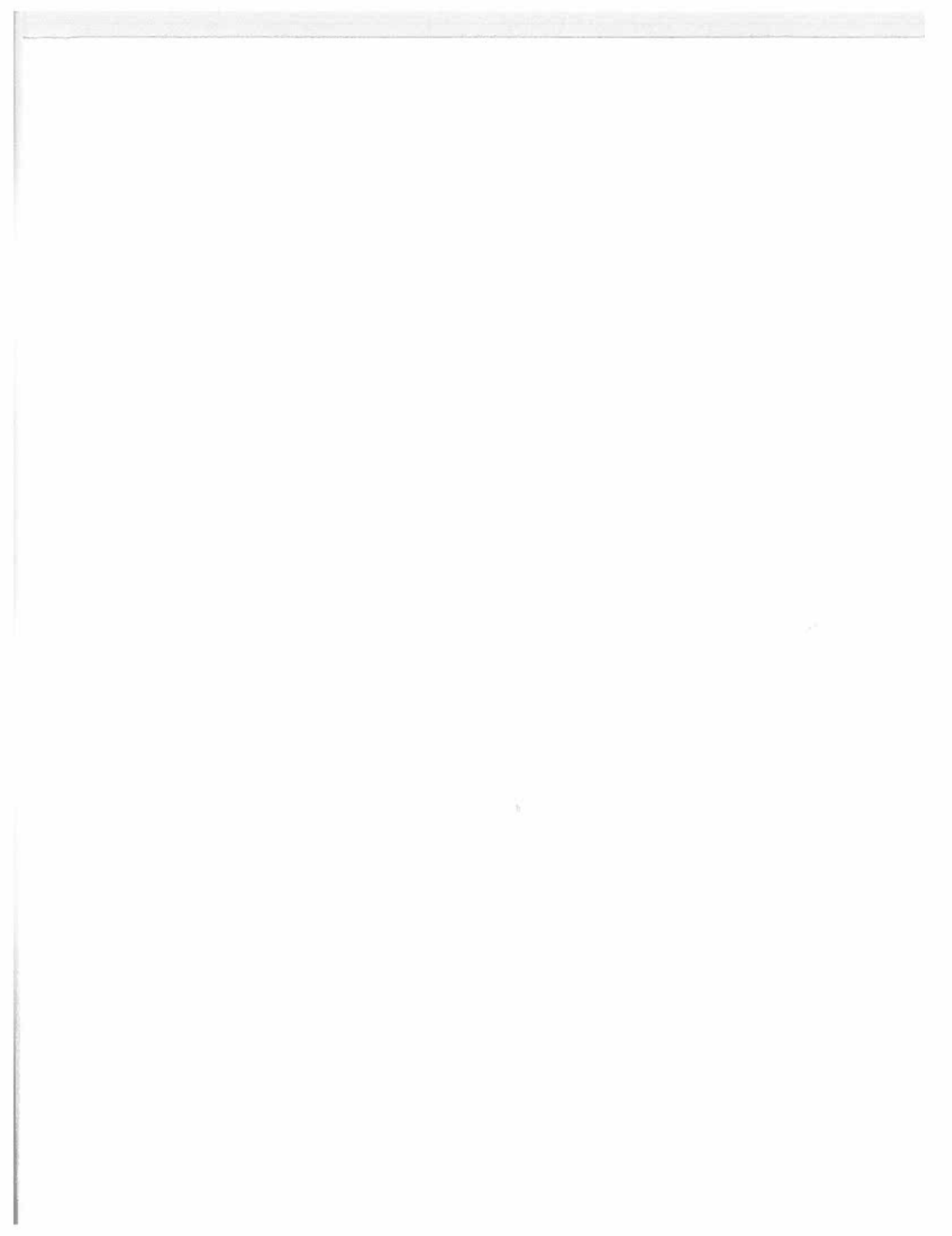


**PALM SPRINGS
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004



PALM SPRINGS UNIFIED SCHOOL DISTRICT

OF RIVERSIDE COUNTY

PALM SPRINGS, CALIFORNIA

JUNE 30, 2004

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Meredy Shoenberger	President	2005
Andrew Green	Clerk	2005
Donald T. Aikens	Member	2007
Michael McCabe	Member	2007
Shari Stewart	Member	2007

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 fifteen elementary schools, four middle schools, three high schools, a continuation high school, an adult education program, and an alternative education program.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Palm Springs Unified School District (the "District"), as of and for the year ended June 30, 2004, 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, 2004, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004, 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 43 and 44, 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.

Varrinck, Train, Day & Co., LLP

Rancho Cucamonga, California
September 24, 2004



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 2003-2004 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. 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 *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The relationship between revenues and expenses are the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we present the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$148.1 million for the fiscal year ended June 30, 2004, an increase of \$22.8 million, or 18.2 percent over the prior year. Of this amount, \$26.6 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)

	Governmental Activities	
	2004	2003
Assets		
Current and other assets	\$ 70.1	\$ 66.5
Capital assets	211.5	193.5
Total Assets	281.6	260.0
Liabilities		
Current liabilities	10.8	15.9
Long-term debt	122.7	118.8
Total Liabilities	133.5	134.7
Net Assets		
Invested in capital assets, net of related debt	89.5	71.7
Restricted	32.0	29.8
Unrestricted	26.6	23.8
Total Net Assets	\$ 148.1	\$ 125.3

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

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

Table 2

(Amounts in millions)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues:		
Charges for services	\$ 2.8	\$ 1.0
Operating grants and contributions	33.4	24.8
Capital grants and contributions	12.3	3.5
General revenues:		
Unrestricted	76.4	78.0
Property taxes	47.3	41.7
Other general revenues	15.8	27.4
Total Revenues	<u>188.0</u>	<u>176.4</u>
Expenses		
Instruction related	112.9	111.6
Student support services	15.4	15.1
Administration	10.5	8.3
Maintenance and operations	17.7	17.1
Other	8.6	11.5
Total Expenses	<u>165.1</u>	<u>163.6</u>
Change in Net Assets	<u>\$ 22.9</u>	<u>\$ 12.8</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$165.1 million, an increase of \$1.5 million, or .9 percent over the prior year. The amount that our taxpayers ultimately financed for these activities through local taxes was \$47.3 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.

