



**PALM SPRINGS
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003



**PALM SPRINGS UNIFIED SCHOOL DISTRICT
OF RIVERSIDE COUNTY
PALM SPRINGS, CALIFORNIA
JUNE 30, 2003**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Michael McCabe	President	2003
Shari Stewart	Clerk	2003
Donald T. Aikens	Member	2005
Andrew Green	Member	2005
Meredy Shoenberger	Member	2005

ADMINISTRATION

Michael Sellwood, Ed.D.	Superintendent
David L. Costner	Assistant Superintendent, Business Services
Lorraine Becker, Ed.D.	Assistant Superintendent, Educational Services
Mauricio Arellano	Deputy Superintendent, Personnel Services
Craig Borba, Ed.D.	Director of Pupil Personnel Services

ORGANIZATION

The Palm Springs Unified School District is comprised of an area located in Riverside County. It encompasses the incorporated cities of Palm Springs, Desert Hot Springs, Rancho Mirage, Cathedral City, Palm Desert, and the unincorporated communities of Thousand Palms and North Palm Springs. The Palm Springs Unified School District was formed in 1948, combining the Palm Springs High School District and the Desert School District. The District is currently operating fourteen elementary schools, four middle schools, three high schools, two continuation high schools, an adult education program, and Ramon Academy.

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2003, 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*, prescribed by the State Controller. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District, as of June 30, 2003, and the respective changes in financial positions, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1B to the financial statements, the District recognized certain deferred State appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read 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 10 and budgetary comparison information on pages 37 and 38, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 other 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, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavonek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2003



PALM SPRINGS UNIFIED SCHOOL DISTRICT

980 EAST TAHQUITZ CANYON WAY
PALM SPRINGS, CALIFORNIA 92262-0119
(760) 416-6000
FAX (760) 416-6015

MICHAEL SELLWOOD, Ed.D., Superintendent of Schools

BOARD OF EDUCATION: MICHAEL McCABE, *President* — SHARI STEWART, *Clerk*
DONALD T. AIKENS, *Member* — MEREDY SHOENBERGER, *Member* — ANDREW GREEN, *Member*

This section of Palm Springs Unified School District's 2002-2003 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. 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 (the 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 debt). 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 Primary unit of the government is the Palm Springs Unified School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2002

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 and Changes in Net Assets*, we separate 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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2002

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate *Statement of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$125.3 million for the fiscal year ended June 30, 2003, an increase of \$12.8 million, or 11.4 percent over the prior year. Of this amount, \$23.8 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School 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)

	2003	2002
	Governmental Activities	Governmental Activities
ASSETS		
Current and other assets	\$ 66.5	\$ 57.2
Capital assets	193.5	159.1
Total Assets	260.0	216.3
LIABILITIES		
Current liabilities	15.9	12.6
Long-term debt	118.8	91.2
Total Liabilities	134.7	103.8
NET ASSETS		
Invested in capital assets, net of related debt	71.7	65.8
Restricted	29.8	36.2
Unrestricted	23.8	10.5
Total Net Assets	\$ 125.3	\$ 112.5

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2002

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 12. 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)	2003	2002
	Governmental Activities	Governmental Activities
Revenues		
Program revenues:		
Charges for services	\$ 1.0	\$ 3.2
Operating grants and contributions	24.8	39.8
Capital grants and contributions	3.5	-
General revenues:		
Unrestricted	78.0	74.0
Property taxes	41.7	35.1
Other general revenues	27.4	16.5
Total Revenues	176.4	168.6
Expenses		
Instruction related	111.6	108.6
Student support services	15.1	14.2
Administration	8.3	7.9
Maintenance and operations	17.1	29.1
Other	11.5	10.5
Total Expenses	163.6	170.3
Change in Net Assets	\$ 12.8	\$ (1.7)

Governmental Activities

As reported in the Statement of Activities on page 12, the cost of all of our governmental activities this year was \$163.6 million, a decrease of \$6.7 million, or 3.9 percent over the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$41.7 million because the cost was paid by those who benefited from the programs (\$1.0 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$28.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$105.4 million in State funds and other revenues, like interest, and general entitlements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2002

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

Table 3

(Amounts in millions)	2003 Total Net Cost of Services	2002 Total Net Cost of Services
Instruction related	\$ 89.3	\$ 77.4
Student support services	9.3	4.2
Administration	7.6	6.6
Maintenance and operations	16.9	28.7
Other activities	11.3	10.3
Totals	\$ 134.4	\$ 127.2

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$55.3 million, which is an increase of \$7.0 million from last year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 24, 2003. (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 37.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$193.5 million in a broad range of capital assets, including land, buildings, furniture and equipment, and construction in progress. This amount represents a net increase (including additions, deductions, and depreciation) of \$34.4 million, or 21.6 percent, over last year.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2002

Table 4

(Amounts in millions)	2003	2002
	Governmental Activities	Governmental Activities
Land	\$ 7.3	\$ 7.3
Construction in progress	25.0	5.2
Buildings and improvements	158.9	144.6
Equipment	2.3	2.0
Totals	\$ 193.5	\$ 159.1

This year's additions of approximately \$39.6 million included the purchase of a building for expansion of the District's Administration Offices, construction of new and modernization of existing school sites, and equipment required for the operation of schools and support services.

Long-term Debt

At the end of this year, the District had \$121.7 million in general obligation bonds outstanding versus \$92.6 million last year, an increase of 31.4 percent. Capital Lease obligations of approximately \$0.1 million and unpaid accumulated vacation of \$0.6 million are also included:

Table 5

(Amounts in millions)	2003	2002
	Governmental Activities	Governmental Activities
General obligation bonds	\$ 121.7	\$ 92.6
Accumulated vacation	0.6	0.7
Capital lease obligations	0.1	0.7
Totals	\$ 122.4	\$ 94.0

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2002

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

- Acquired building at 1000 Tahquitz Canyon Way, for expansion of District Administration offices.
- Completed construction of elementary school, Rio Vista Elementary.
- Began the implementation of a new student information system.
- Completion of Phase I Modernization at Julius Corsini Elementary School and Nellie Coffman Middle School.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003-04 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income due to increased student enrollment.
2. Developer fee collections are based on new housing units to be constructed.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten	31:1	1,599
Grades one through three	20:1	5,476
Grades four and five	31:1	3,733
Grades six through twelve	29:1	11,691

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 320,969
Investments	50,976,976
Receivables	14,792,610
Stores inventories	419,820
Capital assets	257,917,033
Less: accumulated depreciation	(64,444,037)
Total Assets	<u>259,983,371</u>
LIABILITIES	
Accounts payable	9,235,370
Deferred revenue	2,004,738
Other current liabilities	998,811
Current portion of long-term obligations	3,661,336
Noncurrent portion of long-term obligations	118,781,683
Total Liabilities	<u>134,681,938</u>
NET ASSETS	
Invested in capital assets, net of related debt	71,699,621
Restricted for:	
Debt service	5,493,433
Capital projects	19,350,568
Educational programs	3,363,540
Other activities	1,579,290
Unrestricted	23,814,981
Total Net Assets	<u>\$ 125,301,433</u>

