



**PALM SPRINGS UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

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, 2011, 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 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1 and Note 16.

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 December 15, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 53 and 54, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2011



PALM SPRINGS UNIFIED SCHOOL DISTRICT

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

CHRISTINE ANDERSON, Ed.D., Superintendent of Schools

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

This section of Palm Springs Unified School District's (the District) (2010-2011) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011, with comparative information from June 30, 2010. 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, 2011

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status has remained positive.

- Overall revenues were \$11.5 million more than expenses.
- Total net assets in governmental activities were recorded at \$287.1 million.
- The General Fund reported a positive fund balance of \$61.7 million.

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, 2011

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, 2011

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$287.1 million for the fiscal year ended June 30, 2011, an increase of \$11.4 million, or 4.1 percent over the prior year. Of this amount, \$45.2 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	
	2011	2010
Assets		
Current and other assets	\$ 243.7	\$ 316.8
Capital assets	420.7	345.1
Total Assets	<u>664.4</u>	<u>661.9</u>
Liabilities		
Current liabilities	34.9	27.4
Long-term obligations	342.4	358.8
Total Liabilities	<u>377.3</u>	<u>386.2</u>
Net Assets		
Invested in capital assets, net of related debt	151.9	149.2
Restricted	90.0	93.9
Unrestricted	45.2	32.6
Total Net Assets	<u>\$ 287.1</u>	<u>\$ 275.7</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 1.1	\$ 1.3
Operating grants and contributions	56.5	52.5
Capital grants and contributions	-	3.2
General revenues:		
Unrestricted	107.1	97.0
Property taxes	65.7	71.2
Other general revenues	10.1	25.2
Total Revenues	<u>240.5</u>	<u>250.4</u>
Expenses		
Instruction-related	153.6	165.9
Student support services	22.9	23.6
Administration	12.8	13.2
Maintenance and operations	22.3	23.7
Other	17.4	18.4
Total Expenses	<u>229.0</u>	<u>244.8</u>
Change in Net Assets	<u>\$ 11.5</u>	<u>\$ 5.6</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 \$171.4 million, a decrease of \$16.4 million, or 8.7 percent from the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$65.7 million because the cost was paid by those who benefited from the programs (\$1.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$56.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$117.2 million in State funds and other revenues, like interest, and general entitlements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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	
	2011	2010
Instruction-related	\$ 116.0	\$ 127.7
Student support services	5.7	7.3
Administration	11.0	11.9
Maintenance and operations	22.0	23.4
Other activities	16.7	17.5
Total	\$ 171.4	\$ 187.8

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$210.5 million, which is an decrease of \$76.8 million from last year.

Table 4

	Balances and Activity			
	(As Restated)			
	July 1, 2010	Revenues	Expenditures	June 30, 2011
General Fund	\$ 74,713,051	\$ 188,392,440	\$ 185,600,707	\$ 77,504,784
Building Fund	154,386,593	904,250	83,411,788	71,879,055
Bond Interest and Redemption Fund	29,952,694	30,572,026	29,379,631	31,145,089
Non-Major Governmental Funds	28,282,088	21,566,521	19,853,283	29,995,326
Total	\$ 287,334,426	\$ 241,435,237	\$ 318,245,409	\$ 210,524,254

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 13, 2011. (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, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$420.7 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 \$75.6 million, or 21.9 percent, over last year. Depreciation expense of \$9.8 million was allocated to governmental activities during 2011.

Table 5

(Amounts in millions)

	Governmental Activities	
	2011	2010
Land	\$ 86.4	\$ 70.5
Construction in progress	88.4	70.3
Land improvements	1.2	1.3
Buildings and improvements	242.1	198.6
Furniture and equipment	2.6	4.4
Total	\$ 420.7	\$ 345.1

This year's additions consist of the completion of Painted Hills Middle School.

Long-Term Obligations

At the end of this year, the District had \$340.7 million in general obligation bonds outstanding versus \$354.5 million last year, a decrease of 3.9 percent. Unpaid accumulated vacation of \$1.2 million, claims liability of \$3.6 million and \$0.4 million of net OPEB obligation are also included:

Table 6

(Amounts in millions)

	Governmental Activities	
	2011	2010
General obligation bonds	\$ 340.7	\$ 354.5
Compensated absences	1.2	1.1
Claims liability	3.6	2.8
Net OPEB obligation	0.4	0.5
Total	\$ 345.9	\$ 358.9

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-2011 ARE NOTED BELOW:

- Started construction on Rancho Mirage High School.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2011-2012 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 ARRA funding has sustained our District through two years of financial hardship. This funding will be exhausted by September 2011. Education Jobs funding will continue through September 2012.
- The May Revision proposes a flat funding for K-12, which is based on a 2.24 percent Cost of Living Adjustment (COLA) with a corresponding 19.754 percent deficit factor. Because of the uncertainty of the temporary tax extension, this budget includes a reserve of \$330 per ADA, a total of \$7,067,940 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 \$5,381,428 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 our District through two years of financial hardship, will be expended by the end of this summer. The Education Jobs Fund will be paying for a total of 22 full-time equivalent (FTE) teaching positions and 12.69 FTE classified positions at various school sites during the budget year.
- The 2011-2012 fiscal year includes budget cuts, approximately \$4 million which have been discussed and approved by the Board of Education. 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Expenditures are based on the following forecast:

	<u>Staffing Ratio</u>	<u>Enrollment*</u>
Grade Kindergarten through five	31:1	10,032
Grades six through eight	31:1	5,264
Grades nine through twelve	31:1	7,488
Total		<u>22,784</u>

