

LONG BEACH UNIFIED SCHOOL DISTRICT

**PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE K, NOVEMBER 2008
FINANCIAL AUDIT**

Fiscal Year Ended June 30, 2013



MEASURE K SCHOOL BONDS

LONG BEACH UNIFIED SCHOOL DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
MEASURE K
FINANCIAL AUDIT

June 30, 2013

CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1-2
Balance Sheet – Measure K Bond Fund	3
Statement of Revenues, Expenditures and Change in Fund Balance – Measure K Bond Fund	4
Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual – Measure K Bond Fund	5
Notes to Financial Statements.....	6-10
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12
Schedule of Findings and Responses.....	13

INDEPENDENT AUDITOR'S REPORT

The Board of Education
The Citizens' Oversight Committee
Long Beach Unified School District
1515 Hughes Way
Long Beach, California 90810

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Long Beach Unified School District, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated November 15, 2013. We have also audited the accompanying financial statements of the Measure K Bond Fund of the Long Beach Unified School District as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

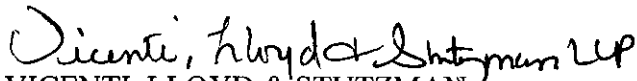
The Board of Education
The Citizens' Oversight Committee
Long Beach Unified School District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure K Bond Fund of the Long Beach Unified School District as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the Long Beach Unified School District's internal control over the Measure K Bond Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the Measure K Bond Fund financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Long Beach Unified School District's internal control over the Measure K Bond Fund financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP

Glendora, CA

November 15, 2013

LONG BEACH UNIFIED SCHOOL DISTRICT

**BALANCE SHEET
MEASURE K BOND FUND
June 30, 2013**

ASSETS

Cash in County Treasury	\$ 166,213,905
Accounts Receivable	358,889
Prepaid Expenditures	<u>838,761</u>
TOTAL ASSETS	<u>\$ 167,411,555</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$ 8,423,318</u>
TOTAL LIABILITIES	<u>8,423,318</u>

FUND BALANCE

Restricted	<u>158,988,237</u>
TOTAL FUND BALANCE	<u>158,988,237</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 167,411,555</u>
---	------------------------------

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
MEASURE K BOND FUND
For the Fiscal Year Ended 6/30/2013**

REVENUES	
Interest Income	\$ 972,511
TOTAL REVENUES	<u>972,511</u>
EXPENDITURES	
Supplies	1,323,829
Services and Other Expenditures	10,208,877
Capital Outlay	<u>58,938,091</u>
TOTAL EXPENDITURES	<u>70,470,797</u>
OTHER FINANCING SOURCES	
Proceeds from sale of bonds	<u>50,000,000</u>
TOTAL OTHER FINANCING SOURCES	<u>50,000,000</u>
Deficiency of Revenues Over Expenditures	(19,498,286)
Fund Balance at Beginning of Year	<u>178,486,523</u>
Fund Balance at End of Year	<u>\$ 158,988,237</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - MEASURE K BOND FUND
For the Fiscal Year Ended 6/30/2013**

	<u>Budget*</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Interest Income	\$ 972,511	\$ 972,511	\$ -
TOTAL REVENUES	<u>972,511</u>	<u>972,511</u>	<u>-</u>
EXPENDITURES			
Supplies	9,209,064	1,323,829	7,885,235
Contracted Services and Other Expenditures	15,355,698	10,208,877	5,146,821
Capital Outlay	<u>204,894,272</u>	<u>58,938,091</u>	<u>145,956,181</u>
TOTAL EXPENDITURES	<u>229,459,034</u>	<u>70,470,797</u>	<u>158,988,237</u>
OTHER FINANCING SOURCES			
Proceeds from sale of bonds	<u>50,000,000</u>	<u>50,000,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>50,000,000</u>	<u>50,000,000</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (178,486,523)</u>	<u>(19,498,286)</u>	<u>\$ 158,988,237</u>
Fund Balance at Beginning of Year		<u>178,486,523</u>	
Fund Balance at End of Year		<u>\$ 158,988,237</u>	

*The budget for revenues reflects estimated amounts to be received in the current year. The budget for expenditures reflects amounts remaining and available for current and subsequent years' expenditures and does not necessary coincide with actual planned expenditures in the current year.

See the accompanying notes to the financial statements.

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

FUND STRUCTURE

The Statement of Revenues, Expenditures and Change in Fund Balance is a statement of financial activities of the Measure K Bond Fund related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, this statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

BASIS OF ACCOUNTING

The Measure K Bond Fund of the Long Beach Unified School District (the District) is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

BUDGET

The Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual includes a column titled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

FUND BALANCE CLASSIFICATION

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts can be spent. Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation are considered restricted. The fund balance of the Measure K Bond Fund is therefore classified as restricted.

CAPITAL ASSETS AND LONG-TERM DEBT

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Measure K Bond Fund are determined by its measurement focus. The fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Measure K Bond Fund are accounted for in the basic financial statements of the District.

ESTIMATES

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

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND FUND**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 - DEPOSITS – CASH IN COUNTY TREASURY:

In accordance with Education Code Section 41001, the District maintains all of its cash in the Los Angeles County Treasury as part of the common investment pool. These pooled funds are carried at cost which may differ from fair value. The fair market value of the District's deposits for the Measure K Bond Fund in this pool as of June 30, 2013, as provided by the pool sponsor, was \$165,749,174, as based upon the District's pro-rata share of the fair value for the entire portfolio (in relation to the amortized cost of the portfolio).

