

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

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2010**

Established in 1885 with fewer than a dozen students meeting in a borrowed tent, Long Beach Unified School District (the "District") now educates 86,000 students in 93 public schools in the cities of Long Beach, Lakewood, Signal Hill, and Avalon on Catalina Island. The third largest school district in California, it serves the most diverse large city in the United States, with dozens of languages spoken by local students.

In November 2008, the District's voters approved by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bonds, not to exceed \$1,200,000,000. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

The Proposition 39 bonds were issued by the District, through the County of Los Angeles. On April 7, 2009, Election of 2008, Series A of the Measure K bond authorization was issued, which consisted of serial bonds and current interest term bonds with an initial par amount of \$260,000,000 with stated interest rates of 3.00% to 5.75% and maturing through August 1, 2033. As of June 30, 2010, the principal balance outstanding on the Election of 2008, Series A bond was \$260,000,000.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure K including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Oversight Committee had the following members as of June 30, 2010, all of whom were appointed by the District's Board of Education with two year terms of office:

Name	Title	Representation	Education Code Section
Victor McCarty	Chair	Community -at- Large	15282(a)
Karen Hilburn	Vice Chair	Active in a Senior Citizens' Organization	15282(a)(2)
Byron Bolton	Member	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Kristine Hammond	Member	Parent of Child Enrolled in District	15282(a)(4)
Julia Jackson	Member	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Michael Noll	Member	Active in a Business Organization	15282(a)(1)
Anna Ulaszewski	Member	Community -at- Large	15282(a)

Governing Board Members and
Measure K Citizens' Oversight Committee
Long Beach Unified School District
Long Beach, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Measure K Bond Building Fund of Long Beach Unified School District (the "District") as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2010. These financial statements are the responsibility of the District's management. 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 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.

As discussed in Note 1A, the financial statements present only the individual Measure K Bond Building Fund, consisting of the net construction proceeds of Measure K general obligation bonds as issued by the District, through the County of Los Angeles, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure K Bond Building Fund of Long Beach Unified School District as of June 30, 2010, and the results of its operations for the fiscal year ended June 30, 2010, 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 October 26, 2010 on our consideration of Long Beach Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated October 26, 2010 on our consideration of Long Beach Unified School District's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure K Bond Building Fund for the fiscal year ended June 30, 2010 and should be considered in assessing the results of our financial audit.

Cherry White Accountancy Corporation

San Diego, California
October 26, 2010

Financial Section

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2010**

ASSETS	
Cash in county treasury	\$ 199,764,007
Accounts receivable	712,991
Due from other funds	8,594,211
	<hr/>
Total Assets	\$ 209,071,209
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 2,284,761
Due to other funds	15,042
	<hr/>
Total Liabilities	2,299,803
	<hr/>
Fund Balance	
Unreserved	206,771,406
	<hr/>
Total Liabilities and Fund Balance	\$ 209,071,209
	<hr/> <hr/>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2010**

REVENUES	
Interest income	\$ 3,007,090
Total Revenues	<u>3,007,090</u>
EXPENDITURES	
Facilities acquisition and construction	<u>5,412,078</u>
Total Expenditures	<u>5,412,078</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,404,988)
Fund Balance, July 1, 2009	<u>209,176,394</u>
Fund Balance, June 30, 2010	<u><u>\$ 206,771,406</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Long Beach Unified School District (the “District”) was established in 1885. The District serves approximately 86,000 students in 93 public schools in the cities of Long Beach, Lakewood, Signal Hill, and Avalon on Catalina Island.

On November 4, 2008 the District voters authorized \$1.2 billion in general obligation bonds (Measure K) to retrofit schools for earthquake safety/handicap accessibility, repair restrooms/plumbing/roofs/fire safety, remove lead paint/asbestos, upgrade vocational classrooms/technology/energy efficiency, expand after-school classrooms, reduce overcrowding, by acquiring, repairing, constructing, equipping sites, facilities, and joint-use buildings.

An oversight committee to the District’s Governing Board and Superintendent, called the Citizens’ Oversight Committee (COC), was established pursuant to the requirements of State law and the provisions of the Measure K bond. The COC is required by state law to actively review and report on the proper expenditure of taxpayers’ money for school construction. The COC provides oversight and advises the public whether the District is spending the Measure K Bond funds for school capital improvements within the scope of projects outlined in the Measure K Bond project list. In fulfilling its duties, the COC reviews, among other things, the District’s annual performance and financial audits of Measure K activity.