*Does not include Cielo Vista Charter School.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact 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, 2011**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 203,354,301
Receivables	39,928,540
Stores inventories	367,317
Capital assets	
Land and construction in process	174,768,777
Other capital assets	388,215,513
Less: Accumulated depreciation	<u>(142,266,655)</u>
Total Capital Assets	<u>420,717,635</u>
Total Assets	<u>664,367,793</u>
LIABILITIES	
Accounts payable	16,657,309
Interest payable	10,881,652
Deferred revenue	3,718,669
Claims liabilities	3,606,577
Long-term obligations	
Current portion of long-term obligations	13,753,988
Noncurrent portion of long-term obligations	<u>328,603,711</u>
Total Long-Term Obligations	<u>342,357,699</u>
Total Liabilities	<u>377,221,906</u>
NET ASSETS	
Invested in capital assets, net of related debt	151,880,251
Restricted for:	
Debt service	20,263,437
Capital projects	19,354,113
Educational programs	34,728,495
Other activities	15,704,564
Unrestricted	<u>45,215,027</u>
Total Net Assets	<u>\$ 287,145,887</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, 2011**

<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	\$ 132,743,252	\$ 82,679	\$ 31,664,392
Instruction-related activities:			
Supervision of instruction	6,910,078	6,129	5,358,528
Instructional library, media, and technology	1,775,142	-	216,473
School site administration	12,188,775	-	240,154
Pupil services:			
Home-to-school transportation	3,208,889	227	2,220,018
Food services	10,075,732	1,007,393	9,970,348
All other pupil services	9,592,497	4,894	4,014,722
Administration:			
Data processing	2,396,339	-	18,520
All other administration	10,436,506	45,403	1,796,613
Plant services	22,280,846	1,624	261,614
Ancillary services	1,557,195	-	566
Interest on long-term obligations	15,831,957	-	-
Other outgo	6,976	13	702,390
Total Governmental Activities	\$ 229,004,184	\$ 1,148,362	\$ 56,464,338

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>
\$ 22,427		\$ (100,973,754)
-		(1,545,421)
-		(1,558,669)
-		(11,948,621)
-		(988,644)
-		902,009
-		(5,572,881)
-		(2,377,819)
-		(8,594,490)
-		(22,017,608)
-		(1,556,629)
-		(15,831,957)
-		695,427
<u>\$ 22,427</u>		<u>(171,369,057)</u>

30,918,260
30,315,918
4,510,999
107,067,320
570,007
9,450,105
<u>182,832,609</u>
11,463,552
275,682,335
<u>\$ 287,145,887</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 50,310,761	\$ 80,663,652	\$ 31,145,089
Receivables	35,122,530	142,045	-
Due from other funds	2,233,083	-	-
Stores inventories	165,646	-	-
Total Assets	<u>\$ 87,832,020</u>	<u>\$ 80,805,697</u>	<u>\$ 31,145,089</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,955,732	\$ 8,923,671	\$ -
Due to other funds	912,450	2,971	-
Deferred revenue	3,459,054	-	-
Total Liabilities	<u>10,327,236</u>	<u>8,926,642</u>	<u>-</u>
Fund Balances:			
Nonspendable	265,646	-	-
Restricted	34,728,495	71,879,055	31,145,089
Committed	-	-	-
Assigned	20,599,253	-	-
Unassigned	21,911,390	-	-
Total Fund Balances	<u>77,504,784</u>	<u>71,879,055</u>	<u>31,145,089</u>
Total Liabilities and Fund Balances	<u>\$ 87,832,020</u>	<u>\$ 80,805,697</u>	<u>\$ 31,145,089</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 28,244,725	\$ 190,364,227
4,643,164	39,907,739
886,027	3,119,110
201,671	367,317
<u>\$ 33,975,587</u>	<u>\$ 233,758,393</u>
\$ 1,490,534	\$ 16,369,937
2,230,112	3,145,533
259,615	3,718,669
<u>3,980,261</u>	<u>23,234,139</u>
251,671	517,317
25,915,328	163,667,967
1,091,734	1,091,734
2,736,593	23,335,846
-	21,911,390
<u>29,995,326</u>	<u>210,524,254</u>
<u>\$ 33,975,587</u>	<u>\$ 233,758,393</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, 2011**

Total Fund Balance - Governmental Funds		\$ 210,524,254
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:	\$ 562,984,290	
Accumulated depreciation is:	<u>(142,266,655)</u>	
Net Capital Assets		420,717,635
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.		(10,881,652)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		9,143,349
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	340,716,439	
Compensated absences (vacations)	1,196,497	
Net OPEB obligation	<u>444,763</u>	
Total Long-Term Obligations		(342,357,699)
Total Net Assets - Governmental Activities		<u><u>\$ 287,145,887</u></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, 2011**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>
REVENUES			
Revenue limit sources	\$ 116,310,244	\$ -	\$ -
Federal sources	23,902,610	-	-
Other State sources	29,222,141	-	255,869
Other local sources	18,833,932	904,250	30,229,716
Total Revenues	<u>188,268,927</u>	<u>904,250</u>	<u>30,485,585</u>
EXPENDITURES			
Current			
Instruction	118,802,717	-	-
Instruction-related activities:			
Supervision of instruction	6,421,316	-	-
Instructional library, media, and technology	1,723,273	-	-
School site administration	11,903,432	-	-
Pupil services:			
Home-to-school transportation	3,208,889	-	-
Food services	80,392	-	-
All other pupil services	9,500,257	-	-
Administration:			
Data processing	2,396,339	-	-
All other administration	7,851,105	-	-
Plant services	19,851,230	338,451	-
Facility acquisition and construction	1,307,644	83,040,272	-
Ancillary services	1,557,195	-	-
Other outgo	6,976	-	-
Debt service			
Principal	58,278	-	14,818,396
Interest and other	-	33,065	14,561,235
Total Expenditures	<u>184,669,043</u>	<u>83,411,788</u>	<u>29,379,631</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,599,884</u>	<u>(82,507,538)</u>	<u>1,105,954</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	123,513	-	-
Other sources	-	-	86,441
Transfers out	(931,664)	-	-
Net Financing Sources (Uses)	<u>(808,151)</u>	<u>-</u>	<u>86,441</u>
NET CHANGE IN FUND BALANCES	2,791,733	(82,507,538)	1,192,395
Fund Balances - Beginning	59,130,404	154,386,593	29,952,694
Restatement	15,582,647	-	-
Fund Balances - Beginning (as Restated)	74,713,051	154,386,593	29,952,694
Fund Balances - Ending	<u>\$ 77,504,784</u>	<u>\$ 71,879,055</u>	<u>\$ 31,145,089</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,311,393	\$ 119,621,637
10,248,405	34,151,015
4,141,485	33,619,495
2,933,574	52,901,472
<u>20,634,857</u>	<u>240,293,619</u>
4,966,335	123,769,052
488,762	6,910,078
51,869	1,775,142
285,343	12,188,775
-	3,208,889
9,995,340	10,075,732
92,240	9,592,497
-	2,396,339
1,141,439	8,992,544
1,522,734	21,712,415
1,185,708	85,533,624
-	1,557,195
-	6,976
-	14,876,674
-	14,594,300
<u>19,729,770</u>	<u>317,190,232</u>
<u>905,087</u>	<u>(76,896,613)</u>
931,664	1,055,177
-	86,441
<u>(123,513)</u>	<u>(1,055,177)</u>
<u>808,151</u>	<u>86,441</u>
1,713,238	(76,810,172)
43,864,735	271,751,779
<u>(15,582,647)</u>	<u>15,582,647</u>
<u>28,282,088</u>	<u>287,334,426</u>
<u>\$ 29,995,326</u>	<u>\$ 210,524,254</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, 2011