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

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction	\$ 95,058,934	\$ 82,277	\$ 16,551,243	\$ 3,474,222
Instruction related activities:				
Supervision of instruction	4,364,809	14,657	1,508,767	-
Instructional library, media, and technology	1,849,605	-	201,492	-
School site administration	10,312,269	3,225	228,363	-
Pupil services:				
Home-to-school transportation	3,274,859	94,539	1,410,563	-
Food services	6,251,489	359,674	2,970,085	-
All other pupil services	5,542,408	13,514	974,253	-
General administration:				
Data processing	1,917,984	-	43,413	-
All other general administration	6,377,053	20,613	646,758	-
Plant services	17,144,925	3,868	248,536	-
Ancillary services	1,177,813	-	1,937	-
Community services	3,442	210	1,695	-
Interest on long-term debt	4,874,092	-	-	-
Other outgo	240,094	387,375	-	-
Depreciation (unallocated)	5,232,966	-	-	-
Total Governmental Activities	\$ 163,622,742	\$ 979,952	\$ 24,787,105	\$ 3,474,222

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
Changes in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

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

**Net (Expenses)
Revenues and
Changes in Net
Assets**

**Governmental
Activities**

\$ (74,951,192)

(2,841,385)
(1,648,113)
(10,080,681)

(1,769,757)
(2,921,730)
(4,554,641)

(1,874,571)
(5,709,682)
(16,892,521)
(1,175,876)
(1,537)
(4,874,092)
147,281
(5,232,966)
\$ (134,381,463)

30,383,775
7,917,348
3,392,787
77,986,805
657,009
26,866,899

12,823,160
112,478,273

\$ 125,301,433

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003**

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 120,934	\$ -	\$ -	\$ 200,035
Investments	17,123,487	2,337,599	18,655,625	12,860,265
Receivables	13,219,733	6,301	59,206	1,507,370
Due from other funds	1,661,293	6,500,000	2,550	2,453,639
Stores inventories	230,989	-	-	188,831
Total Assets	<u>\$32,356,436</u>	<u>\$ 8,843,900</u>	<u>\$18,717,381</u>	<u>\$ 17,210,140</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	3,970,076	-	4,063,685	1,201,609
Due to other funds	8,943,079	-	2,563	1,671,840
Deferred revenue	1,796,469	-	-	208,269
Total Liabilities	<u>14,709,624</u>	<u>-</u>	<u>4,066,248</u>	<u>3,081,718</u>
FUND BALANCES				
Reserved for:				
Stores inventories	230,989	-	-	188,831
Other reservations	3,733,540	-	-	6,250
Unreserved:				
Designated	13,682,283	8,843,900	14,651,133	13,933,341
Total Fund Balances	<u>17,646,812</u>	<u>8,843,900</u>	<u>14,651,133</u>	<u>14,128,422</u>
Total Liabilities and Fund Balances	<u>\$32,356,436</u>	<u>\$ 8,843,900</u>	<u>\$18,717,381</u>	<u>\$ 17,210,140</u>

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

**Total
Governmental
Funds**

\$ 320,969
50,976,976
14,792,610
10,617,482
419,820
\$ 77,127,857

9,235,370
10,617,482
2,004,738
21,857,590

419,820
3,739,790
51,110,657
55,270,267
\$ 77,127,857

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

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

Total Fund Balance - Governmental Funds	\$ 55,270,267	
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	\$ 257,917,033	
Accumulated depreciation is	<u>(64,444,037)</u>	193,472,996
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term debt is recognized when it is incurred.		(998,811)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	121,715,000	
Capital leases payable	669,644	
Compensated absences (vacations)	<u>58,375</u>	<u>(122,443,019)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 125,301,433</u></u>

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

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Funds
REVENUES				
Revenue limit sources	\$ 101,557,903	\$ -	\$ -	\$ 488,506
Federal sources	12,844,384	-	-	3,980,020
Other state sources	20,075,034	-	-	5,659,448
Other local sources	12,800,060	35,350	277,216	19,529,036
Total Revenues	147,277,381	35,350	277,216	29,657,010
EXPENDITURES				
Current				
Instruction	93,230,943	-	-	1,827,991
Instruction related activities:				
Supervision of instruction	4,101,198	-	-	263,611
Instructional library, media, and technology	1,849,605	-	-	-
School site administration	9,931,723	-	-	380,546
Pupil services:				
Home-to-school transportation	3,274,859	-	-	-
Food services	101,249	-	-	6,150,240
All other pupil services	5,279,032	-	-	263,376
General administration:				
Data processing	1,917,984	-	-	-
All other general administration	6,055,099	-	-	395,200
Plant services	17,661,153	-	-	785,975
Facility acquisition and construction	944,114	-	30,261,139	7,078,733
Ancillary services	1,177,813	-	-	-
Community services	-	-	-	3,442
Other outgo	18,136	-	-	221,958
Debt service				
Principal	-	-	-	3,115,000
Interest and other	164,750	-	-	4,600,353
Total Expenditures	145,707,658	-	30,261,139	25,086,425
Excess (Deficiency) of Revenues				
Over Expenditures	1,569,723	35,350	(29,983,923)	4,570,585
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000,000	5,760,531	-	4,025,390
Other sources	-	-	30,158,811	611,000
Transfers out	(21,446)	(1,000,000)	(20,823)	(9,743,652)
Net Financing Sources (Uses)	978,554	4,760,531	30,137,988	(5,107,262)
NET CHANGE IN FUND BALANCES	2,548,277	4,795,881	154,065	(536,677)
Fund Balance - Beginning	15,098,535	4,048,019	14,497,068	14,665,099
Fund Balance - Ending	\$ 17,646,812	\$ 8,843,900	\$ 14,651,133	\$ 14,128,422

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

**Total
Governmental
Funds**

\$ 102,046,409
16,824,404
25,734,482
32,641,662
177,246,957

95,058,934

4,364,809
1,849,605
10,312,269

3,274,859
6,251,489
5,542,408

1,917,984
6,450,299
18,447,128
38,283,986
1,177,813
3,442
240,094

3,115,000
4,765,103
201,055,222

(23,808,265)

10,785,921
30,769,811
(10,785,921)
30,769,811
6,961,546
48,308,721
\$ 55,270,267

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Total Net Change in Fund Balances - Governmental Funds **\$ 6,961,546**
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 statements of activities.

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

Capital outlays	\$ 39,586,189	
Depreciation expense	<u>(5,232,966)</u>	34,353,223

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there are no special termination benefits. Vacation used was more than the amounts earned by \$73,246.

