibility, or are a gift of public funds:

- Salaries or supplies that are the responsibility of the District. Some example are:
 - Teacher's salaries and negotiated stipends, curriculum supplies, and office supplies and equipment.
 - Repair and maintenance of District-owned facilities and equipment
 - Articles for the personal use of District employees
 - Expenses for faculty meetings
 - Expenses for parent-teacher organizations such as the PTA or boosters
 - Large awards
 - Gifts of any kind
 - Employee appreciation meals
 - Employee clothing/attire
 - Donations
 - Cash awards to anyone, because internal controls cannot be established and documented

Because ASB funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

Mt. San Jacinto Continuation High School

Timely Deposits

Observation

Deposits are not being made timely by the bookkeeper. Days between receipt date and deposit date were greater than 30 days. This results in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.

Recommendation

At a minimum, deposits should be made weekly 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. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely.

Student Council Minutes

Observation

The minutes of the Student Council meetings are not recorded as suggested in the "Accounting Procedures for Student Organizations" manual, as prepared by the School Business Services Division of the California Department of Education.

Recommendation

The Department of Education's manual suggests that minutes be taken and filed which includes details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures. In addition, any motion which is presented and voted on must include the individual's name who presented the motion, the person who seconded it and the final vote on the motion.

Petty Cash

Observation

The site maintains a petty cash fund in the amount of \$300 that is not reported on the balance sheet as an asset, but is considered a ASB account.

Recommendation

The account needs to be recorded on the balance sheet and should only be used to make change for purchases for fundraising events.

Prohibited Expenditures

Observation

The following prohibited expenditures:

1. Cash gift was given to a student in the amount of \$100.

Recommendation

Expenditure of student funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a district responsibility, or are a gift of public funds:

- Salaries or supplies that are the responsibility of the District. Some examples are Teacher's salaries and negotiated stipends, curriculum supplies, and office supplies and equipment
- Repair and maintenance of District-owned facilities and equipment
- Articles for the personal use of District employees
- Expenses for faculty meetings
- Expenses for parent-teacher organizations such as the PTA or boosters
- Large awards
- Gifts of any kind
- Employee appreciation meals
- Employee clothing/attire
- Donations
- Cash awards to anyone, because internal controls cannot be established and documented

Because student body funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

Cash Collection Procedures

Observation

In our testing of the cash receipts system, we discovered that a teacher does not have receipting procedures in place for monies collected from fundraising events. We also noted that the teacher would make the deposits to the bank and inform the ASB advisor monies have been deposited. There is no way for the ASB accountant to reconcile the amount of monies collected to the total receipts issued.

Recommendation

A key control procedure to ensure that all monies collected by teachers and advisors are included in the deposit forwarded to the bookkeeper is to receipt all monies and total the receipts issued since the last deposit to ensure that the cash equals the total of the receipts. If all monies are not receipted, this control does not work; the cash would exceed the issued receipts total. Upon receipt of the cash, receipt carbons, and total receipts issued recap, the bookkeeper should verify the information and ensure that the sub-receipts are in chronological and numeric order. Once verified, the bookkeeper should issue a receipt back to the teacher, or advisor, which would equal the verified cash and receipts issued by the teacher or advisor.

Cash Collection Procedures

Observation

It appears that the site does not provide adequate controls over cash receipts. We noted multiple instances where deposits were made with no issuance of receipts and therefore, we noted multiple instances where no reconciliation between issued receipts and bank deposits were made throughout the year.

Recommendation

Prenumbered receipts should be issued for all cash collections by teacher, advisors, and the site bookkeeper who would include a specific description of the source of the funds. A copy of the receipts issued by the teachers, and advisors, should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current bank deposit. The basic premise of a cash receipts system is that the receipts are written at the time the cash is collected and not at the time the deposit is being made. If the receipts are written at this time, the bookkeeper would have no way of knowing if money is misplaced or has been stolen.

SITE CASH COLLECTIONS

James Workman Middle School

Safeguarding of Assets

Observation

During the audit of cash receipts, we noted that procedures are not sufficient to safeguard cash receipts. The auditor noted that the drawer where the cash is kept, is not kept locked throughout the day. This was a concern due to the fact that the room is easily accessible by students and other employees, which increases the risk of theft.

Recommendation

The cash should be in a locked drawer throughout the day and access should be limited to those who have been given the responsibility to safeguard the monies to help decrease the risk of theft.

PRIOR YEAR OBSERVATIONS AND STATUS

ASSOCIATED STUDENT BODY (ASB)

Nellie Coffman Middle School

Revenue Potentials

Finding

In reviewing the revenue potential forms, it was noted that all revenue potential forms were not completely filled out. The actual expense and the fundraiser analysis portions of the revenue potential forms were incomplete, as well as an acknowledgement signature from the ASB Advisor was missing.

Recommendation

Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. In addition, a review by the ASB Advisor should be performed to denote a review and acknowledgement of the results of the fundraiser.

Current Status

Implemented.

Ticket Logs

Finding

A master ticket log is not being used by the site to account for all tickets on hand and used during the year. In addition, ticket sales recap form is not prepared which calculates the number of tickets sold and the total revenue generated based on the selling price per ticket. The auditor was unable to review the ticket log, because the ticket log was disposed of by a student at the conclusion of the final fundraising event.

Recommendation

A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

Current Status

Implemented.

Student Store

Finding

The daily sales report identifying items sold and reconciled to cash collected is not prepared. This makes it difficult to trace cash receipts to deposits made, as this does not create an adequate audit trail for the student store.

Recommendation

A daily sales report identifying items sold and reconciled to cash collected should be prepared so that an audit trail can be maintained on all the sales made in the student store. This will ensure the safeguarding of all student inventory and cash receipts generated through student.

Current Status

Implemented.

Financial Statements

Finding

The student store monthly inventory is not recognized on the ASB financial statements; therefore, the site does not appear to be aware of its year-end inventory balance.

Recommendation

The student store inventory should be listed as an individual asset on the ASB's financial statements; that would ensure the inventory is reconciled properly to the monthly inventory count.

Current Status

Implemented.

Cathedral City High School

Revenue Potentials

Finding

In reviewing the revenue potential forms, it was noted that all revenue potential forms were not completely filled out. The actual expense and the fundraiser analysis portions of the revenue potential forms were incomplete, as well as an acknowledgement signature from the ASB Advisor was missing.

Recommendation

Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. In addition, a review by the ASB Advisor should be performed to denote a review and acknowledgement of the results of the fundraiser.

Current Status

Not Implemented. See current year observations.

Inventory Listing

Finding

The student store does not maintain a perpetual inventory of the merchandise purchased or sold, therefore no accountability exists for the inventory. In addition, the ASB Student Store account includes all student stores, sales and expenditure activity, as well as the inventory balance.

Recommendation

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the FCMAT ASB Guide, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site. In addition, the student store inventory should be accounted for in a separate account from student store sales and operations.

Current Status

Not Implemented. See current year observations.

Financial Statements

Finding

The student store monthly inventory and ASB petty cash account are not recognized on the ASB financial statements; therefore the site does not appear to be aware of its year-end inventory balance and monthly ASB petty cash balance.

Recommendation

The student store inventory and petty cash account should be listed as individual assets on the ASB's financial statements; that would ensure the inventory and petty cash are reconciled properly to the monthly inventory count and monthly petty cash bank statements.

Current Status

Not Implemented. See current year observations.

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

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
November 21, 2012