Total Net Change in Fund Balances - Governmental Funds **\$ (76,810,172)**

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	\$ 85,413,986	
Depreciation expense	<u>(9,760,630)</u>	
Net Expense Adjustment		75,653,356

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and cumulative rebate liability 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). Net vacation liability used was less than the amounts earned. (62,955)

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 more than the ARC. 36,286

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. 13,752,596

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, 2011**

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.	\$ (113,579)
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.	(991,980)
Change in Net Assets of Governmental Activities	<u><u>\$ 11,463,552</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Internal Service Fund Self-Insurance</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 12,990,074
Receivables	20,801
Due from other funds	26,423
Total Current Assets	<u>13,037,298</u>
LIABILITIES	
Current Liabilities	
Accounts payable	<u>287,372</u>
Noncurrent Liabilities	
Claim liabilities	<u>3,606,577</u>
Total Liabilities	<u>3,893,949</u>
NET ASSETS	
Restricted	
Workers' compensation	1,915,485
Retiree benefits	7,227,864
Total Net Assets	<u>\$ 9,143,349</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, 2011**

	<u>Internal Service Fund Self-Insurance</u>
OPERATING REVENUES	
Charges to other funds	\$ 3,890,766
OPERATING EXPENSES	
Professional and contract services	<u>4,970,422</u>
Operating Loss	<u>(1,079,656)</u>
NONOPERATING REVENUES	
Interest income	<u>87,676</u>
Change in Net Assets	(991,980)
Total Net Assets - Beginning	<u>10,135,329</u>
Total Net Assets - Ending	<u>\$ 9,143,349</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Internal Service Fund Self-Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 3,890,766
Cash payments to other suppliers of goods or services	(4,153,011)
Net Cash Used by Operating Activities	<u>(262,245)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	87,676
Net Cash Provided by Investing Activities	<u>87,676</u>
 Net Decrease in Cash and Cash Equivalents	(174,569)
Cash and Cash Equivalents - Beginning	13,164,643
Cash and Cash Equivalents - Ending	<u>\$ 12,990,074</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (1,079,656)
Changes in Assets and Liabilities:	
Accounts receivable	(14,684)
Due from other funds	13,380
Accounts payable	(19,628)
Due to other funds	(6,753)
Claims liability	845,096
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (262,245)</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, 2011**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 831,528
Inventory	3,084
Total Assets	<u><u>\$ 834,612</u></u>
 LIABILITIES	
Due to student groups	<u><u>\$ 834,612</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

Charter School

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

Basis of Presentation - Fund Accounting

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

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, 2011

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another 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 \$10,034,419, \$10,034,419, \$3,281,088, and \$3,060,043, 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.

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 of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

Charter Schools 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, except for State revenues which, as a result of Senate Bill 4 of the 2009-2010 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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).

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, except for State apportionments which, as a result of Senate Bill 4 of the 2009-2010 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), 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.).

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 worker's compensation fund that is accounted for in an internal service fund.

Fiduciary Fund Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is comprised of agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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).

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

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, 2011

Investments

Investments held at June 30, 2011, 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, 2011

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.

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

In fiscal year 2010-2011, 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 \$90,050,609 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 nonoperating 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, 2011

Estimates

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

Budgetary Data

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

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

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the General Fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this Statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the 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

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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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 203,354,301
Fiduciary funds	831,528
Total Deposits and Investments	<u>\$ 204,185,829</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 981,528
Investments	203,204,301
Total Deposits and Investments	<u>\$ 204,185,829</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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

General Authorizations

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

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

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted-Average Days to Maturity</u>
Riverside County Investment Pool	<u>\$ 203,427,826</u>	478

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, 2011</u>	<u>Fair Value</u>
Riverside County Investment Pool	Not Required	AAA/V1+	<u>\$ 203,427,826</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2011, the District maintained cash deposits in the amount of \$877,943 with one financial institution. Of the deposit balances, amounts on deposit up to \$250,000 are covered by Federal Deposit Insurance Corporation (FDIC) insurance at each institution. The deposits in excess of \$250,000 at anyone institution are collateralized with securities held by the pledging financial institutions' trust departments or agents, but not in the Districts name and are therefore considered collateralized risk deposits.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 4,178,230	\$ -	\$ 1,743,126	\$ -	\$ 5,921,356
State Government					
Apportionment	21,958,796	-	1,777,362	-	23,736,158
Categorical aid	1,336,644	-	1,051,597	-	2,388,241
Lottery	1,570,493	-	-	-	1,570,493
Local Government					
Interest	97,888	142,045	42,401	18,843	301,177
Other Local Sources	5,980,479	-	28,678	1,958	6,011,115
Total	<u>\$ 35,122,530</u>	<u>\$ 142,045</u>	<u>\$ 4,643,164</u>	<u>\$ 20,801</u>	<u>\$ 39,928,540</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 70,466,910	\$ 15,936,654	\$ -	\$ 86,403,564
Construction in progress	70,331,127	68,973,139	50,939,053	88,365,213
Total Capital Assets Not Being Depreciated	140,798,037	84,909,793	50,939,053	174,768,777
Capital Assets Being Depreciated				
Land improvements	1,362,658	-	-	1,362,658
Buildings and improvements	321,647,278	50,939,053	-	372,586,331
Furniture and equipment	13,762,331	504,193	-	14,266,524
Total Capital Assets Being Depreciated	336,772,267	51,443,246	-	388,215,513
Less Accumulated Depreciation				
Land improvements	101,628	27,253	-	128,881
Buildings and improvements	123,001,904	7,475,493	-	130,477,397
Furniture and equipment	9,402,493	2,257,884	-	11,660,377
Total Accumulated Depreciation	132,506,025	9,760,630	-	142,266,655
Capital Assets, Net	<u>\$ 345,064,279</u>	<u>\$ 126,592,409</u>	<u>\$ 50,939,053</u>	<u>\$ 420,717,635</u>