73,246

Proceeds received from Sale of Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(53,735,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

24,590,000

Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

689,134

Interest on long-term debt 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. The additional interest reported in the statement of activities is the net result of two factors.

(108,989)

Change in Net Assets of Governmental Activities

\$ 12,823,160

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 593,033
Inventory	<u>2,300</u>
Total Assets	<u><u>\$ 595,333</u></u>
 LIABILITIES	
Accounts payable	9,767
Due to student groups	<u>585,566</u>
Total Liabilities	<u><u>\$ 595,333</u></u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 fourteen elementary, four middle, three high schools, two continuation high schools, an adult program, and Ramon Alternative Center.

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.

B. State Deferred Appropriations

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of State appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves of \$6,283,437.

C. 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. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 14 to the financial statements. These organizations are: Desert Schools' Self-Insurance Program for Employees (DSSIPE), Riverside Schools' Insurance Authority (RSIA), and Riverside Employer/Employees' Partnership (REEP).

D. Basis of Presentation - Fund Accounting

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 governmental funds:

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

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

Special Reserve (Non-Capital Projects) Fund accounts for specific revenue sources set aside by the District.

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

E. Basis of Accounting - Measurement Focus

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

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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. For the District, available means expected to be received within 90 days of fiscal year-end.

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.

Under the modified accrual basis, 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.

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 before the eligibility requirements are met and 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. Stores Inventory

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

G. 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 as a whole. 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. 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.

H. 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.

I. Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 a liability on the fund financial statements when due.

K. Fund Balance Reserves and Designations

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

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

L. 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

M. 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.

N. 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.

O. 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.

P. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

The District is also authorized 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.

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$320,969 for governmental activities and \$593,033 held in fiduciary funds. The bank balances totaled \$1,048,573. Of the bank balances, \$214,759 was covered by Federal deposit insurance and the remaining \$833,814 bank balance was covered by Pooled and/or pledged collateral, but not necessarily held in the District's name.

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county treasurer for their investment pool.

The investments at June 30, 2003, are as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	<u>\$ 50,976,976</u>	<u>\$ 50,987,861</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 3 – RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 2,217,283	\$ -	\$ -	\$ 977,419	\$ 3,194,702
State Government					
Apportionment	5,080,564	-	-	80,147	5,160,711
Categorical aid	3,045,458	-	-	164,063	3,209,521
Lottery	1,170,222	-	-	-	1,170,222
Local Government					
Interest	271,882	6,301	59,206	24,267	361,656
Other Local Sources	1,434,324	-	-	261,474	1,695,798
Total	<u>\$13,219,733</u>	<u>\$ 6,301</u>	<u>\$ 59,206</u>	<u>\$ 1,507,370</u>	<u>\$ 14,792,610</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 7,262,559	\$ -	\$ -	\$ 7,262,559
Construction in progress	5,229,746	24,976,632	5,229,746	24,976,632
Total Capital Assets Not Being Depreciated	<u>12,492,305</u>	<u>24,976,632</u>	<u>5,229,746</u>	<u>32,239,191</u>
Capital Assets Being Depreciated				
Buildings and improvements	200,982,774	18,994,788	-	219,977,562
Furniture and equipment	4,855,765	844,515	-	5,700,280
Total Capital Assets Being Depreciated	<u>205,838,539</u>	<u>19,839,303</u>	<u>-</u>	<u>225,677,842</u>
Less Accumulated Depreciation				
Buildings and improvements	56,298,449	4,712,439	-	61,010,888
Furniture and equipment	2,912,622	520,527	-	3,433,149
Total Accumulated Depreciation	<u>59,211,071</u>	<u>5,232,966</u>	<u>-</u>	<u>64,444,037</u>
Governmental Activities Capital Assets, Net	<u>\$ 159,119,773</u>	<u>\$ 39,582,969</u>	<u>\$ 5,229,746</u>	<u>\$ 193,472,996</u>

Depreciation expense was charged to governmental as unallocated.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts allocated between funds for various purposes. Interfund receivable and payable balances at June 30, 2003, between major and non-major governmental funds, are as follows:

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 2,563	\$ 1,658,730	\$ 1,661,293
Special Reserve Non-Capital Fund	6,500,000	-	-	6,500,000
Building Fund	-	-	2,550	2,550
Non-Major Governmental Funds	2,443,079	-	10,560	2,453,639
Total	\$8,943,079	\$ 2,563	\$ 1,671,840	\$10,617,482

B. Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Special Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Fund	
General Fund	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Special Reserve Non-Capital Fund	-	-	-	5,760,531	5,760,531
Non-Major Governmental Funds	21,446	-	20,823	3,983,121	4,025,390
Total	\$21,446	\$1,000,000	\$ 20,823	\$ 9,743,652	\$10,785,921

The General Fund transferred to the Child Development Fund.	\$ 21,446
The Special Reserve Non-Capital Fund transferred to the General Fund.	1,000,000
The Building Fund transferred to the Bond Interest and Redemption Fund.	20,823
The Capital Facilities Fund transferred to the Deferred Maintenance Fund.	577,985
The State School Building Fund transferred to the Capital Facilities Fund.	90,914
The County School Facilities Fund transferred to the Special Reserve Capital Projects Fund.	3,314,222
The Special Reserve Capital Projects Fund transferred to the Special Reserve Non-Capital Fund.	5,760,531
Total	\$10,785,921

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, 2003**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Fund
Federal categorical aid	\$ 3,400	\$ -	\$ -	\$ 3,400	\$ -
Vendor payables	1,532,319	118,375	1,078,579	2,729,273	9,767
State apportionment	1,348,391	-	-	1,348,391	-
Salaries and benefits	1,085,966	-	123,030	1,208,996	-
Construction	-	3,945,310	-	3,945,310	-
Total	<u>\$ 3,970,076</u>	<u>\$ 4,063,685</u>	<u>\$ 1,201,609</u>	<u>\$ 9,235,370</u>	<u>\$ 9,767</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 1,405,697	\$ 16,198	\$ 1,421,895
State categorical aid	290,549	192,071	482,620
Other local	100,223	-	100,223
Total	<u>\$ 1,796,469</u>	<u>\$ 208,269</u>	<u>\$ 2,004,738</u>

NOTE 8 – LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds	\$ 92,570,000	\$ 53,735,000	\$ 24,590,000	\$ 121,715,000	\$ 2,970,000
Accumulated vacation - net	742,890	-	73,246	669,644	669,644
Capital leases	747,509	-	689,134	58,375	21,692
	<u>\$ 94,060,399</u>	<u>\$ 53,735,000</u>	<u>\$ 25,352,380</u>	<u>\$ 122,443,019</u>	<u>\$ 3,661,336</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

B. Bonded Debt

Issuances during the 2002-2003 fiscal year:

2000 General Obligation Bonds, Series C

On August 7, 2002, the District issued \$10,000,000, in 2000 General Obligation Bonds, Series C. The bonds mature on August 1, 2033, with interest rate yields varying between 1.47 and 4.95 percent. Net proceeds from the issuance will be used to finance the construction of new schools and to improve and repair existing schools.