The statements presented are for the individual Measure K Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2008, Series A general obligation bonds as issued by the District, through the County of Los Angeles, and are not intended to be a complete presentation of the District’s financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 90 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Los Angeles County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as cash in county treasury for \$199,764,007.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$200,922,638 and an amortized book value of \$199,764,007. The weighted average maturity for this pool as of June 30, 2010 was 536 days.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments within the Los Angeles County Investment Pool are rated at least A by Moody’s Investors Service.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable amounting to \$712,991 as of June 30, 2010 consists primarily of interest earned on the District’s investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Measure K Bond Building Fund had construction commitments of \$11,800,939 as of June 30, 2010.

NOTE 5 – MEASURE K GENERAL OBLIGATION BONDS

As of June 30, 2010, the principal balance outstanding on the District’s Measure K general obligation bonds is indicated as follows:

	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2009	Additions	Deletions	Outstanding June 30, 2010
Series A	4/7/2009	3.00%-5.75%	8/1/2033	\$ 260,000,000	\$ 260,000,000	\$ -	\$ -	\$ 260,000,000

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 5 – MEASURE K GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series A

On April 7, 2009, Series A bonds of the Measure K bond authorization were issued, which consisted of serial and current interest bonds with an initial par amount of \$260,000,000 with stated interest rates of 3.00% to 5.75% and maturing through August 1, 2033.

The annual requirements to amortize all Measure K general obligation bonds payable outstanding as of June 30, 2010, are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	\$ 22,260,000	\$ 12,130,850	\$ 34,390,850
2012	16,085,000	11,387,225	27,472,225
2013	18,710,000	10,628,925	29,338,925
2014	9,015,000	10,021,875	19,036,875
2015	10,335,000	9,591,750	19,926,750
2016-2020	71,120,000	38,887,225	110,007,225
2021-2025	37,230,000	24,218,931	61,448,931
2026-2030	34,580,000	16,384,125	50,964,125
2031-2034	40,665,000	4,382,281	45,047,281
Total	<u>\$ 260,000,000</u>	<u>\$ 137,633,187</u>	<u>\$ 397,633,187</u>

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 6 – INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Due From/Due To Other Funds

Interfund receivable and payable balances as of June 30, 2010 are as follows:

	Due to Other Funds		Total
	Measure K Bond Building Fund	Other Governmental Funds	
Measure K Bond Building Fund	\$ -	\$ 8,594,211	\$ 8,594,211
Other Governmental Funds	15,042	-	15,042
Total	\$ 15,042	\$ 8,594,211	\$ 8,609,253
Measure K Bond Building Fund due to General Fund for reimbursement of expenditure transfers			\$ 15,042
County School Facilities Fund due to Measure K Bond Building Fund for expenditure transfers related to GTE site			8,594,211
			Total \$ 8,609,253

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 7 – MEASURE K EXPENDITURES BY MAJOR OBJECT

The following table presents the expenditure amounts by major object for the fiscal year ended June 30, 2010:

<u>Expenditures by Object</u>	<u>Amount</u>	<u>Percent</u>
Books and supplies	\$ 5,719	0.1%
Services and other operating expenditures	7,605	0.1%
Capital outlay	5,398,754	99.8%
Total	<u>\$ 5,412,078</u>	<u>100.0%</u>

NOTE 8 – MEASURE K EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2010:

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
ECATS High School	\$ 121,945	2.3%
GTE Middle School	2,963,513	54.8%
Browning High School	15,746	0.3%
Avalon K-12 School	490	0.0%
Roosevelt Elementary School	18,560	0.3%
Newcomb Academy	23,916	0.4%
Jordan High School	37,841	0.7%
Bancroft Middle School	1,162	0.0%
Hamilton Middle School	1,427	0.0%
Hill Middle School	1,191	0.0%
Facilities Branch	25,894	0.5%
Cabrillo High School	1,640	0.0%
Deportabilization - Phase 1	63	0.0%
Program Management	2,198,690	40.6%
Total	<u>\$ 5,412,078</u>	<u>100.0%</u>

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 9 – MEASURE K EXPENDITURES BY CATEGORY

The following table presents the expenditure amounts by category for the fiscal year ended June 30, 2010:

Category	Amount	Percent
Program Management	\$ 2,198,690	40.6%
New Construction	2,965,152	54.8%
Modernization	221,529	4.1%
Technology	25,894	0.5%
Portables	63	0.0%
Assembly Bill 300	750	0.0%
Total	<u>\$ 5,412,078</u>	<u>100.0%</u>

Other Independent Auditor's Reports

Governing Board Members and
Measure K Citizens' Oversight Committee
Long Beach Unified School District
Long Beach, California

**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**

Independent Auditor's Report

We have audited the financial statements of the Measure K Bond Building Fund of Long Beach Unified School District (the "District") as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated October 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Long Beach Unified School District's internal control over financial reporting as a basis for designing our auditing procedures 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 Long Beach Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Long Beach Unified School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings and management's responses as #2010-3 Financial Audit Finding that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Long Beach Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and management's responses. We did not audit Long Beach Unified School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's Governing Board, the Measure K Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Long Beach Unified School District, and is not intended to be and should not be used by anyone other than these specified parties.