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

Table 3

(Amounts in millions)

	Total Net Cost of Services	
	2004	2003
Instruction related	\$ 77.0	\$ 89.3
Student support services	5.2	9.3
Administration	9.1	7.6
Maintenance and operations	17.2	16.9
Other activities	8.2	11.3
Totals	\$ 116.7	\$ 134.4

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$60.4 million, which is an increase of \$5.4 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 22, 2004. (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 43.)

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$211.5 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 \$18.0 million, or 9.3 percent, over last year.

Table 4

(Amounts in millions)	Governmental Activities	
	2004	2003
Land	\$ 7.8	\$ 7.3
Construction in progress	19.0	25.0
Buildings and improvements	182.6	158.9
Equipment	2.1	2.3
Totals	\$ 211.5	\$ 193.5

This year's additions of approximately \$29.8 included the retrofitting 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 \$119.0 million in general obligation bonds outstanding versus \$121.7 million last year, a decrease of 2.3 percent. Capital Lease obligations of approximately \$0.1 million, unpaid accumulated vacation of \$0.7 million, and \$2.9 million of supplemental early retirement plan are also included:

Table 5

(Amounts in millions)	Governmental Activities	
	2004	2003
General obligation bonds	\$ 119.0	\$ 121.7
Accumulated vacation	0.7	0.6
Capital lease obligations	0.1	0.1
Supplemental early retirement plan	2.9	-
Totals	\$ 122.7	\$ 122.4

PALM SPRINGS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2003-04 ARE NOTED BELOW:

- Completed construction of Rio Vista Elementary School.
- Continued the implementation of a new student information system.
- Completion of Phase I B and Phase III Modernization at Julius Corsini Elementary School
- Phase II Modernization at Nellie Coffman Middle School.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2004-05 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	20:1	1,654
Grades one through three	20:1	5,372
Grades four and five	31:1	3,686
Grades six through twelve	29.5:1	11,173

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, 2004

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 56,820,180
Receivables	12,943,147
Stores inventory	360,510
Capital assets	281,757,655
Less: accumulated depreciation	<u>(70,251,123)</u>
Total Assets	<u>281,630,369</u>
LIABILITIES	
Accounts payable	7,270,085
Accrued interest	1,659,143
Deferred revenue	1,124,309
Claim liabilities	718,579
Current portion of long-term obligations	4,845,179
Noncurrent portion of long-term obligations	<u>117,870,006</u>
Total Liabilities	<u>133,487,301</u>
NET ASSETS	
Invested in capital assets, net of related debt	89,528,621
Restricted for:	
Debt service	6,312,710
Capital projects	21,426,550
Educational programs	4,281,963
Unrestricted	<u>26,593,224</u>
Total Net Assets	<u>\$ 148,143,068</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, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 96,184,899	\$ 145,749	\$ 19,505,191	\$ 12,287,840	\$ (64,246,119)
Instruction related activities:					
Supervision of instruction	4,914,598	10,910	3,335,388	-	(1,568,300)
Instructional library, media, and technology	1,615,678	-	31,024	-	(1,584,654)
School site administration	10,196,099	8,198	546,191	-	(9,641,710)
Pupil services:					
Home-to-school transportation	3,206,818	-	2,355,951	-	(850,867)
Food services	6,694,178	2,490,112	3,880,556	-	(323,510)
All other pupil services	5,533,299	2	1,511,620	-	(4,021,677)
General administration:					
Data processing	1,510,490	-	-	-	(1,510,490)
All other general administration	9,042,419	133,902	1,271,897	-	(7,636,620)
Plant services	17,664,109	4,984	506,051	-	(17,153,074)
Facility acquisition and construction	131,129	-	-	-	(131,129)
Ancillary services	1,162,612	-	-	-	(1,162,612)
Interest on long-term debt	1,495,341	-	-	-	(1,495,341)
Other outgo	20,360	-	458,160	-	437,800
Depreciation (unallocated)	5,807,086	-	-	-	(5,807,086)
Total Governmental Activities	\$165,179,115	\$ 2,793,857	\$ 33,402,029	\$ 12,287,840	(116,695,389)
General revenues and subventions					
Property taxes, levied for general purposes					34,401,441
Property taxes, levied for debt service					9,023,353
Taxes levied for other specific purposes					3,920,251
Federal and State aid not restricted to specific purposes					76,371,333
Interest and investment earnings					613,315
Miscellaneous					15,207,331
Subtotal, General Revenues					139,537,024
Total General Revenues and Transfers					
Changes in Net Assets					22,841,635
Net Assets - Beginning					125,301,433
Net Assets - Ending					\$ 148,143,068

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2004

	General Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS			
Deposits and investments	\$ 21,489,414	\$ 5,366,345	\$ 11,325,393
Receivables	11,900,038	7,515	25,318
Due from other funds	3,142,496	3,500,000	-
Stores inventory	226,886	-	-
Total Assets	\$ 36,758,834	\$ 8,873,860	\$ 11,350,711
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	5,869,735	-	220,275
Due to other funds	9,041,165	1,350,000	700
Deferred revenue	823,931	-	-
Total Liabilities	15,734,831	1,350,000	220,975
FUND BALANCES			
Reserved for:			
Stores inventory	226,886	-	-
Other reservations	4,314,360	-	-
Unreserved:			
Designated	16,482,757	7,523,860	11,129,736
Total Fund Balances	21,024,003	7,523,860	11,129,736
Total Liabilities and Fund Balances	\$ 36,758,834	\$ 8,873,860	\$ 11,350,711

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

Capital Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 5,590,287	\$ 2,793,741	\$ 8,962,075	\$ 55,527,255
101,220	8,753	896,126	12,938,970
5,500,700	-	2,826,637	14,969,833
-	-	133,624	360,510
<u>\$ 11,192,207</u>	<u>\$ 2,802,494</u>	<u>\$ 12,818,462</u>	<u>\$ 83,796,568</u>
895,336	-	265,924	7,251,270
57	2,802,494	1,795,647	14,990,063
-	-	300,378	1,124,309
<u>895,393</u>	<u>2,802,494</u>	<u>2,361,949</u>	<u>23,365,642</u>
-	-	133,624	360,510
-	-	4,250	4,318,610
<u>10,296,814</u>	<u>-</u>	<u>10,318,639</u>	<u>55,751,806</u>
<u>10,296,814</u>	<u>-</u>	<u>10,456,513</u>	<u>60,430,926</u>
<u>\$ 11,192,207</u>	<u>\$ 2,802,494</u>	<u>\$ 12,818,462</u>	<u>\$ 83,796,568</u>