2002 General Obligation Refunding Bonds

On July 16, 2002, the District issued \$9,265,000, in 2002 General Obligation Refunding Bonds. The bonds mature on June 30, 2019, with interest rate yields varying between 1.60 and 4.75 percent. Net proceeds from the issuance will be used to advance refund the previously issued 1992 Series B General Obligation Bonds. The advanced refunding met the requirements of an in-substance debt defeasance. As a result of the advanced refunding, the District reduced its total debt service requirements, resulting in an economic gain.

2002 General Obligation Refunding Bonds

On October 2, 2002, the District issued \$14,470,000, in 2002 General Obligation Refunding Bonds. The bonds mature on February 1, 2021, with interest rate yields varying between 1.08 and 4.40 percent. Net proceeds from the issuance will be used to advance refund the previously issued 1992 Series D General Obligation Bonds. The advanced refunding met the requirements of an in-substance debt defeasance. As a result of the advanced refunding, the District reduced its total debt service requirements, resulting in an economic gain.

2000 General Obligation Bonds

On April 9, 2003, the District issued \$20,000,000, in 2000 General Obligation Bonds. The bonds mature on August 1, 2033, with interest rate yields varying between 1.05 and 4.0 percent. Net proceeds from the issuance will be used to finance the construction of new schools and to improve and repair existing schools.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Total Outstanding Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2003
				Outstanding July 1, 2002	Issued	Redeemed	
03/01/93	03/01/18	7.75	\$ 5,000,000	\$ 4,585,000	\$ -	\$ 100,000	\$ 4,485,000
05/01/94	05/01/19	5.85-6.1	10,000,000	8,200,000	-	8,200,000	-
06/01/96	02/01/21	5.0-8.0	15,000,000	13,275,000	-	13,275,000	-
07/15/97	02/01/22	5.0	10,000,000	8,975,000	-	245,000	8,730,000
07/15/98	02/01/23	5.0	10,000,000	9,135,000	-	255,000	8,880,000
02/01/01	02/01/30	3.0-4.95	10,000,000	9,855,000	-	160,000	9,695,000
06/01/01	02/01/20	2.75-4.90	19,510,000	18,545,000	-	685,000	17,860,000
11/01/01	08/01/31	2.05-4.7	20,000,000	20,000,000	-	530,000	19,470,000
07/16/02	02/01/19	1.6-4.75	9,265,000	-	9,265,000	580,000	8,685,000
10/02/02	02/01/21	1.08-4.4	14,470,000	-	14,470,000	560,000	13,910,000
08/07/02	08/01/33	1.47-4.95	10,000,000	-	10,000,000	-	10,000,000
04/09/03	08/01/33	1.05-4.0	20,000,000	-	20,000,000	-	20,000,000
				<u>\$ 92,570,000</u>	<u>\$53,735,000</u>	<u>\$24,590,000</u>	<u>\$ 121,715,000</u>

Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 2,970,000	\$ 5,371,822	\$ 8,341,822
2005	3,230,000	5,360,276	8,590,276
2006	3,635,000	5,211,802	8,846,802
2007	3,795,000	5,061,060	8,856,060
2008	3,955,000	4,901,976	8,856,976
2009-2013	22,905,000	21,854,240	44,759,240
2014-2018	30,110,000	16,337,552	46,447,552
2019-2023	23,490,000	9,421,874	32,911,874
2024-2028	14,010,000	5,122,809	19,132,809
2029-2033	11,775,000	1,470,153	13,245,153
2034	1,840,000	-	1,840,000
Total	<u>\$ 121,715,000</u>	<u>\$80,113,564</u>	<u>\$ 201,828,564</u>

C. Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$669,644.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

D. Capital Leases

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

	<u>Portables</u>
Balance, July 1, 2002	\$ 851,704
Payments	789,721
Balance, June 30, 2003	<u>\$ 61,983</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2004	\$ 24,418
2005	16,696
2006	16,696
2007	4,173
Total	<u>61,983</u>
Less: Amount Representing Interest	<u>(3,608)</u>
Present Value of Minimum Lease Payments	<u>\$ 58,375</u>

NOTE 9 – FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	<u>General Fund</u>	<u>Special Resrve Non-Capital Fund</u>	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Reserved					
Revolving cash	\$ 100,000	\$ -	\$ -	\$ 6,250	\$ 106,250
Stores inventory	230,989	-	-	188,831	419,820
Restricted programs	3,633,540	-	-	-	3,633,540
Total Reserved	<u>3,964,529</u>	<u>-</u>	<u>-</u>	<u>195,081</u>	<u>4,159,610</u>
Unreserved					
Designated					
Economic uncertainties	4,372,512	8,843,900	-	317,998	13,534,410
Other designation	9,309,771	-	14,651,133	13,615,343	37,576,247
Total Designated	<u>13,682,283</u>	<u>8,843,900</u>	<u>14,651,133</u>	<u>13,933,341</u>	<u>51,110,657</u>
Total Unreserved	<u>13,682,283</u>	<u>8,843,900</u>	<u>14,651,133</u>	<u>13,933,341</u>	<u>51,110,657</u>
Total	<u>\$ 17,646,812</u>	<u>\$ 8,843,900</u>	<u>\$ 14,651,133</u>	<u>\$ 14,128,422</u>	<u>\$ 55,270,267</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 10 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Currently, 78 employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees and their dependents. During the year, expenditures of \$512,624 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$2,854,556. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining.

NOTE 11 – RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. Refer to Note 14 for additional information regarding the JPA's.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

A. STRS

Plan Description

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$6,046,538, \$5,469,627, and \$4,880,735, respectively, and equal 100 percent of the required contributions for each year.

B. PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

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 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$624,309, \$0-, and \$0-, respectively, and equal 100 percent of the required contributions for each year.

C. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,279,789 (4.475 percent of salaries subject to STRS). The contribution to PERS was \$20,210 (.092 percent of salaries subject to PERS) not required for the year ended June 30, 2003. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report Unaudited Actuals. These amounts also have not been recorded in these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. 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, 2003.