Christine White Accountancy Corporation

San Diego, California
October 26, 2010

Audit Findings
&
Management's Responses Section

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2010**

#2010-1 Financial Audit Finding: Separation of Measure K and Measure A Expenditures

Audit Finding: We found in audit testing that, prior to June 2010, expenditure information provided to the Citizens' Oversight Committee (the "COC") in budget and expenditure reports prepared by program management consultant CPM did not separate Measure K expenditures from Measure A expenditures. We believe that it is important to separately present Measure K expenditures in order for the COC to best meet its oversight responsibilities pertaining to the Measure K Bond Program.

Recommendation: We recommend that financial reporting to the COC continue to separate Measure K from Measure A expenditures, as accomplished in the June 2010 Quarterly Financial Update.

Management's Response: The District will continue to separate Measure K and Measure A bond expenditures in the financial reports prepared for the Citizens' Oversight Committee as accomplished in the June 2010 Quarterly Financial Update.

#2010-2 Financial Audit Finding: Payroll Charges for Measure K Personnel

Audit Finding: As noted in the Performance Audit Report for the fiscal year ended June 30, 2010, District employees in the facilities department working directly on the Measure K Bond Program have been charged to the General Fund rather than the Measure K Bond Building Fund.

The District's Measure K ballot language permits charges to the Measure K Bond Building Fund for employees working directly on the Measure K Bond Program by stating, "proceeds of the bonds may be used to pay or reimburse the District for the cost of District staff when performing work on or necessary and incidental to bond projects." An opinion from the California Attorney General (No. 04-110, dated November 9, 2004) supports charging the compensation of certain District employees to bond proceeds. The opinion concludes by stating, "a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure."

Recommendation: In order for the Measure K Bond Building Fund to reflect all costs incurred related to the Measure K Bond Program, and to minimize the impact of the Measure K Bond Program on the District's General Fund, we recommend that the District charge employees' compensation to the Measure K Bond Building Fund, to the extent that the employees have performed work on the Measure K Bond Program. Such employees may include the Executive Director of Facilities Development and Planning as well as Program and Project Managers.

Management's Response: The District will continue to assess the feasibility of charging employees' compensation to the Measure K bond fund where appropriate.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2010**

#2010-3 Financial Audit Finding: Internal Audit Department Oversight

Audit Finding: We learned during the course of our inquiries that the District's internal audit department is not currently involved in monitoring the facilities area. We believe that the District may be able to increase its monitoring over the Measure K Bond Program by assigning its internal audit department to regularly monitor aspects of the Measure K Bond Program, including the contractor payment process, the contract change order process, the vendor selection process, and other pertinent areas.

Recommendation: We recommend that the District increase its monitoring over the Measure K Bond Program by involving the internal audit department in regular reviews over the contractor payment process, the contract change order process, the vendor selection process, and other pertinent areas as the District may identify.

Management's Response: The District reviews the role of Internal Audit annually and develops a formal audit plan based upon risk assessment. The plan includes areas of interest to review for internal controls, routine and random audits and other areas deemed appropriate. The Measure K bond program is and continues to be an area of consideration in the development of the annual audit plan.

#2010-4 Financial Audit Finding: Fraud Hotline

Audit Finding: Our inquiries of contractors working on the Measure K Bond Program and District employees resulted in our conclusion that, although the District maintains a fraud hotline, the existence of the fraud hotline is not consistently advertised to contractors working on the Measure K Bond Program or all District employees. Proactive efforts to publicize the fraud hotline to contractors and District employees may increase the possibility that an employee or affiliate of the District will report a potential concern through an anonymous means as provided by the District's fraud hotline.

Recommendation: We recommend that the District strive to make the best use of its fraud hotline by notifying contractors working on the Measure K Bond Program as well as District employees about the purpose of the fraud hotline, encouraging these parties to make use of the fraud hotline as an anonymous means to express any concerns that they may have.

Management's Response: Employees are encouraged to report any suspected fraud through the District Fraud Hotline promoted with posters located in each office and school site location. The District continues to communicate the availability of the Fraud hotline by posting in public areas frequented by staff, consultants and contractors and has since increased the posting of such notices at both the Facilities Branch office as well as at the current job site under construction at the New Middle School #1. In addition, the District can notify selected contractors for projects of the need to publicize the Fraud hotline to their subcontractors.

**MEASURE K BOND BUILDING FUND
OF LONG BEACH UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010**

There were no audit findings for the fiscal year ended June 30, 2009.