Depreciation expense charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 9,010,486
All other general administration	301,351
Plant services	448,793
Total Depreciation Expenses	<u>\$ 9,760,630</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, 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	\$ -	\$ 2,971	\$ 2,230,112	\$ 2,233,083
Non-Major Governmental Funds	886,027	-	-	886,027
Internal Service Fund	26,423	-	-	26,423
Total	<u>\$ 912,450</u>	<u>\$ 2,971</u>	<u>\$ 2,230,112</u>	<u>\$ 3,145,533</u>

The balance of \$26,423 is due to the Internal Service Fund from the General Fund for retiree benefits.

A balance of \$200,129 is due to the General Fund from the Adult Education Non-Major Governmental Fund for cash flow purposes.

A balance of \$756,890 is due to the General Fund from the Child Development Non-Major Governmental Fund for cash flow purposes.

A balance of \$1,166,349 is due to the General Fund from the Charter School Non-Major Governmental Fund for cash flow purposes.

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, 2011

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	General Fund	Transfer From Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 123,513	\$ 123,513
Non-Major Governmental Funds	931,664	-	931,664
Total	\$ 931,664	\$ 123,513	\$ 1,055,177

The General Fund transferred to the Charter School Non-Major Governmental Fund for site carryover.	\$ 106,963
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for matching.	821,469
The Cafeteria Non-Major Governmental Fund transferred to the General Fund for reimbursement.	119
The General Fund transferred to the Child Development Non-Major Governmental Fund for reimbursement.	3,232
The Charter School Non-Major Governmental Fund transferred to the General Fund for repayment.	89,237
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for three percent revenue.	34,157
Total	\$ 1,055,177

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, 2011**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Vendor payables	\$ 3,160,511	\$ -	\$ 1,402,401	\$ 287,372	\$ 4,850,284
State apportionment	2,175,115	-	-	-	2,175,115
Salaries and benefits	620,106	-	86,033	-	706,139
Construction	-	8,923,671	2,100	-	8,925,771
Total	<u>\$ 5,955,732</u>	<u>\$ 8,923,671</u>	<u>\$ 1,490,534</u>	<u>\$ 287,372</u>	<u>\$ 16,657,309</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 3,399,520	\$ 218,808	\$ 3,618,328
State categorical aid	39,870	-	39,870
Other local	19,664	40,807	60,471
Total	<u>\$ 3,459,054</u>	<u>\$ 259,615</u>	<u>\$ 3,718,669</u>

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, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 354,469,035	\$ -	\$ 13,752,596	\$ 340,716,439	\$ 13,753,988
Compensated absences	1,133,542	62,955	-	1,196,497	-
Claims liability	2,761,481	3,025,819	2,180,723	3,606,577	-
OPEB obligation	481,049	1,333,808	1,370,094	444,763	-
	<u>\$ 358,845,107</u>	<u>\$ 4,422,582</u>	<u>\$ 17,303,413</u>	<u>\$ 345,964,276</u>	<u>\$ 13,753,988</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

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

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

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2011	
				Outstanding July 1, 2010	Issued / Redeemed		
02/01/01	02/01/30	3.00-4.95%	\$ 10,000,000	\$ 8,350,000	\$ - / \$ 230,000	\$ 8,120,000	
06/01/01	02/01/20	2.75-4.90%	19,510,000	12,120,000	- / 970,000	11,150,000	
11/01/01	08/01/31	2.05-4.70%	20,000,000	16,935,000	- / 430,000	16,505,000	
07/16/02	02/01/19	1.60-4.75%	9,265,000	5,440,000	- / 515,000	4,925,000	
08/07/02	08/01/33	1.47-4.95%	10,000,000	8,775,000	- / 215,000	8,560,000	
04/09/03	08/01/33	1.05-4.00%	20,000,000	17,895,000	- / 460,000	17,435,000	
05/19/04	02/01/18	2.00-4.75%	4,615,000	3,300,000	- / 295,000	3,005,000	
10/29/04	08/01/33	1.80-4.65%	12,500,000	11,530,000	- / 260,000	11,270,000	
11/03/05	02/01/23	2.70-4.38%	17,300,000	13,545,000	- / 840,000	12,705,000	
06/14/06	02/01/36	3.63-4.67%	80,000,000	76,090,000	- / 1,635,000	74,455,000	
10/23/07	08/01/36	3.40-4.62%	42,000,000	41,335,000	- / 700,000	40,635,000	
06/15/10	02/01/26	4.37%	19,539,035	19,539,035	- / 1,287,596	18,251,439	
01/12/10	08/01/33	2.00-5.00%	110,000,000	110,000,000	- / 5,200,000	104,800,000	
				<u>\$ 354,469,035</u>	<u>\$ -</u>	<u>\$ 13,752,596</u>	<u>\$ 340,716,439</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Debt Service Requirements to Maturity

The bonds mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Maturity</u>	<u>Total</u>
2012	\$ 13,753,988	\$ 20,732,829	\$ 34,486,817
2013	11,533,972	17,620,316	29,154,288
2014	12,490,585	17,707,489	30,198,074
2015	11,638,677	15,847,483	27,486,160
2016	12,408,511	15,522,339	27,930,850
2017-2021	65,104,724	69,466,650	134,571,374
2027-2031	78,415,000	59,944,126	138,359,126
2032-2036	68,960,000	34,912,450	103,872,450
2037	2,740,000	61,650	2,801,650
Total	<u>\$ 340,716,439</u>	<u>\$ 313,741,371</u>	<u>\$ 654,457,810</u>

Compensated Absences

The accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$1,196,497.