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. The County investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were no excess of expenditures over appropriations, by major object accounts, that occurred in the Measure K Bond Fund.

NOTE 4 – BONDED DEBT:

On November 4, 2008, the voters approved the issuance of bonds, not to exceed \$1,200,000,000. On April 7, 2009, the District issued General Obligation Bonds, Election 2008, Series A of \$260,000,000. The bonds were issued for the purpose of refunding the District's outstanding 2008 Capital Project Notes and paying for the cost of new construction, reconstruction or modernization of some or all of the schools within the District.

On April 19, 2011, the District issued General Obligation Bonds, Election 2008, Series B and B-1 of \$3,020,686 of capital appreciation serial bonds and \$72,406,000 of Qualified School Construction Bonds. These bonds are being issued to finance the acquisition, construction, rehabilitation and equipping of classrooms and school facilities within the District, and to pay the costs of issuing these bonds.

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 4 – BONDED DEBT: (continued)

Capital appreciation bonds issued for Measure K, Series B have maturity dates from August 1, 2034 through August 1, 2035. Prior to the maturity date, the bond will accrete interest on the principal component.

The Series B-1 bonds are being designated as “Qualified School Construction Bonds” for purposes of the American Recovery and Reinvestment Act of 2009. With respect to the Series B-1 bonds, the District expects to receive, on or about each bond payment date, a cash subsidy payment from the United States Treasury equal to the amount of interest determined at a federal tax credit rate under Section 54A(b)(3) of the tax code. The District will deposit the cash subsidy with the county to be credited to the Bond Interest and Redemption Fund for debt service payments.

On May 15, 2013, the District issued General Obligation Bonds, Election 2008, Series C of \$50,000,000 of serial bonds. These bonds are being issued to finance the repair, upgrading, acquisition, construction and equipping of certain District sites and facilities and to pay the costs of issuing these bonds.

The outstanding bonded debt for the Long Beach Unified School District at June 30, 2013 is:

Measure K	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2012	Issued Current Year	Principal Payment Current Year	Outstanding June 30, 2013
Series A	4/7/2009	3.5%-5.0%	8/1/2033	\$ 260,000,000	\$ 221,655,000	\$	\$ 18,710,000	\$ 202,945,000
Series B	4/19/2011	7.26%-7.33%	8/1/2035	3,020,686	3,020,686			3,020,686
Series B-1	4/19/2011	5.314%-5.914%	8/1/2025	72,406,000	72,406,000			72,406,000
Series C	5/15/2013	1.0%-4.0%	8/1/2037	50,000,000		50,000,000		50,000,000
				<u>\$ 385,426,686</u>	<u>\$ 297,081,686</u>	<u>\$ 50,000,000</u>	<u>\$ 18,710,000</u>	<u>\$ 328,371,686</u>

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 4 – BONDED DEBT: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2013, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest</u>	<u>Total</u>
2014	\$ 17,755,000	\$ 15,214,240	\$	\$ 32,969,240
2015	17,585,000	15,194,786		32,779,786
2016	11,745,000	14,666,961		26,411,961
2017	13,280,000	14,086,911		27,366,911
2018	14,965,000	13,409,811		28,374,811
2019-2023	81,581,000	55,599,545		137,180,545
2024-2028	80,845,000	30,742,868		111,587,868
2029-2033	53,975,000	15,098,328		69,073,328
2034-2038	<u>36,640,686</u>	<u>45,801,877</u>	<u>42,489,314</u>	<u>124,931,877</u>
Total	<u>\$ 328,371,686</u>	<u>\$ 219,815,327</u>	<u>\$ 42,489,314</u>	<u>\$ 590,676,327</u>

The repayment of the debt related to the Measure K General Obligation Bonds is accounted for in the District's Bond Interest and Redemption Fund which is part of the District's basic financial statements. In addition, the long term debt is reported in the government wide statements of the District's basic financial statements and is not part of the financial statements reported herein.

NOTE 5 –COMMITMENTS AND CONTINGENCIES:

A. Purchase Commitments:

As of June 30, 2013, the District was committed under various capital expenditure purchase agreements for construction and modernization projects to be paid by Measure K funds totaling approximately \$39,800,000. Projects will be funded through bond proceeds.

B. Litigation:

The District is involved in various claims and legal actions related to various construction projects. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's Measure K Bond Fund financial statements.

**INDEPENDENT AUDITOR'S 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***

The Board of Education
The Citizens' Oversight Committee
Long Beach Unified School District
1515 Hughes Way
Long Beach, California 90810

We have audited, 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, the Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Measure K Bond Fund of the Long Beach Unified School District (the District), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's Measure K Bond Fund basic financial statements, and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over the Measure K Bond Fund financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S 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***

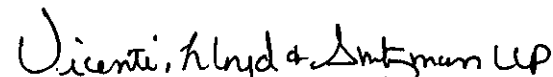
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 15, 2013

**LONG BEACH UNIFIED SCHOOL DISTRICT
MEASURE K BOND PROGRAM FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

There were no findings related to the financial audit of the Measure K Bond Fund for the fiscal years ended June 30, 2013 and June 30, 2012.