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

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

Total Fund Balance - Governmental Funds		\$ 60,430,926
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	\$ 281,757,655	
Accumulated depreciation is	(70,251,123)	211,506,532
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.		(1,659,143)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		579,938
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	118,990,000	
Capital leases payable	103,613	
Supplemental early retirement plan	2,884,298	
Compensated absences (vacations)	737,274	(122,715,185)
Total Net Assets - Governmental Activities		\$ 148,143,068

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General Fund</u>	<u>Special Reserve Non-Capital Fund</u>	<u>Building Fund</u>
REVENUES			
Revenue limit sources	\$ 101,312,273	\$ -	\$ -
Federal sources	12,831,368	-	-
Other State sources	18,777,491	-	-
Other local sources	13,931,211	29,960	115,745
Total Revenues	<u>146,852,343</u>	<u>29,960</u>	<u>115,745</u>
EXPENDITURES			
Current			
Instruction	94,266,608	-	-
Instruction related activities:			
Supervision of instruction	4,631,681	-	-
Instructional library, media, and technology	1,615,678	-	-
School site administration	9,873,458	-	-
Pupil services:			
Home-to-school transportation	3,206,818	-	-
Food services	107,787	-	-
All other pupil services	5,363,777	-	-
General administration:			
Data processing	1,510,490	-	-
All other general administration	5,979,657	-	-
Plant services	16,686,114	-	-
Facility acquisition and construction	320,476	-	3,637,142
Ancillary services	1,162,612	-	-
Other outgo	20,360	-	-
Debt service			
Principal	-	-	-
Interest and other	79,636	-	-
Total Expenditures	<u>144,825,152</u>	<u>-</u>	<u>3,637,142</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>2,027,191</u>	<u>29,960</u>	<u>(3,521,397)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,350,000	-	-
Other sources	-	-	-
Transfers out	-	(1,350,000)	-
Net Financing Sources (Uses)	<u>1,350,000</u>	<u>(1,350,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	3,377,191	(1,320,040)	(3,521,397)
Fund Balance - Beginning	17,646,812	8,843,900	14,651,133
Fund Balance - Ending	<u>\$ 21,024,003</u>	<u>\$ 7,523,860</u>	<u>\$ 11,129,736</u>

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

<u>Capital Facilities Fund</u>	<u>Special Reserve Capital Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 474,302	\$ 101,786,575
-	-	4,161,942	16,993,310
-	-	15,072,490	33,849,981
13,387,050	29,717	12,094,686	39,588,369
<u>13,387,050</u>	<u>29,717</u>	<u>31,803,420</u>	<u>192,218,235</u>
-	-	1,918,291	96,184,899
-	-	282,917	4,914,598
-	-	-	1,615,678
-	-	322,641	10,196,099
-	-	-	3,206,818
-	-	6,586,391	6,694,178
-	-	169,522	5,533,299
-	-	-	1,510,490
-	-	439,627	6,419,284
688,648	-	289,347	17,664,109
6,853,922	-	13,160,211	23,971,751
-	-	-	1,162,612
-	-	-	20,360
-	-	2,970,000	2,970,000
-	-	5,284,187	5,363,823
<u>7,542,570</u>	<u>-</u>	<u>31,423,134</u>	<u>187,427,998</u>
<u>5,844,480</u>	<u>29,717</u>	<u>380,286</u>	<u>4,790,237</u>
2,500	249,602	3,052,096	4,654,198
-	611,596	-	611,596
(249,602)	(3,052,096)	(2,500)	(4,654,198)
<u>(247,102)</u>	<u>(2,190,898)</u>	<u>3,049,596</u>	<u>611,596</u>
5,597,378	(2,161,181)	3,429,882	5,401,833
4,699,436	2,161,181	7,026,631	55,029,093
<u>\$ 10,296,814</u>	<u>\$ -</u>	<u>\$ 10,456,513</u>	<u>\$ 60,430,926</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Total Net Change in Fund Balances - Governmental Funds \$ 5,401,833

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	\$24,360,934	
Depreciation expense	<u>(5,807,086)</u>	18,553,848

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (204,052)

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation and special termination benefits used was less than the amounts earned by \$2,951,928. (2,951,928)

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. (4,615,000)

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. 7,340,000

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. 158,814

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. (1,180,644)

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities. 338,764

Change in Net Assets of Governmental Activities	<u><u>\$22,841,635</u></u>
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The accompanying notes are an integral part of these financial statements.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities
	Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 1,292,925
Receivables	4,177
Due from other funds	20,829
Total Current Assets	<u>1,317,931</u>
LIABILITIES	
Current Liabilities	
Accounts payable	18,815
Due to other funds	599
Claim Liabilities	718,579
Total Current Liabilities	<u>737,993</u>
NET ASSETS	
Unrestricted	<u>\$ 579,938</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES	
Local and intermediate sources	\$ 1,751,838
OPERATING EXPENSES	
Professional and contract services	1,421,286
Supplies and materials	1,759
Total Operating Expenses	<u>1,423,045</u>
Operating Income	<u>328,793</u>
NONOPERATING REVENUES	
Interest income	9,971
Income Before Capital Contributions	<u>338,764</u>
Change in net assets	338,764
Total Net Assets - Beginning	241,174
Total Net Assets - Ending	<u>\$ 579,938</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,726,832
Cash payments for other operating expenses	(685,052)
Net Cash Provided for Operating Activities	<u>1,041,780</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	9,971
Net increase in cash and cash equivalents	<u>1,051,751</u>
Cash and cash equivalents - Beginning	241,174
Cash and cash equivalents - Ending	<u>\$ 1,292,925</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 328,793
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Receivables	(4,177)
Due from other funds	(20,829)
Accounts payable	18,815
Due to other funds	599
Claim liabilities	718,579
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,041,780</u></u>

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, 2004**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 859,763
Inventory	4,002
Total Assets	<u>\$ 863,765</u>
 LIABILITIES	
Due to student groups	<u>\$ 863,765</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two 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:

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

C. Basis of Presentation - Fund Accounting

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Major Governmental Funds

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

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

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

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

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance property and liability fund that is accounted for in an internal service fund.