B. 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, 2003.

C. Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Desert Hot Springs High School - Addition	\$ 7,437,513	06/30/04
Rio Vista Elementary	1,024,632	12/01/03
Julius Corsini Elementary - Phase 1B	2,256,315	12/31/03
Nellie Coffman - Phase II	984,340	10/31/03
	<u>\$ 11,702,800</u>	

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Desert Schools' Self-Insurance Program for Employees (DSSIPE), Riverside Schools' Insurance Authority (RSIA), and Riverside Employer/Employees' Partnership for Benefits (REEP) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, and the JPA's 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

A. <u>Entity</u>	DSSIPE	RSIA	REEP
B. <u>Purpose</u>	Operating and maintaining a fully insured program for, but not limited to, workers' compensation.	Property and liability coverage.	Health, life, and vision insurance coverage.
C. <u>Participants</u>	School districts within the Coachella Valley Desert area.	School districts participating within the desert area.	Certain Riverside County school districts.
D. <u>Governing Board</u>	Elected board by the participating district's governing boards.	Representative from each member district.	Representative from each member district.

E. Condensed Audited Financial Information Follows

		<u>DSSIPE</u>	<u>RSIA</u>	<u>REEP</u>
		<u>June 30, 2002*</u>	<u>June 30, 2003</u>	<u>June 30, 2002*</u>
Assets		\$ 4,585,316	\$ 7,513,770	\$ 7,341,648
Liabilities		(692,102)	(3,998,601)	(6,595,467)
	Fund Equity	<u>\$ 3,893,214</u>	<u>\$ 3,515,169</u>	<u>\$ 746,181</u>
Revenues		5,490,048	3,550,618	60,861,490
Expenses		<u>(5,184,256)</u>	<u>(4,903,031)</u>	<u>(61,799,245)</u>
	Net Increase/(Decrease) in Fund Equity	<u>\$ 305,792</u>	<u>\$ (1,352,413)</u>	<u>\$ (937,755)</u>

*Most recent information available.

None of the JPA's had long-term debts outstanding at June 30, 2002, and June 30, 2003, as presented. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 15 – TAX AND REVENUE ANTICIPATION NOTES

On July 3, 2002, the District issued \$5,000,000 Tax and Revenue Anticipation Notes bearing interest at 1.67 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 3, 2003. By May 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$5,000,000 and related accrued interest and cash held in trust are not included in these financial statements.

NOTE 16 – SUBSEQUENT EVENTS

The District issued \$3,690,000 of Tax and Revenue Anticipation Notes dated July 3, 2003. The notes mature on July 6, 2004, and yield .90 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2004, until 100 percent of principal and interest due is on account in May 2004.

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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, 2003**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 101,226,840	\$ 101,599,764	\$ 101,557,903	\$ (41,861)
Federal sources	10,040,107	14,664,936	12,844,384	(1,820,552)
Other state sources	16,594,121	20,149,633	20,075,034	(74,599)
Other local sources	12,366,811	13,242,585	12,800,060	(442,525)
Total Revenues	140,227,879	149,656,918	147,277,381	(2,379,537)
EXPENDITURES				
Current				
Instruction	87,198,998	98,092,858	93,230,943	4,861,915
Instruction related activities:				
Supervision of instruction	4,710,566	5,319,447	4,101,198	1,218,249
Instructional library, media, and technology	1,574,138	2,217,630	1,849,605	368,025
School site administration	9,819,961	10,103,431	9,931,723	171,708
Pupil services:				
Home-to-school transportation	3,210,212	3,589,433	3,274,859	314,574
Food services	-	102,453	101,249	1,204
All other pupil services	5,226,068	5,299,288	5,279,032	20,256
General administration:				
Data processing	1,692,376	2,156,374	1,917,984	238,390
All other general administration	7,261,388	5,816,709	6,055,099	(238,390)
Plant services	17,242,348	17,956,149	17,661,153	294,996
Facility acquisition and construction	2,105,585	2,544,546	944,114	1,600,432
Ancillary services	1,223,602	1,245,168	1,177,813	67,355
Other outgo	25,000	25,000	18,136	6,864
Debt service				
Interest	411,315	164,750	164,750	-
Total Expenditures	141,701,557	154,633,236	145,707,658	8,925,578
Excess (Deficiency) of Revenues	(1,473,678)	(4,976,318)	1,569,723	6,546,041
OTHER FINANCING SOURCES (USES)				
Transfers in	800,000	1,000,000	1,000,000	-
Transfers out	(39,594)	(14,877)	(21,446)	(36,323)
Net Financing Sources (Uses)	760,406	985,123	978,554	(36,323)
NET CHANGE IN FUND BALANCES	(713,272)	(3,991,195)	2,548,277	6,509,718
Fund Balance - Beginning	15,098,535	15,098,535	15,098,535	-
Fund Balance - Ending	\$ 14,385,263	\$ 11,107,340	\$ 17,646,812	\$ 6,509,718

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**MAJOR FUND
SPECIAL REVENUE FUND – SPECIAL RESERVE, NON-CAPITAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final
	Original	Final		to Actual
REVENUES				
Other local sources	\$ 35,350	\$ 35,350	\$ 35,350	\$ -
Total Revenues	<u>35,350</u>	<u>35,350</u>	<u>35,350</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>35,350</u>	<u>35,350</u>	<u>35,350</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,760,531	5,760,531	5,760,531	-
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Net Financing Sources (Uses)	<u>4,760,531</u>	<u>4,760,531</u>	<u>4,760,531</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>4,795,881</u>	<u>4,795,881</u>	<u>4,795,881</u>	<u>-</u>
Fund Balance - Beginning	4,048,019	4,048,019	4,048,019	-
Fund Balance - Ending	<u>\$8,843,900</u>	<u>\$8,843,900</u>	<u>\$ 8,843,900</u>	<u>\$ -</u>

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

SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act - PL 105-220	84.002	13973	\$ 128,897
Child Development, Federal Childcare Center Based Elementary and Secondary Education Act (Amended by No Child Left Behind)	84.000	03608	182,693
Title I Part A - Grants to Local Educational Agencies [1]	84.010	03797	5,010,714
Title I - Even Start	84.213	13700	219,721
Title I - School Improvement	84.348	14106	174,516
Title II - Teacher Quality [1]	84.367	14341	1,194,548
Title II - Enhancing Technology	84.318	14334	75,519
Title III - Limited English Proficiency	84.365	14346	247,299
Title III - Immigrant Education	84.365	14346	25,730
Title IV - Safe and Drug-Free Schools	84.184	10007	257,525
Title VI - Innovative Education Strategies	84.298	03340	84,570
Title VI - Federal Class Size Reduction	84.340	13073	10,163
Emergency Immigrant Education	84.162	03159	-
Federal Renovation Program [1]	84.352A	14313	515,640
Goals 2000	84.276A	14379	19,802
Individuals with Disabilities Education Act			
Federal Preschool	84.173	03430	68,271
Local Assistance	84.027	03379	2,212,437
Preschool Local Entitlement	84.173	13682	32,926
Personnel Staff Development	84.027	03615	6,557
Licensed Childrens Institutions	84.027	03143	35,714
Low Incidence	84.027	03459	9,491
Workability	84.027	03011	202,579
Healthy Families Medical For Children	84.214	10029	46
Reading Excellence Award [1]	84.338A	14155	531,759
School Renovation Technology	84.352A	14318	-
Vocational and Applied Technology Education Act - Carl D. Perkins			
Title IIC - Adult Education	84.048	03578	40,125
Title IIC - Secondary Education	84.048	03920	128,913
Subtotal			<u>11,416,155</u>

[1] Tested as a major program.