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 \$3,606,577 at June 30, 2011.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$1,332,408, and contributions made by the District during the year were \$1,370,094. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$12,263 and \$(10,863), respectively, which resulted in a decrease to the net OPEB obligation of \$36,286. As of June 30, 2011, the net OPEB obligation was \$444,763. 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, 2011**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 100,000	\$ -	\$ -	\$ 50,000	\$ 150,000
Stores inventories	165,646	-	-	201,671	367,317
Total Nonspendable	<u>265,646</u>	<u>-</u>	<u>-</u>	<u>251,671</u>	<u>517,317</u>
Restricted					
Legally restricted programs	34,728,495	-	-	6,561,215	41,289,710
Capital projects	-	71,879,055	-	19,354,113	91,233,168
Debt services	-	-	31,145,089	-	31,145,089
Total Restricted	<u>34,728,495</u>	<u>71,879,055</u>	<u>31,145,089</u>	<u>25,915,328</u>	<u>163,667,967</u>
Committed					
Adult education program	-	-	-	16,628	16,628
Deferred maintenance program	-	-	-	1,075,106	1,075,106
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,091,734</u>	<u>1,091,734</u>
Assigned					
Unrestricted carryover	4,279,730	-	-	-	4,279,730
Funding shortfall	9,647,533	-	-	-	9,647,533
Other assignments	6,671,990	-	-	2,736,593	9,408,583
Total Assigned	<u>20,599,253</u>	<u>-</u>	<u>-</u>	<u>2,736,593</u>	<u>23,335,846</u>
Unassigned					
Remaining unassigned	21,911,390	-	-	-	21,911,390
Total Unassigned	<u>21,911,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,911,390</u>
Total	<u>\$ 77,504,784</u>	<u>\$ 71,879,055</u>	<u>\$ 31,145,089</u>	<u>\$ 29,995,326</u>	<u>\$ 210,524,254</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 153 retirees and beneficiaries currently receiving benefits, and 1,977 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 2010-2011, the District contributed \$1,370,094 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	\$ 1,332,408
Interest on net OPEB obligation	12,263
Adjustment to annual required contribution	(10,863)
Annual OPEB cost (expense)	<u>1,333,808</u>
Contributions made	(1,370,094)
Decrease in net OPEB obligation	(36,286)
Net OPEB obligation, beginning of year	481,049
Net OPEB obligation, end of year	<u><u>\$ 444,763</u></u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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
2009	\$ 1,332,408	\$ 1,228,338	92%	\$ 386,418
2010	1,333,807	1,239,176	93%	481,049
2011	1,333,808	1,370,094	103%	444,763

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 Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 1, 2008	\$ -	\$ 16,672,766	\$ 16,672,766	0%	\$ 125,996,825	13%

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, 2011

On the April 1, 2008 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, 2009 to June 30, 2011:

	Workers' Compensation
Liability Balance, July 1, 2009	\$ 2,499,519
Claims and changes in estimates	3,233,019
Claims payments	(2,971,057)
Liability Balance, June 30, 2010	2,761,481
Claims and changes in estimates	3,025,819
Claims payments	(2,180,723)
Liability Balance, June 30, 2011	<u>\$ 3,606,577</u>
Assets available to pay claims at June 30, 2011	<u>\$ 5,809,434</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 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, 2011, 2010, and 2009, were \$7,152,514, 7,425,350, and \$7,974,052, 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, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$4,072,521, \$3,874,604, and \$3,404,194, 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 \$3,830,316 (4.267 percent of annual payroll). 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, 2011.

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, 2011.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Construction Commitments

As of June 30, 2011, 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>
Cabot Yerxa - Construction	\$ 800,000	July 2011
Painted Hills, formerly Sonora - Construction	2,345,712	July 2011
Rancho Mirage High School - Construction	74,334,222	May 2013
New Service Center - Construction	18,030,904	January 2012
	<u>\$ 95,510,838</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, 2011, the District made payments of \$24,358,964 and \$795,774, 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 16 of the 2009-2010 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), approximately 28 percent of current year appropriations have 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 16 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balances for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

General Fund

Fund Balance - Beginning	\$ 59,130,404
Change in accounting principles to conform to GASB Statement No. 54	<u>15,582,647</u>
Fund Balance - Beginning as Restated	<u>\$ 74,713,051</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 43,864,735
Change in accounting principles to conform to GASB Statement No. 54	<u>(15,582,647)</u>
Fund Balance - Beginning as Restated	<u>\$ 28,282,088</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Revenue limit sources	\$ 111,843,353	\$ 116,826,732	\$ 116,310,244	\$ (516,488)
Federal sources	16,421,306	27,259,300	23,902,610	(3,356,690)
Other State sources	22,099,205	25,565,149	29,222,141	3,656,992
Other local sources	20,061,278	18,088,226	18,833,932	745,706
Total Revenues ¹	<u>170,425,142</u>	<u>187,739,407</u>	<u>188,268,927</u>	<u>529,520</u>
EXPENDITURES				
Current				
Certificated salaries	86,362,987	88,343,381	86,589,469	1,753,912
Classified salaries	24,960,192	25,292,574	25,337,550	(44,976)
Employee benefits	39,459,304	40,010,249	43,598,922	(3,588,673)
Books and supplies	6,666,780	12,818,670	7,767,302	5,051,368
Services and operating expenditures	20,429,069	24,082,729	20,598,716	3,484,013
Capital outlay	1,645,303	1,590,241	1,470,631	119,610
Other outgo	(738,788)	(742,491)	(751,825)	9,334
Total Expenditures ¹	<u>178,784,847</u>	<u>191,395,353</u>	<u>184,669,043</u>	<u>6,784,588</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,359,705)</u>	<u>(3,655,946)</u>	<u>3,599,884</u>	<u>7,314,108</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	641,000	647,000	123,513	(523,487)
Transfers out	-	(1,698,706)	(931,664)	767,042
Net Financing Sources (Uses)	<u>641,000</u>	<u>(1,051,706)</u>	<u>(808,151)</u>	<u>243,555</u>
NET CHANGE IN FUND BALANCE	<u>(7,718,705)</u>	<u>(4,707,652)</u>	<u>2,791,733</u>	<u>7,557,663</u>
Fund Balance - Beginning	<u>59,130,404</u>	<u>59,130,404</u>	<u>59,130,404</u>	<u>-</u>
Restatement	<u>15,582,647</u>	<u>15,582,647</u>	<u>15,582,647</u>	<u>-</u>
Fund Balance - Beginning (as restated)	<u>74,713,051</u>	<u>74,713,051</u>	<u>74,713,051</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 66,994,346</u>	<u>\$ 70,005,399</u>	<u>\$ 77,504,784</u>	<u>\$ 7,557,663</u>