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

D. Basis of Accounting - Measurement Focus

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

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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.

E. Cash and Cash Equivalents

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

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. Compensated Absences

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

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

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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.

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Q. New Accounting Pronouncement

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The District has determined that no additional component units require disclosure with the primary government.

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.

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 \$184,349 for governmental activities and \$859,763 held in fiduciary funds. The bank balances totaled \$1,028,266. Of the bank balances \$310,385 was covered by Federal deposit insurance and the remaining \$717,881 bank balance was covered by Pooled and/or pledged collateral, but not necessarily held in the District's name.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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, 2004, are as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	<u>\$ 56,635,831</u>	<u>\$ 56,390,585</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Non-Capital Projects Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government								
Categorical aid	\$ 2,858,391	\$ -	\$ -	\$ -	\$ -	\$ 662,525	\$ -	\$ 3,520,916
State Government								
Apportionment	4,361,051	-	-	-	-	32,928	-	4,393,979
Categorical aid	1,693,718	-	-	-	-	104,912	-	1,798,630
Lottery	1,326,749	-	-	-	-	-	-	1,326,749
Interest	160,438	7,515	23,567	47,299	8,753	4,131	4,066	255,769
Other Local Sources	1,499,690	-	1,751	53,921	-	91,631	111	1,647,104
Total	<u>\$ 11,900,037</u>	<u>\$ 7,515</u>	<u>\$ 25,318</u>	<u>\$ 101,220</u>	<u>\$ 8,753</u>	<u>\$ 896,127</u>	<u>\$ 4,177</u>	<u>\$ 12,943,147</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 7,262,559	\$ 520,312	\$ -	\$ 7,782,871
Construction in progress	24,976,632	23,399,151	29,383,768	18,992,015
Total Capital Assets Not Being Depreciated	32,239,191	23,919,463	29,383,768	26,774,886
Capital Assets Being Depreciated				
Buildings and improvements	219,977,562	29,383,768	520,312	248,841,018
Furniture and equipment	5,700,280	441,471	-	6,141,751
Total Capital Assets Being Depreciated	225,677,842	29,825,239	520,312	254,982,769
Less Accumulated Depreciation				
Buildings and improvements	61,010,888	5,212,827	-	66,223,715
Furniture and equipment	3,433,149	594,259	-	4,027,408
Total Accumulated Depreciation	64,444,037	5,807,086	-	70,251,123
Governmental Activities Capital Assets, Net	<u>\$ 193,472,996</u>	<u>\$ 47,937,616</u>	<u>\$ 29,904,080</u>	<u>\$ 211,506,532</u>

Depreciation expense charged to governmental as unallocated was \$5,807,086.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004, between major and non-major governmental funds, are as follows:

Due To	Due From							Total
	General Fund	Special Reserve Non-Capital Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 1,350,000	\$ -	\$ -	\$ -	\$ 1,791,897	\$ 599	\$ 3,142,496
Special Reserve Non-Capital Projects Fund	3,500,000	-	-	-	-	-	-	3,500,000
Capital Facilities Fund	5,500,000	-	700	-	-	-	-	5,500,700
Non-Major Governmental Funds	21,641	-	-	-	2,802,494	2,502	-	2,826,637
Internal Service Fund	19,524	-	-	57	-	1,248	-	20,829
Total	\$ 9,041,165	\$ 1,350,000	\$ 700	\$ 57	\$ 2,802,494	\$ 1,795,647	\$ 599	\$ 14,990,662

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

B. Operating Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following:

Transfer To	Transfer From				Total
	Special Reserve Non-Capital Fund	Capital Facilities Fund	Special Reserve Capital Projects Fund	Non-Major Governmental Fund	
General Fund	\$1,350,000	\$ -	\$ -	\$ -	\$ 1,350,000
Capital Facilities Fund	-	-	-	2,500	2,500
Special Reserve Capital Projects Fund	-	249,602	-	-	249,602
Non-Major Governmental Funds	-	-	3,052,096	-	3,052,096
Total	<u>\$1,350,000</u>	<u>\$ 249,602</u>	<u>\$3,052,096</u>	<u>\$ 2,500</u>	<u>\$ 4,654,198</u>

The Special Reserve Non-Capital Fund transferred to the General Fund.	\$ 1,350,000
The Capital Facilities Fund transferred to the Special Reserve Capital Projects Fund.	249,602
The State School Building Fund transferred to the Capital Facilities Fund.	2,500
The Special Reserve Capital Projects Fund transferred to the Special Reserve Retiree Benefits Fund.	2,802,494
The Special Reserve Capital Projects Fund transferred to the Deferred Maintenance Fund.	249,602
Total	<u>\$ 4,654,198</u>

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$2,253,978	\$ -	\$ -	\$ 169,036	\$ 18,815	\$ 2,441,829
State apportionment	2,310,557	-	-	-	-	2,310,557
Salaries and benefits	1,305,200	-	4,003	83,672	-	1,392,875
Construction	-	220,275	891,333	13,216	-	1,124,824
Total	\$5,869,735	\$220,275	\$895,336	\$ 265,924	\$ 18,815	\$ 7,270,085

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 593,685	\$ 1,920	\$ 595,605
State categorical aid	229,837	291,032	520,869
Other local	409	7,426	7,835
Total	\$ 823,931	\$ 300,378	\$ 1,124,309

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, 2003	Additions	Deductions	Balance June 30, 2004	Due in One Year
General obligation bonds	\$ 121,715,000	\$4,615,000	\$7,340,000	\$ 118,990,000	\$3,290,000
Accumulated vacation - net	669,644	67,630	-	737,274	737,274
Capital leases	58,375	204,052	158,814	103,613	96,831
Supplemental early retirement program	-	3,605,372	721,074	2,884,298	721,074
	\$ 122,443,019	\$8,492,054	\$8,219,888	\$ 122,715,185	\$4,845,179

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

B. Bonded Debt

Issuances during the 2003-2004 fiscal year:

2004 General Obligation Refunding Bonds

On May 19, 2004, the District issued \$4,615,000, in 2004 General Obligation Refunding Bonds. The bonds mature on August 1, 2035, with interest rate yields varying between 1.47 and 4.95 percent. The Bonds were issued to refund the previously issued 1991 Series A, General Obligation Bonds.