[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, 2003**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Basic Breakfast [1]	10.553	03390	\$ -
Especially Needy Breakfast [1]	10.553	03390	557,327
National School Lunch Program [1]	10.555	03396	2,787,814
Meal Supplements [1]	10.559	03158	14,594
Food Distribution	10.550	03534	268,570
Forest Reserve	10.665	10044	1,858
Subtotal			<u>3,630,163</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
LEA Medi-Cal Billing Option	93.778	10013	224,534
School Age Child Care Resource	93.575	13941	6,371
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	1,422,268
Subtotal			<u>1,653,173</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Program	12.000	[2]	124,913
Total Federal Programs			<u>\$16,824,404</u>

[1] Tested as a major program.

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

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	Second Period Report (Revised)	Annual Report (Revised)
ELEMENTARY		
Kindergarten	1,463	1,471
First through third	5,077	5,087
Fourth through sixth	4,978	4,985
Seventh and eighth	3,320	3,251
Opportunity schools	15	17
Home and hospital	9	10
Special education	434	435
Total Elementary	15,296	15,256
SECONDARY		
Regular classes	4,943	4,961
Continuation education	268	267
Home and hospital	5	5
Special education	197	196
Total Secondary	5,413	5,429
Total K-12	20,709	20,685
CLASSES FOR ADULTS		
Concurrently enrolled	8	9
Not concurrently enrolled	255	253
Total Classes for Adults	263	262
Grand Total	20,972	20,947
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		374,327
High school		234,378
Total Hours		608,705

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2003**

Grade Level	1982-83	1986-87	2002-03	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	36,000	36,000	180	178	Complied
Grades 1 - 3	49,280	50,400	51,960	180	178	Complied
Grades 4 - 5	49,280	54,000	54,115	180	178	Complied
Grades 6 - 8	49,280	54,000	57,860	180	178	Complied
Grades 9 - 12	64,218	64,800	64,910	180	178	Complied

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF REVENUES AND EXPENDITURES --
PROPOSITION 10 GRANTS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Operational Grant</u>	<u>School Readiness Grant</u>	<u>Innovative Grant</u>	<u>Total Proposition 10 Grants</u>
REVENUES				
Other state sources	<u>\$ 201,836</u>	<u>\$ 132,070</u>	<u>\$ 148,000</u>	<u>\$ 481,906</u>
EXPENDITURES				
Certificated salaries	63,133	-	-	63,133
Classified salaries	59,701	15,546	-	75,247
Employee benefits	46,598	1,393	-	47,991
Supplies	-	18,778	-	18,778
Operating expenditures	20,934	60,000	-	80,934
Capital outlay	11,470	36,353	148,000	195,823
	<u>\$ 201,836</u>	<u>\$ 132,070</u>	<u>\$ 148,000</u>	<u>\$ 481,906</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, 2003**

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

	<u>Cafeteria</u>	<u>Special Reserve Capital Projects</u>
FUND BALANCE		
Balance, June 30, 2003, Unaudited Actuals	\$ 286,979	\$ 2,772,181
Increase in:		
Inventory	47,568	-
Decrease in:		
Accounts receivable	-	(611,000)
Balance, June 30, 2003, Audited Financial Statement	<u>\$ 334,547</u>	<u>\$ 2,161,181</u>

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003**

	(Budget)			
	2004 ¹	2003	2002	2001
GENERAL FUND				
Revenues	\$ 143,200,193	\$ 147,277,381	\$ 143,556,467	\$ 135,454,602
Other sources	2,900,000	1,000,000	-	338,674
Total Revenues and Other Sources	<u>146,100,193</u>	<u>148,277,381</u>	<u>143,556,467</u>	<u>135,793,276</u>
Expenditures	143,475,523	145,707,658	142,151,244	127,096,365
Other uses and transfers out	-	21,446	603,927	729,132
Total Expenditures and Other Uses	<u>143,475,523</u>	<u>145,729,104</u>	<u>142,755,171</u>	<u>127,825,497</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 2,624,670</u>	<u>\$ 2,548,277</u>	<u>\$ 801,296</u>	<u>\$ 7,967,779</u>
ENDING FUND BALANCE	<u>\$ 20,271,482</u>	<u>\$ 17,646,812</u>	<u>\$ 15,098,535</u>	<u>\$ 14,297,239</u>
AVAILABLE RESERVES²	<u>\$ 10,307,934</u>	<u>\$ 13,216,412</u>	<u>\$ 8,969,359</u>	<u>\$ 8,567,080</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>7.2%</u>	<u>9.1%</u>	<u>6.3%</u>	<u>6.7%</u>
LONG-TERM DEBT	<u>N/A</u>	<u>\$ 122,443,019</u>	<u>\$ 94,060,399</u>	<u>\$ 78,905,023</u>
AVERAGE DAILY ATTENDANCE AT P-2³	<u>21,289</u>	<u>20,709</u>	<u>20,111</u>	<u>19,242</u>

The General Fund balance has increased by \$3,349,573 over the past two years. The fiscal year 2002-03 budget projects a further increase of \$2,624,670 (14.9 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 all of the past three years and anticipates incurring an operating surplus during the 2003-04 fiscal year. Total long-term debt has increased by \$43,537,996 over the past two years.

Average daily attendance has increased by 1,467 over the past two years. Additional growth of 580 ADA is anticipated during fiscal year 2002-03.

¹ Budget 2003 is included for analytical purposes only and has not been subjected to audit.

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

³ Excludes Adult Education ADA.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2003**

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Investments	\$ 260,839	\$ 167,943	\$ 662,230	\$ 916,300
Receivables	195,850	139,315	965,176	3,282
Due from other funds	587	31,611	3,601	93,809
Stores inventories	-	-	188,831	-
Total Assets	\$ 457,276	\$ 338,869	\$ 1,819,838	\$ 1,013,391
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	20,274	41,756	211,393	4,080
Due to other funds	88,010	248,496	1,273,898	-
Deferred revenue	200,513	7,756	-	-
Total Liabilities	308,797	298,008	1,485,291	4,080
FUND BALANCES				
Reserved for:				
Stores inventories	-	-	188,831	-
Other reservations	-	2,000	4,250	-
Unreserved:				
Designated	148,479	38,861	141,466	1,009,311
Total Fund Balances	148,479	40,861	334,547	1,009,311
Total Liabilities and Fund Balances	\$ 457,276	\$ 338,869	\$ 1,819,838	\$ 1,013,391

See accompanying note to supplementary information.