¹ On behalf payments of \$3,830,316 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, 2011**

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%	\$ 125,996,825	13%

The District has placed \$7,227,864 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 \$7,227,864. The unfunded AAL would have been \$9,444,902. The funded ratio would have been 43.4 percent, and the UAAL as a percentage of covered payroll, would have been 7.5 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, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Safe and Drug Free National Grants	84.184E	[2]	\$ 21,388
CASLE Small Learning Communities	84.215L	[2]	76,966
Passed through California Department of Education (CDE):			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education - Adult Basic Education and ESL	84.002A	14508	102,960
Adult Basic Education - Adult Secondary	84.002	13978	7,997
Adult Basic Education - English Literacy and Civics Education	84.002A	14109	<u>10,000</u>
Total Adult Education - Basic Grants to States Cluster			<u>120,957</u>
Carl D. Perkins Career and Technical Education Act of 1998			
Secondary Education II C, Section 131	84.048	14894	183,025
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education Cluster (IDEA)			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,199,163
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	1,606
Basic Local Assistance ARRA, Part B, Section 611	84.391	15003	1,208,815
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	51,544
Preschool Grants ARRA, Part B, Section 619	84.392	15000	63,952
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	129,110
Preschool Local Entitlement ARRA, Part B, Section 611	84.391	15002	42,244
Preschool Staff Development, Part B, Section 619	84.173A	13431	<u>1,056</u>
Total Special Education Cluster (IDEA)			<u>4,697,490</u>
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	6,036,494
Title I, Part A - ARRA Basic Grants Low Income and Neglected	84.389	15005	<u>2,255,532</u>
Total Title I, Part A Cluster			<u>8,451,842</u>

[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, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
ARRA: State Fiscal Stabilization Fund (SFSF)	84.394	25008	\$ 6,155,739
Education Jobs Fund (SB 847)	84.410	25152	1,386,093
Title I, Part B - Even Start Family Literacy Healthy Start	84.213C [1]	14331 24833	127,418 1,956
Reading First State Grants Cluster			
Title I, Part B - Reading First Program - LEA Subgrant	84.357	14328	126,208
Title I, Part B - Reading First, Special Education Teacher Professional Development Pilot	84.357	14911	341,482
Total Reading First State Grants Cluster			<u>467,690</u>
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	24,736
Improving Teacher Quality State Grants Cluster:			
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	1,442,901
Title II, Part A - Administrator Training	84.367	14344	5,938
Total Improving Teacher Quality State Grants Cluster			<u>1,448,839</u>
Education Technology State Grants Cluster:			
Title II, Part D - Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	3,887
Title II, Part D ARRA - Enhancing Education Through Technology (EETT)	84.386	15019	13,563
Title II, Part D ARRA - Enhancing Education Through Technology (EETT), Competitive Grants	84.386	15126	252,038
Total Education Technology State Grants Cluster			<u>269,488</u>
Title III - Limited English Proficient (LEP) Student Program	84.365	10084	967,138
Title IV, Part A - Safe and Drug Free Schools and Communities, Formula Grants	84.186	14347	46,927
NCLB: Title V, Part B, Public Charter Schools Grant Program (PCSGP)	84.282A	14941	123,458
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	1,900
Total U.S. Department of Education			<u>24,573,050</u>

[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, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF DEFENSE			
Reserve Officer Training Corps (ROTC)	12.000	[2]	\$ 169,939
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	4,137
Passed through (CDE):			
Child Nutrition Cluster			
Especially Needy Breakfast	10.553	13526	1,988,390
National School Lunch Program	10.555	13524	7,040,906
Meal Supplement	10.555	13396	206,850
Summer Food Service Program Operations	10.559	13004	18,076
Summer Food Service Sponsor Administration	10.559	13006	174,206
Food Distribution	10.555	12354	573,606
Total Child Nutrition Cluster			<u>10,002,034</u>
Peanut Corporation of America Recall Network Grant	[1]	03798	159,816
Total U.S. Department of Agriculture			<u>10,165,987</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	552,217
Medical Administrative Activities Program	93.778	10060	373,197
Total Medicaid Cluster			<u>925,414</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start Cluster			
Head Start	93.600	10016	1,809,131
Head Start - ARRA	93.708	10130	9,866
Total Head Start Cluster			<u>1,818,997</u>
Total U.S. Department of Health and Human Services			<u>2,744,411</u>
Total Federal Programs			<u>\$ 37,493,571</u>

[1] Catalog Number not available

[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, 2011

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>
Justin Blake	President	2014
Gary Jeandron	Clerk	2014
Richard Clapp	Member	2012
Karen Cornett	Member	2012
Shari Stewart	Member	2014

ADMINISTRATION

Christine Anderson, Ed.D.	Superintendent
James Novak	Assistant Superintendent, Business Services
Mike Swize	Assistant Superintendent, Educational Services
Mauricio Arellano	Assistant Superintendent, Human Resources
Craig Borba, Ed.D.	Assistant Superintendent, Pupil Personnel Services