Total Outstanding Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2003	Issued	Redeemed	Bonds Outstanding June 30, 2004
03/01/93	03/01/18	7.75	\$ 5,000,000	\$ 4,485,000	\$ -	\$4,485,000	\$ -
07/15/97	02/01/22	5.0	10,000,000	8,730,000	-	260,000	8,470,000
07/15/98	02/01/23	5.0	10,000,000	8,880,000	-	265,000	8,615,000
02/01/01	02/01/30	3.0-4.95	10,000,000	9,695,000	-	170,000	9,525,000
06/01/01	02/01/20	2.75-4.90	19,510,000	17,860,000	-	715,000	17,145,000
11/01/01	08/01/31	2.05-4.7	20,000,000	19,470,000	-	305,000	19,165,000
07/16/02	02/01/19	1.6-4.75	9,265,000	8,685,000	-	430,000	8,255,000
10/02/02	02/01/21	1.08-4.4	14,470,000	13,910,000	-	560,000	13,350,000
08/07/02	08/01/33	1.47-4.95	10,000,000	10,000,000	-	150,000	9,850,000
04/09/03	08/01/33	1.05-4.0	20,000,000	20,000,000	-	-	20,000,000
05/19/04	02/01/18	2.0-4.7	4,615,000	-	4,615,000	-	4,615,000
				<u>\$121,715,000</u>	<u>\$4,615,000</u>	<u>\$7,340,000</u>	<u>\$118,990,000</u>

Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2005	\$ 3,290,000	\$ 5,257,773	\$ 8,547,773
2006	3,665,000	5,175,874	8,840,874
2007	3,825,000	5,027,332	8,852,332
2008	3,980,000	4,870,848	8,850,848
2009	4,175,000	4,702,484	8,877,484
2010-2014	24,510,000	20,692,729	45,202,729
2015-2019	28,505,000	14,427,320	42,932,320
2020-2024	21,955,000	8,713,689	30,668,689
2025-2029	11,470,000	4,216,966	15,686,966
2030-2034	12,395,000	1,089,503	13,484,503
2035	1,220,000	-	1,220,000
Total	<u>\$ 118,990,000</u>	<u>\$ 74,174,518</u>	<u>\$ 193,164,518</u>

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

C. Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$737,274.

D. Capital Leases

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

	<u>Portables</u>
Balance, July 1, 2003	\$ 61,983
Additions	205,897
Payments	158,814
Balance, June 30, 2004	<u>\$ 109,066</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2005	96,831
2006	12,235
Total	109,066
Less: Amount Representing Interest	(5,453)
Present Value of Minimum Lease Payments	<u>\$ 103,613</u>

E. Supplemental Employee Retirement Plan (SERP)

The District offered an early retirement incentive to qualified employees under a qualified plan of section 401 A of the Internal Revenue Code. Eligibility requirements are that the employees attain age 55 with at least ten years of service with the District. The retiree receives an annual benefit payment equal to five percent of their final annual salary schedule. This benefit is paid out annual to the retiree in equal installments. Currently, there are 55 employees participating in the plan and the District's obligation to those retirees as of June 30, 2004 is \$2,884,298

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 9 - FUND BALANCES

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

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Reserved						
Revolving cash	\$ 100,000	\$ -	\$ -	\$ -	\$ 4,250	\$ 104,250
Stores inventory	226,886	-	-	-	133,624	360,510
Restricted programs	4,214,360	-	-	-	-	4,214,360
Total Reserved	4,541,246	-	-	-	137,874	4,679,120
Unreserved						
Designated						
Economic uncertainties	4,417,706	7,523,860	-	-	373,130	12,314,696
Other designation	12,065,051	-	11,129,736	10,296,814	3,632,799	37,124,400
Total Designated	16,482,757	7,523,860	11,129,736	10,296,814	4,005,929	49,439,096
Undesignated	-	-	-	-	6,312,710	6,312,710
Total Unreserved	16,482,757	7,523,860	11,129,736	10,296,814	10,318,639	55,751,806
Total	\$ 21,024,003	\$ 7,523,860	\$ 11,129,736	\$ 10,296,814	\$ 10,456,513	\$ 60,430,926

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, 79 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 \$606,524 were recognized for retirees' health care benefits.

NOTE 11 - RISK MANAGEMENT - CLAIMS

A. Description

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

The District participates in various public entity risk pools for health coverage and property exposures (see Note 14).

B. Claims Liabilities

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

C. Unpaid Claim Liabilities

The Internal Service Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities of the District from July 1, 2003 to June 30, 2004:

	Workers' Compensation
Liability Balance, June 30, 2003	\$ -
Claims and changes in estimates	931,522
Claims payments	(212,943)
Claim Liability Balance, June 30, 2004	<u>\$ 718,579</u>
Assets available to pay claims at June 30, 2004	<u>\$ 1,317,931</u>

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.

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 2003-2004 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, 2004, 2003, and 2002, were \$6,131,986, \$6,046,538, and \$5,469,627, respectively, and equal 100 percent of the required contributions for each year.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$2,208,408, \$624,309, 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 \$1,694,657 (2.28 percent of salaries subject to STRS). No contributions were made to PERS for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

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, 2004.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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, 2004.

C. Construction Commitments

As of June 30, 2004, 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	\$ 532,295	10/01/04

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

The District is a member of the 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.