Insurance Special Reserve Fund	Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ -	\$3,408,406	\$ -	\$ -	\$ 2,151,149	\$ 5,493,433	\$ 13,060,300
171,958	21,258	253	246	10,032	-	1,507,370
291,174	2,032,857	-	-	-	-	2,453,639
-	-	-	-	-	-	188,831
\$ 463,132	\$5,462,521	\$ 253	\$ 246	\$ 2,161,181	\$ 5,493,433	\$ 17,210,140
171,958	752,148	-	-	-	-	1,201,609
50,000	10,937	253	246	-	-	1,671,840
-	-	-	-	-	-	208,269
221,958	763,085	253	246	-	-	3,081,718
-	-	-	-	-	-	188,831
-	-	-	-	-	-	6,250
241,174	4,699,436	-	-	2,161,181	5,493,433	13,933,341
241,174	4,699,436	-	-	2,161,181	5,493,433	14,128,422
\$ 463,132	\$5,462,521	\$ 253	\$ 246	\$ 2,161,181	\$ 5,493,433	\$ 17,210,140

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Revenue limit sources	\$ 488,506	\$ -	\$ -	\$ -
Federal sources	169,022	182,693	3,628,305	-
Other state sources	291,253	1,660,509	230,759	673,335
Other local sources	162,934	130,414	2,600,070	8,644
Total Revenues	<u>1,111,715</u>	<u>1,973,616</u>	<u>6,459,134</u>	<u>681,979</u>
EXPENDITURES				
Current				
Instruction	590,822	1,237,169	-	-
Instruction-related activities:				
Supervision of instruction	1,580	262,031	-	-
School site administration	340,992	39,554	-	-
Pupil Services:				
Food services	-	18,731	6,131,509	-
All other pupil services	3,335	260,041	-	-
General administration:				
All other general administration	89,030	35,432	270,738	-
Plant services	52,351	76,861	-	-
Facility acquisition and construction	-	22,940	-	463,866
Community services	-	3,442	-	-
Other outgo	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>1,078,110</u>	<u>1,956,201</u>	<u>6,402,247</u>	<u>463,866</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>33,605</u>	<u>17,415</u>	<u>56,887</u>	<u>218,113</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	21,446	-	577,985
Other sources	-	-	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>21,446</u>	<u>-</u>	<u>577,985</u>
NET CHANGE IN FUND BALANCES	<u>33,605</u>	<u>38,861</u>	<u>56,887</u>	<u>796,098</u>
Fund Balance - Beginning	114,874	2,000	277,660	213,213
Fund Balance - Ending	<u>\$ 148,479</u>	<u>\$ 40,861</u>	<u>\$ 334,547</u>	<u>\$ 1,009,311</u>

See accompanying note to supplementary information.

Insurance Special Reserve Fund	Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 488,506
-	-	-	-	-	-	3,980,020
-	-	-	3,314,222	(611,000)	100,370	5,659,448
463,132	8,265,566	1,691	3	19,700	7,876,882	19,529,036
463,132	8,265,566	1,691	3,314,225	(591,300)	7,977,252	29,657,010
-	-	-	-	-	-	1,827,991
-	-	-	-	-	-	263,611
-	-	-	-	-	-	380,546
-	-	-	-	-	-	6,150,240
-	-	-	-	-	-	263,376
-	-	-	-	-	-	395,200
-	656,763	-	-	-	-	785,975
-	5,435,182	-	3	1,156,742	-	7,078,733
-	-	-	-	-	-	3,442
221,958	-	-	-	-	-	221,958
-	-	-	-	-	3,115,000	3,115,000
-	-	-	-	-	4,600,353	4,600,353
221,958	6,091,945	-	3	1,156,742	7,715,353	25,086,425
241,174	2,173,621	1,691	3,314,222	(1,748,042)	261,899	4,570,585
-	90,914	-	-	3,314,222	20,823	4,025,390
-	-	-	-	611,000	-	611,000
-	(577,985)	(90,914)	(3,314,222)	(5,760,531)	-	(9,743,652)
-	(487,071)	(90,914)	(3,314,222)	(1,835,309)	20,823	(5,107,262)
241,174	1,686,550	(89,223)	-	(3,583,351)	282,722	(536,677)
-	3,012,886	89,223	-	5,744,532	5,210,711	14,665,099
\$ 241,174	\$ 4,699,436	\$ -	\$ -	\$ 2,161,181	\$ 5,493,433	\$ 14,128,422

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2003**

(Amounts in thousands)

	Actual Results for the Years					
	2002-2003		2001-2002		2000-2001	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 12,844	8.7	\$ 10,660	7.5	\$ 7,860	5.8
State and local revenue included in revenue limit	101,557	69.0	97,058	67.6	88,643	65.4
Special education	7,372	5.0	7,533	5.2	5,600	4.1
Lottery revenue	2,623	1.8	2,820	2.0	2,907	2.1
Other state revenue	17,213	11.7	21,079	14.7	24,487	18.1
Interest revenue	457	0.3	642	0.4	1,656	1.2
Other local revenue and transfers	5,212	3.5	3,764	2.6	4,301	3.2
Total Revenues	147,278	100.0	143,556	100.0	135,454	100.0
EXPENDITURES						
Salaries and Benefits						
Teachers' salaries	73,416	49.8	62,533	43.6	55,499	41.0
Other certificated salaries	1,497	1.0	10,557	7.4	9,496	7.0
Classified salaries	20,579	14.0	19,579	13.6	17,961	13.3
Employee benefits	27,019	18.3	23,686	16.5	20,573	15.2
Total Salaries and Benefits	122,511	83.2	116,355	81.1	103,529	76.5
Books and supplies	7,476	5.1	9,191	6.4	5,781	4.3
Contracts and operating expenses	15,051	10.2	14,857	10.3	13,415	9.9
Capital outlay	1,029	0.7	2,166	1.5	4,868	3.6
Other outgo	(359)	(0.2)	(419)	(0.3)	(497)	(0.4)
Total Expenditures	145,708	98.9	142,150	99.0	127,096	93.9
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,570	1.1	1,406	1.0	8,358	6.1
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,000	0.7	-	0.0	113	0.1
Other sources	-	0.0	-	0.0	226	0.2
Operating transfers out	(22)	(0)	(604)	(0.4)	(729)	(0.5)
Total Other Financing Sources (Uses)	978	0.7	(604)	(0.4)	(390)	(0.2)
INCREASE (DECREASE) IN FUND BALANCE	2,548	1.7	802	0.6	7,968	5.8
FUND BALANCE, BEGINNING	15,099		14,297		6,329	
FUND BALANCE, ENDING	\$ 17,647		\$ 15,099		\$ 14,297	

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2003

NOTE 1 - PURPOSE OF SCHEDULES

A. 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.

B. Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupil attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionment's 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.

C. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The 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.