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,436	1,441
First through third	4,789	4,796
Fourth through sixth	4,717	4,719
Seventh and eighth	3,231	3,221
Opportunity schools	16	16
Home and hospital	4	5
Special education	462	470
Total Elementary	<u>14,655</u>	<u>14,668</u>
SECONDARY		
Regular classes	6,126	6,061
Continuation education	367	353
Opportunity schools	38	40
Home and hospital	7	7
Special education	252	247
Total Secondary	<u>6,790</u>	<u>6,708</u>
Total K-12	<u>21,445</u>	<u>21,376</u>
CHARTER SCHOOL		
Classroom-Based		
Kindergarten	117	118
First through third	315	313
Fourth through sixth	292	288
Total Classroom-Based	<u>724</u>	<u>719</u>
Non Classroom-Based		
Kindergarten	1	1
First through third	2	2
Fourth through sixth	2	2
Total Non Classroom-Based	<u>5</u>	<u>5</u>
Total Charter School	<u>729</u>	<u>724</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	36,000	180	175	Complied
Grades 1 - 3	49,280	47,911	50,400	49,000				
Grade 1					51,885	180	175	Complied
Grade 2					51,885	180	175	Complied
Grade 3					51,885	180	175	Complied
Grades 4 - 6	49,280	47,911	54,000	52,500				
Grade 4					54,000	180	175	Complied
Grade 5					54,000	180	175	Complied
Grade 6	49,280	47,911	54,000	52,500				
Grades 7 - 8					57,860	180	N/A	Complied
Grade 7					57,860	180	N/A	Complied
Grade 8					57,860	180	N/A	Complied
Grades 9 - 12	64,218	62,434	64,800	63,000				
Grade 9					65,028	180	N/A	Complied
Grade 10					65,028	180	N/A	Complied
Grade 11					65,028	180	N/A	Complied
Grade 12					65,028	180	N/A	Complied

CIELO VISTA CHARTER SCHOOL

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	36,000	180	N/A	Complied
Grades 1 - 3	49,280	47,911	50,400	49,000				
Grade 1					52,740	180	N/A	Complied
Grade 2					52,740	180	N/A	Complied
Grade 3					52,740	180	N/A	Complied
Grades 4 - 5	49,280	47,911	54,000	52,500				
Grade 4					54,390	180	N/A	Complied
Grade 5					54,390	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, 2011**

	Proposition 10 Agreement Number
	<u>7014 LS-11</u>
	<u>July 1, 2010 - June 30, 2011</u>
REVENUES	
State categorical aid	\$ 367,979
Interest	2
	<u>\$ 367,981</u>
EXPENDITURES	
Personnel and benefits	\$ 314,965
Operating expenditures	53,016
	<u>\$ 367,981</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, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND⁵				
Revenues	\$ 174,853,007	\$ 184,366,839	\$ 192,085,368	\$ 212,300,959
Other sources and transfers in	2,241,000	743,513	2,978,417	286,510
Total Revenues and Other Sources	177,094,007	185,110,352	195,063,785	212,587,469
Expenditures	173,909,248	180,838,726	190,898,584	203,079,389
Other uses and transfers out	106,353	1,701,938	114,492	2,831,242
Total Expenditures and Other Uses	174,015,601	182,540,664	191,013,076	205,910,631
INCREASE IN FUND BALANCE	\$ 3,078,406	\$ 2,569,688	\$ 4,050,709	\$ 6,676,838
ENDING FUND BALANCE	\$ 64,778,498	\$ 61,700,092	\$ 59,130,404	\$ 55,079,695
AVAILABLE RESERVES²	\$ 16,550,427	\$ 21,911,390	\$ 15,804,436	\$ 22,565,089
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	9.5%	12.3%	8.4%	12.7%
LONG-TERM OBLIGATIONS	N/A	\$ 345,964,276	\$ 358,845,107	\$ 236,896,154
AVERAGE DAILY ATTENDANCE AT P-2⁴	21,333	21,445	22,413	22,765

The General Fund balance has increased by \$6,620,397 over the past two years. The fiscal year 2011-2012 budget projects a further increase of \$3,078,406 (4.99 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2011-2012 fiscal year. Total long-term obligations have increased by \$109,068,122 over the past two years.

Average daily attendance has decreased by 1,320 over the past two years. An additional decline of 112 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 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 \$3,830,316, \$3,949,588, and \$4,484,445 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ Excludes Adult Education and 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, 2011**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Cielo Vista Charter School	Yes

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	\$ 1,077,851	\$ 167,280	\$ 330,671	\$ 4,343,978	\$ 276,392
Receivables	2,188,195	48,391	507,877	1,865,964	477
Due from other funds	2,616	1,086	5,008	55,848	821,469
Stores inventories	-	-	-	201,671	-
Total Assets	<u>\$ 3,268,662</u>	<u>\$ 216,757</u>	<u>\$ 843,556</u>	<u>\$ 6,467,461</u>	<u>\$ 1,098,338</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,210,308	\$ -	\$ 85,570	\$ 112,089	\$ 23,232
Due to other funds	1,166,349	200,129	756,890	67,047	-
Deferred revenue	142,349	-	1,096	116,170	-
Total Liabilities	<u>2,519,006</u>	<u>200,129</u>	<u>843,556</u>	<u>295,306</u>	<u>23,232</u>
Fund Balances:					
Nonspendable	50,000	-	-	201,671	-
Restricted	590,731	-	-	5,970,484	-
Committed	-	16,628	-	-	1,075,106
Assigned	108,925	-	-	-	-
Total Fund Balances	<u>749,656</u>	<u>16,628</u>	<u>-</u>	<u>6,172,155</u>	<u>1,075,106</u>
Total Liabilities and Fund Balances	<u>\$ 3,268,662</u>	<u>\$ 216,757</u>	<u>\$ 843,556</u>	<u>\$ 6,467,461</u>	<u>\$ 1,098,338</u>

See accompanying note to supplementary information.

Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ 16,181,025	\$ 3,243,738	\$ 2,623,790	\$ 28,244,725
-	23,588	4,794	3,878	4,643,164
-	-	-	-	886,027
-	-	-	-	201,671
<u>\$ -</u>	<u>\$ 16,204,613</u>	<u>\$ 3,248,532</u>	<u>\$ 2,627,668</u>	<u>\$ 33,975,587</u>

\$ -	\$ 59,335	\$ -	\$ -	\$ 1,490,534
-	39,697	-	-	2,230,112
-	-	-	-	259,615
-	99,032	-	-	3,980,261
-	-	-	-	251,671
-	16,105,581	3,248,532	-	25,915,328
-	-	-	-	1,091,734
-	-	-	2,627,668	2,736,593
-	16,105,581	3,248,532	2,627,668	29,995,326
<u>\$ -</u>	<u>\$ 16,204,613</u>	<u>\$ 3,248,532</u>	<u>\$ 2,627,668</u>	<u>\$ 33,975,587</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, 2011**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 3,311,393	\$ -	\$ -	\$ -
Federal sources	123,458	120,957	1,956	10,002,034
Other State sources	849,898	-	2,471,645	819,942
Other local sources	246,058	22,000	57,173	1,275,443
Total Revenues	<u>4,530,807</u>	<u>142,957</u>	<u>2,530,774</u>	<u>12,097,419</u>
EXPENDITURES				
Current				
Instruction	2,801,978	124,215	2,040,142	-
Instruction-related activities:				
Supervision of instruction	130,794	-	357,968	-
Instructional library, media and technology	51,869	-	-	-
School site administration	270,929	14,414	-	-
Pupil services:				
Food services	-	-	4,676	9,990,664
All other pupil services	60,907	1,000	30,333	-
Administration:				
All other administration	299,023	-	49,888	409,889
Plant services	239,034	-	50,999	8,120
Facility acquisition and construction	53,835	-	-	-
Total Expenditures	<u>3,908,369</u>	<u>139,629</u>	<u>2,534,006</u>	<u>10,408,673</u>
Excess (Deficiency) of Revenues				
Over Expenditures	622,438	3,328	(3,232)	1,688,746
OTHER FINANCING SOURCES (USES)				
Transfers in	106,963	-	3,232	-
Transfers out	(89,237)	-	-	(119)
Net Financing Sources (Uses)	<u>17,726</u>	<u>-</u>	<u>3,232</u>	<u>(119)</u>
NET CHANGE IN FUND BALANCES	640,164	3,328	-	1,688,627
Fund Balances - Beginning	109,492	13,300	-	4,483,528
Prior Period Adjustment	-	-	-	-
Fund Balances - Beginning (as Restated)	109,492	13,300	-	4,483,528
Fund Balances - Ending	<u>\$ 749,656</u>	<u>\$ 16,628</u>	<u>\$ -</u>	<u>\$ 6,172,155</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	10,248,405
-	-	-	-	-	4,141,485
4,969	-	1,248,620	22,427	56,884	2,933,574
4,969	-	1,248,620	22,427	56,884	17,323,464
-	-	-	-	-	4,966,335
-	-	-	-	-	488,762
-	-	-	-	-	51,869
-	-	-	-	-	285,343
-	-	-	-	-	9,995,340
-	-	-	-	-	92,240
-	-	382,639	-	-	1,141,439
348,182	-	876,399	-	-	1,522,734
644,857	-	487,016	-	-	1,185,708
993,039	-	1,746,054	-	-	19,729,770
(988,070)	-	(497,434)	22,427	56,884	(2,406,306)
821,469	-	-	-	-	931,664
-	-	(34,157)	-	-	(123,513)
821,469	-	(34,157)	-	-	808,151
(166,601)	-	(531,591)	22,427	56,884	1,713,238
1,241,707	15,582,647	16,637,172	3,226,105	2,570,784	43,864,735
-	(15,582,647)	-	-	-	(15,582,647)
1,241,707	-	16,637,172	3,226,105	2,570,784	28,282,088
\$ 1,075,106	\$ -	\$ 16,105,581	\$ 3,248,532	\$ 2,627,668	\$ 29,995,326

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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 ARRA: State Fiscal Stabilization (SFSF) 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, Medical Administrative Activities Program and Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 34,151,015
ARRA: State Fiscal Stabilization Fund (SFSF)	84.394	4,850,509
Medical Administrative Activities Program	93.778	(1,169,854)
Medi-Cal Billing Option	93.778	(338,099)
Total Schedule of Expenditures of Federal Awards		<u>\$ 37,493,571</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Schedule of Instructional Time

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

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

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, 2011, which collectively comprise Palm Springs Unified School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The 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 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 above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Palm Springs Unified School District in a separate letter dated December 15, 2011.

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
December 15, 2011



**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, 2011. 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, 2011.

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
December 15, 2011



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 2010-11* applicable to Palm Springs Unified School District's government programs as noted below for the year ended June 30, 2011. 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 2010-11* 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, 2011.

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	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes

	<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
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

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
December 15, 2011

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, 2011**

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>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<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>84.394 ARRA</u>	<u>ARRA: State Fiscal Stabilization Funds (SFSF)</u>
<u>84.027, 84.027A, 84.173, 84.173A, 84.391 ARRA, and 84.392 ARRA</u>	<u>Special Education Cluster (IDEA) (includes ARRA)</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>84.318, 84.386 ARRA</u>	<u>Education Technology State Grants Cluster (includes ARRA)</u>
<u>84.010, 84.389</u>	<u>Title I, Part A Cluster</u>
<u>84.410</u>	<u>Education Jobs Fund (SB 847)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,124,807</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, 2011**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

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

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Governing Board
Palm Springs Unified School District
Palm Springs, California

In planning and performing our audit of the financial statements of Palm Springs Unified School District (the District), for the year ended June 30, 2011, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined and combining financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2011, on the government-wide financial statements of Palm Springs Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

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.

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.

Student Store

Finding

During our audit we noted that 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.

Contract
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.

Cathedral City High School

Revenue Potentials

filed but not completed

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.

Inventory Listing

Blue Bears? (Tracks)
ROP taken?
no store for FY 12/13

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.

Financial Statements

not ASB store?
store? change fund

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.

Governing Board
Palm Springs Unified School District

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.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

December 15, 2011