A. <u>Entity</u>	Riverside Schools' Insurance Authority (RSIA)	Riverside Employer/Employees' Partnership for Benefits (REEP)
B. <u>Purpose</u>	Property and liability coverage.	Health, life, and vision insurance coverage.
C. <u>Participants</u>	School districts participating within the desert area.	Certain Riverside County school districts.
D. <u>Governing Board</u>	Representative from each member district.	Representative from each member district.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

E. Condensed Audited Financial Information Follows

	<u>RSIA</u>	<u>REEP</u>
	<u>June 30, 2003*</u>	<u>June 30, 2003*</u>
Assets	\$ 7,513,770	\$ 7,043,261
Liabilities	(3,998,601)	(5,521,710)
Fund Equity	<u>\$ 3,515,169</u>	<u>\$ 1,521,551</u>
Revenues	3,550,618	61,425,134
Expenses	(4,903,031)	(60,858,190)
Net Increase (Decrease) in Fund Equity	<u>\$ (1,352,413)</u>	<u>\$ 566,944</u>

*Most recent information available.

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

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

On July 3, 2003 the District issued \$3,690,000 Tax and Revenue Anticipation Notes bearing interest at .90 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2004. By May 2004, 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.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$1,780,000 of Tax And Revenue Anticipation Notes dated July 6, 2004. The notes mature on July 6, 2005, and yield 1.60 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 May 2005, until 100 percent of principal and interest due is on account on July 6, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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PALM SPRINGS UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Revenue limit sources	\$103,056,015	\$101,207,466	\$101,312,273	\$ 104,807
Federal sources	12,005,969	15,959,754	12,831,368	(3,128,386)
Other State sources	15,214,606	18,978,933	18,777,491	(201,442)
Other local sources	12,923,603	13,852,586	13,931,211	78,625
Total Revenues	143,200,193	149,998,739	146,852,343	(3,146,396)
EXPENDITURES				
Current				
Instruction	90,917,836	94,306,513	94,266,608	39,905
Instruction related activities:				
Supervision of instruction	5,150,268	5,740,259	4,631,681	1,108,578
Instructional library, media, and technology	1,371,728	1,737,830	1,615,678	122,152
School site administration	9,833,282	10,840,615	9,873,458	967,157
Pupil services:				
Home-to-school transportation	3,512,362	3,512,362	3,206,818	305,544
Food services	117,816	119,573	107,787	11,786
All other pupil services	5,329,703	5,655,220	5,363,777	291,443
General administration:				
Data processing	1,268,527	1,734,110	1,510,490	223,620
All other general administration	7,267,559	6,556,755	5,979,657	577,098
Plant services	16,961,622	16,967,785	16,686,114	281,671
Facility acquisition and construction	602,200	591,541	320,476	271,065
Ancillary services	957,870	1,043,626	1,162,612	(118,986)
Other outgo	184,750	20,360	20,360	-
Debt service				
Interest	-	79,636	79,636	-
Total Expenditures	143,475,523	148,906,185	144,825,152	4,081,033
Excess (Deficiency) of Revenues	(275,330)	1,092,554	2,027,191	934,637
OTHER FINANCING SOURCES				
Transfers in	2,900,000	2,900,000	1,350,000	(1,550,000)
NET CHANGE IN FUND BALANCES	2,624,670	3,992,554	3,377,191	(615,363)
Fund Balance - Beginning	17,646,812	17,646,812	17,646,812	-
Fund Balance - Ending	\$ 20,271,482	\$ 21,639,366	\$ 21,024,003	\$ (615,363)

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, 2004**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Other local sources	\$ 40,000	\$ 29,960	\$ 29,960	\$ -
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,900,000)	(2,900,000)	(1,350,000)	1,550,000
NET CHANGE IN FUND BALANCES	(2,860,000)	(2,870,040)	(1,320,040)	1,550,000
Fund Balance - Beginning	8,843,900	8,843,900	8,843,900	-
Fund Balance - Ending	<u>\$ 5,983,900</u>	<u>\$ 5,973,860</u>	<u>\$ 7,523,860</u>	<u>\$ 1,550,000</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, 2004**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3, Adult Basic	84.002A	03973	\$ 9,000
Adult Education - Priority 1-3, English as a Second Language	84.002A	04302	8,443
Adult Education - Priority 5, Adult Secondary	84.002A	03978	8,325
Adult Education - Priority 1-3, ESL Citizenship	84.002A	03974	62,550
Adult Education - English Literacy & Civics	84.002	04109	65,155
No Child Left Behind Act (2001)			
Title I, Part A - Basic Grants Low Incidence	84.010	03797	4,659,588
Title I, Part B - Reading First Program [1]	84.357	04328	975,000
Title I - Local Improvement Plan	84.011	03067	80,147
Title I - Even Start Family Literacy	84.213	04331	195,700
Title I - Program Development	84.348	04106	31,324
Title II, Part A - Teacher Quality	84.367	04341	1,094,909
Title II, Part D - Enhancing Technology	84.318	04335	57,865
Title III - Immigrant Education	84.365	04346	113,423
Title III - Limited English Proficiency	84.365	00084	265,058
Title III - Delinquency and Violence			24,897
Title IV, Part A - Safe and Drug-Free Schools	84.186	04347	181,432
Title V, Part A - Innovative Education Strategies	84.298A	04354	96,618
Federal Renovation Program Classroom Technology	84.352A	04318	159,695
Healthy Families Medical For Children	84.214	10029	609
Vocational and Applied Technology Education Act - Carl D. Perkins			
Title IIC - Adult Education	84.048	03577	155,358
Title IIC - Secondary Education	84.048	03578	28,249
Subtotal			<u>8,273,345</u>
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Education Act			
Local Assistance [1]	84.027	03379	2,414,871
Federal Preschool, Part B [1]	84.173	03430	56,240
Preschool Local Entitlement [1]	84.027	03682	115,982
Personnel Staff Development [1]	84.027	03613	6,001
Workability [1]	84.027	03705	24,105
Subtotal			<u>2,617,199</u>

[1] Major program.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	03390	\$ 600,070
National School Lunch Program	10.555	03396	2,938,568
Meal Supplements	10.559	03158	14,467
Food Distribution	10.550	03534	240,918
Forest Reserve	10.665	10044	1,880
Subtotal			<u>3,795,903</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
LEA Medi-Cal Billing Option	93.778	00013	261,151
Child Development - Federal Child Care	93.596	03609	181,027
Child Development - School Age Child Care	93.575	03941	4,562
Passed through Riverside County Office of Education (RCOE)			
Head Start [1]	93.600	10016	1,490,835
Subtotal			<u>1,937,575</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Program	12.000	N/A	147,576
U.S. DEPARTMENT OF JUSTICE			
Title II - Delinquency Prevention and Intervention	16.540	22200	24,897
Total Federal Programs			<u>\$16,796,495</u>