D. Schedule of Revenues and Expenditures – Proposition 10 Grants

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

E. 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.

F. 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. This financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

G. Combining Statements

These statements provide information on the District's non-major funds.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2003**

H. General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Palm Springs Unified School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 2, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palm Springs Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Palm Springs Unified School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2003-1 through 2003-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Governing Board, audit committee, 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.

Vavonek, Tunc, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2003



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

Governing Board
Palm Springs Unified School District
Palm Springs, California

Compliance

We have audited the compliance of Palm Springs Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2003. Palm Springs Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Palm Springs Unified School District's management. Our responsibility is to express an opinion on Palm Springs Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Palm Springs Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Palm Springs Unified School District's compliance with those requirements.

In our opinion, Palm Springs Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2003.

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 requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, audit committee, 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.

Vavrunek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2003



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Palm Springs Unified School District
 Palm Springs, California

We have audited the financial statements of the Palm Springs Unified School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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 opinion.

The management of Palm Springs Unified School District is responsible for the District's compliance with laws and regulations. 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 Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	Yes
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational centers/programs	4	Not Applicable
Staff development days	3	Yes
Incentives for longer instructional day:		
School district	4	Yes
County Offices of Education	4	Not Applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Not Applicable

	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Community day schools	8	Not Applicable
Class size reduction program:		
Option one classes	10	Not Applicable
Option two classes	9	Not Applicable
Option one and two classes	14	Yes
Program to reduce class size in two courses in grade 9	8	Yes
State Instructional Materials Fund:		
Instructional Materials Funding Realignment Program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public School Library Act of 1998	4	Yes
Ratios of Administrative Employees to Teachers	3	Yes
Office of Criminal Justice Planning	-	Not Applicable

Based on our audit, we found that for the items tested, the Palm Springs Unified School District complied with the State laws and regulations referred to above.

This report is intended solely for the information and use of the Governing Board, audit committee, 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.

Vavrunek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2003

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, 2003**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I - Part A (Grants to Local Educational Agencies)</u>
<u>84.367</u>	<u>Title II - Teacher Quality</u>
<u>84.352A</u>	<u>Federal Renovation Program</u>
<u>84.338A</u>	<u>Reading Excellence Award</u>
<u>10.553; 10.555; 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 504,732</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2003-1 30000

Separation of Duties

Finding

There appears to be a lack of separation of duties at several of the ASB's. The lack of separation of duties includes the following:

- Bookkeepers have complete control of all cash collections, issue receipts for cash collection, reconcile the bank accounts, and post transactions to the general ledger.

Recommendation

To provide for an adequate separation of duties, the same person should not have custody of assets, have responsibility for recording transactions, and have reconciliation of responsibilities. Although it is difficult to have a separation of duties at the ASB's, we suggest that the District make attempts to ensure that the separation of duties is maintained at the best possible level.

District Response

This is common for most ASB funds. The District has provided training accounting manual and assistance to ensure that the internal controls are properly maintained.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

2003-2 30000

Associated Student Body

Nellie Coffman Middle School

Findings

We noted the following during our review of the Associated Student Body Account:

1. Disbursements were not always adequately supported by proper documentation. In addition, some of the items tested were missing receiving documentation for goods purchased, and some were missing evidence of a purchase request form.
2. Site personnel are not depositing ASB funds on a timely basis into the bank account.
3. The student store activity is not reported separately from Student Council activities account within the books of the ASB; therefore, it cannot be determined if the student store is operating at a gain or loss.
4. Cash collections remitted by advisors are not consistently accompanied by a cash count sheet or receipts documenting the amount collected.

Recommendations

1. All invoices should be accompanied by a purchase request, where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Purchase orders provide clubs with documentation of items requested that can then be checked to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.
2. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity, there may be a need to make more than one deposit.
3. The student store activity should be reported separately from the Student Council account.
4. Cash collections remitted by advisors are not consistently accompanied by a cash count sheet, or receipts documenting the amount collected.

District Response

The District will provide training to all ASB's regarding cash collection and disbursements procedures.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

2003-3 30000

Raymond Cree Middle School

Finding

Daily sales summaries are not prepared to document student store sales. Since there are no cash registers in the store to account for sold items, no controls exist over cash collections and sales activity.

Recommendation

To ensure accuracy and completeness of collections, a daily sales summary/analysis should be prepared.

District Response

The District will continue to provide training to all ASB's regarding cash collection procedures.

2003-4 30000

SITE CASH COLLECTION

Cathedral City Elementary School

Finding

During our testing of cash collections, we noted cash collected on behalf of the District are receipted and deposited into the PTG account. The money is then used to purchase books and supplies.

Recommendation

Cash collected on behalf of the District should go directly to the District office and not deposited first into the PTG account.

District Response

The District procedures require cash collections to be remitted directly to the District office. Site personnel have been instructed to follow this procedure.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

There were no findings representing reportable conditions, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

There were no findings representing instances of noncompliance or questioned costs relating to state program laws and regulations.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

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

Financial Statement Findings

2002-1 30000

ASB Bank Depositing Procedures

Finding

In the process of documenting and testing ASB receipting procedures at all high school sites, we observed that there was inconsistencies in bank depositing procedures. Items noted included inconsistencies with District issued receipts, miscellaneous District personnel transporting deposits, and no separation of duties.

Recommendation

The District should develop and implement standard depositing procedures that meet the following: timeliness, completeness, separation of duties, and security.

Current Status

Implemented

2002-2 30000

Deficit Account Balances

Cathedral City High School/Desert Hot Springs High School

Finding

In reviewing the financial statements for the student body account, we noted negative balances in some of the ASB accounts. Controlling of expenditures by ensuring that the expenditure is allowable and that the account requesting the expenditure has the funds to cover it is essential to maintaining fiscal solvency for each account and the ASB as a whole.

Recommendation

The ASB bookkeeper has a fiduciary responsibility to all student body organizations to act in each group's best interest. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the specific account.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Current Status

Implemented

2002-3 30000

Associated Student Body

San Jacinto Continuation High School

Finding

During our audit, it was noted that the June and July bank statements and reconciliations were missing.

Recommendation

Monthly bank reconciliations should be available for audit in order to ensure that the cash balance reported on the books are accurate.

Current Status

Implemented

2002-4 30000

Separation of Duties

Finding

There appears to be a lack of separation of duties at several of the ASB's. The lack of separation of duties includes the following:

- Bookkeepers have complete control of all cash collections, issue receipts for cash collection, reconcile the bank accounts, and post transactions to the general ledger.

Recommendation

To provide for an adequate separation of duties, the same person should not have custody of assets, have responsibility for recording transactions, and have reconciliation of responsibilities. Although it is difficult to have a separation of duties at the ASB's, we suggest that the District make attempts to ensure that the separation of duties is maintained at the best possible level.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Current Status

Not implemented, see current year finding and recommendation 2003-1.