[1] Major program.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	Second Period Report (Revised)	Annual Report (Revised)
ELEMENTARY		
Kindergarten	1,475	1,492
First through third	5,079	5,105
Fourth through sixth	5,117	5,121
Seventh and eighth	3,162	3,157
Home and hospital	8	9
Special education	379	380
Total Elementary	15,220	15,264
SECONDARY		
Regular classes	5,399	5,304
Continuation education	230	225
Home and hospital	7	9
Special education	205	198
Total Secondary	5,841	5,736
Total K-12	21,061	21,000
CLASSES FOR ADULTS		
Concurrently enrolled	7	9
Not concurrently enrolled	231	257
Total Classes for Adults	238	266
Grand Total	21,299	21,266
		Hours of Attendance
SUMMER SCHOOL		
Elementary		299,604
High school		259,492
Total Hours		559,096

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2004**

Grade Level	1982-83	1986-87	2003-04	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	54,007	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, 2004**

	<u>Operational Grant</u>	<u>School Readiness Grant</u>	<u>Total Proposition 10 Grants</u>
REVENUES			
Other State sources	\$ 203,000	\$ 366,877	\$ 569,877
Interest	217	972	1,189
	<u>\$ 203,217</u>	<u>\$ 367,849</u>	<u>\$ 571,066</u>
EXPENDITURES			
Certificated salaries	63,431	28,548	91,979
Classified salaries	66,804	38,510	105,314
Employee benefits	51,685	25,258	76,943
Supplies	-	26,828	26,828
Operating expenditures	21,297	192,705	214,002
Capital outlay	-	56,000	56,000
	<u>\$ 203,217</u>	<u>\$ 367,849</u>	<u>\$ 571,066</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, 2004**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2004.

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

	(Budget) 2005 ¹	2004	2003	2002
GENERAL FUND				
Revenues	\$150,818,213	\$146,852,343	\$147,277,381	\$143,556,467
Other sources	1,000,000	1,350,000	1,000,000	-
Total Revenues and Other Sources	151,818,213	148,202,343	148,277,381	143,556,467
Expenditures	147,392,810	144,825,152	145,707,658	142,151,244
Other uses and transfers out	-	-	21,446	603,927
Total Expenditures and Other Uses	147,392,810	144,825,152	145,729,104	142,755,171
INCREASE IN FUND BALANCE	\$ 4,425,403	\$ 3,377,191	\$ 2,548,277	\$ 801,296
ENDING FUND BALANCE	\$ 25,449,406	\$ 21,024,003	\$ 17,646,812	\$ 15,098,535
AVAILABLE RESERVES²	\$ 11,101,837	\$ 11,941,566	\$ 13,216,412	\$ 8,969,359
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	7.5%	8.2%	9.1%	6.3%
LONG-TERM DEBT	N/A	\$122,715,185	\$122,443,019	\$ 94,060,399
AVERAGE DAILY ATTENDANCE AT P-2³	21,761	21,061	20,709	20,111

The General Fund balance has increased by \$5,925,468 over the past two years. The fiscal year 2004-05 budget projects a further increase of \$4,425,403 (21 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 2004-05 fiscal year. Total long-term debt has increased by \$28,654,786 over the past two years.

Average daily attendance has increased by 950 over the past two years. Additional growth of 700 ADA is anticipated during fiscal year 2004-05.

¹ Budget 2005 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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	Adult Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 535,086	\$ 325,012	\$ 1,035,745
Receivables	110,245	126,341	657,277
Due from other funds	3,943	14,770	5,430
Stores inventory	-	-	133,624
Total Assets	\$ 649,274	\$ 466,123	\$ 1,832,076
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	23,888	78,423	150,397
Due to other funds	280,137	205,570	1,309,940
Deferred revenue	185,851	114,527	-
Total Liabilities	489,876	398,520	1,460,337
FUND BALANCES			
Reserved for:			
Stores inventory	-	-	133,624
Other reservations	-	-	4,250
Unreserved:			
Designated	159,398	67,603	233,865
Total Fund Balances	159,398	67,603	371,739
Total Liabilities and Fund Balances	\$ 649,274	\$ 466,123	\$ 1,832,076

See accompanying note to supplementary information.

Deferred Maintenance Fund	Special Reserve Retiree Benefits Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ 753,522	\$ -	\$ 6,312,710	\$ 8,962,075
2,263	-	-	896,126
-	2,802,494	-	2,826,637
-	-	-	133,624
<u>\$ 755,785</u>	<u>\$ 2,802,494</u>	<u>\$ 6,312,710</u>	<u>\$ 12,818,462</u>

13,216	-	-	265,924
-	-	-	1,795,647
-	-	-	300,378
<u>13,216</u>	<u>-</u>	<u>-</u>	<u>2,361,949</u>

-	-	-	133,624
-	-	-	4,250
<u>742,569</u>	<u>2,802,494</u>	<u>6,312,710</u>	<u>10,318,639</u>
<u>742,569</u>	<u>2,802,494</u>	<u>6,312,710</u>	<u>10,456,513</u>
<u>\$ 755,785</u>	<u>\$ 2,802,494</u>	<u>\$ 6,312,710</u>	<u>\$ 12,818,462</u>

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, 2004**

	Adult Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Revenue limit sources	\$ 474,302	\$ -	\$ -
Federal sources	181,722	186,197	3,794,023
Other State sources	257,503	1,932,472	235,693
Other local sources	98,073	115,020	2,894,044
Total Revenues	1,011,600	2,233,689	6,923,760
EXPENDITURES			
Current			
Instruction	541,516	1,376,775	-
Instruction-related activities:			
Supervision of instruction	-	282,917	-
School site administration	310,408	12,233	-
Pupil Services:			
Food services	-	16,395	6,569,996
All other pupil services	11,041	158,481	-
General administration:			
All other general administration	81,879	48,223	309,525
Plant services	55,837	226,463	7,047
Facility acquisition and construction	-	85,460	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	1,000,681	2,206,947	6,886,568
Excess (Deficiency) of Revenues Over Expenditures	10,919	26,742	37,192
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	-
NET CHANGE IN FUND BALANCES	10,919	26,742	37,192
Fund Balance - Beginning	148,479	40,861	334,547
Fund Balance - Ending	\$ 159,398	\$ 67,603	\$ 371,739

See accompanying note to supplementary information.

Deferred Maintenance Fund	Special Reserve Retiree Benefits Fund	State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 474,302
-	-	-	-	-	4,161,942
249,602	-	2,500	12,285,340	109,380	15,072,490
6,965	-	-	16,500	8,964,084	12,094,686
<u>256,567</u>	<u>-</u>	<u>2,500</u>	<u>12,301,840</u>	<u>9,073,464</u>	<u>31,803,420</u>
-	-	-	-	-	1,918,291
-	-	-	-	-	282,917
-	-	-	-	-	322,641
-	-	-	-	-	6,586,391
-	-	-	-	-	169,522
-	-	-	-	-	439,627
-	-	-	-	-	289,347
772,911	-	-	12,301,840	-	13,160,211
-	-	-	-	2,970,000	2,970,000
-	-	-	-	5,284,187	5,284,187
<u>772,911</u>	<u>-</u>	<u>-</u>	<u>12,301,840</u>	<u>8,254,187</u>	<u>31,423,134</u>
<u>(516,344)</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>819,277</u>	<u>380,286</u>
249,602	2,802,494	-	-	-	3,052,096
-	-	(2,500)	-	-	(2,500)
<u>249,602</u>	<u>2,802,494</u>	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>3,049,596</u>
(266,742)	2,802,494	-	-	819,277	3,429,882
1,009,311	-	-	-	5,493,433	7,026,631
<u>\$ 742,569</u>	<u>\$ 2,802,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,312,710</u>	<u>\$ 10,456,513</u>

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, 2004**

(Amounts in thousands)

	Actual Results for the Years					
	2003-2004		2002-2003		2001-2002	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 12,831	8.7	\$ 12,844	8.7	\$ 10,660	7.5
State and local revenue included in revenue limit	101,312	69.0	101,557	69.0	97,058	67.6
Special education	7,514	5.1	7,372	5.0	7,533	5.2
Lottery revenue	2,934	2.0	2,623	1.8	2,820	2.0
Other State revenue	15,843	10.8	17,213	11.7	21,079	14.7
Interest revenue	364	0.2	457	0.3	642	0.4
Other local revenue and transfers	6,054	4.2	5,212	3.5	3,764	2.6
Total Revenues	146,852	100.0	147,278	100.0	143,556	100.0
EXPENDITURES						
Salaries and Benefits						
Teachers' salaries	73,692	50.2	73,416	49.8	62,533	43.6
Other certificated salaries	2,251	1.5	1,497	1.0	10,557	7.4
Classified salaries	19,359	13.2	20,579	14.0	19,579	13.6
Employee benefits	29,576	20.1	27,019	18.3	23,686	16.5
Total Salaries and Benefits	124,878	85.0	122,511	83.2	116,355	81.1
Books and supplies	5,875	4.0	7,476	5.1	9,191	6.4
Contracts and operating expenses	13,838	9.4	15,051	10.2	14,857	10.3
Capital outlay	631	0.4	1,029	0.7	2,166	1.5
Other outgo	(397)	(0.3)	(359)	(0.2)	(419)	(0.3)
Total Expenditures	144,825	98.6	145,708	98.9	142,150	99.0
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,027	1.4	1,570	1.1	1,406	1.0
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,350	0.9	1,000	0.7	-	0.0
Operating transfers out	-	-	(22)	(0.0)	(604)	(0.4)
Total Other Financing Sources (Uses)	1,350	0.9	978	0.7	(604)	(0.4)
INCREASE (DECREASE) IN FUND BALANCE	3,377	2.3	2,548	1.7	802	0.6
FUND BALANCE, BEGINNING	17,647		15,099		14,297	
FUND BALANCE, ENDING	<u>\$21,024</u>		<u>\$17,647</u>		<u>\$15,099</u>	

See accompanying note to supplementary information.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

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

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2004**

G. Combining Statements

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

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

Governing Board
Palm Springs Unified School District
Palm Springs, California

We have audited the financial statements of Palm Springs Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palm Springs Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 item 2004-1.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palm Springs Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

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

Vannink, Triv, Day & Co., LLP

Rancho Cucamonga, California
September 24, 2004



**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, 2004. 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, 2004.

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, 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.

Vannink, Trin, Day & Co., LLP

Rancho Cucamonga, California
September 24, 2004



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, 2004, and have issued our report thereon dated September 24, 2004. 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	6	Yes
Kindergarten continuance	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not Applicable
Community day schools	9	Not Applicable

	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Yes
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	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. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Palm Springs Unified School District had not complied with the laws and regulations.

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

Vannink, Triv, Day & Co., LLP

Rancho Cucamonga, California
September 24, 2004

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, 2004**

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>84.357</u>	<u>Title I, Part B Reading First Program</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster</u>
<u>93.600</u>	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 503,895</u>
Auditee qualified as low-risk auditee?	<u>Yes</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, 2004**

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>
30000	Internal Control

2004-1 30000

SEPARATION OF DUTIES

Finding

There appears to be a lack of separation of duties at several of the Associated Student Body's (ASB). 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 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

The District will be conducting a review of cash collection and administrative procedures. Based upon the findings and recommendations, the District will amend current policies and procedures.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing reportable conditions, material weaknesses, and/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, 2004**

There were no findings representing instances of noncompliance and 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, 2004

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

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.

Current Status

Not implemented. See current year finding and recommendation 2004-1.

2003-2 30000

ASSOCIATED STUDENT BODY

Nellie Coffman Middle School

Finding

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.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Recommendation

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.

Current Status

Implemented.

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.

Current Status

Implemented.

PALM SPRINGS UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

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.

Current Status

Implemented.

