

LONG BEACH UNIFIED SCHOOL DISTRICT

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

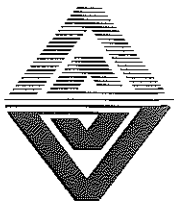
Fiscal Year Ended June 30, 2011

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

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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, the basic financial statements of the Long Beach Unified School District, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 17, 2011.

We have also audited the accompanying 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 Bond Building Fund – Measure K Bond Program of the Long Beach Unified School District as of and for the year ended June 30, 2011. These statements are the responsibility of the Long Beach Unified School District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Bond Building Fund - Measure K Bond Program 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 for the Bond Building Fund – Measure K Bond Program are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Bond Building Fund – Measure K Bond Program 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 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 financial position and results of operations for the Bond Building Fund – Measure K Bond Program of the Long Beach Unified School District as of June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Long Beach Unified School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011 on our consideration of the Long Beach Unified School District's internal control over the Bond Building Fund – Measure K Bond Program financial reporting and 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 Bond Building Fund – Measure K Bond Program 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.


VICENTI, LLOYD & STUTZMAN LLP

November 17, 2011

LONG BEACH UNIFIED SCHOOL DISTRICT

BALANCE SHEET
BOND BUILDING FUND - MEASURE K BOND PROGRAM
June 30, 2011

ASSETS

Cash in County Treasury	\$ 256,296,281
Accounts Receivable	<u>714,611</u>

TOTAL ASSETS \$ 257,010,892

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$ 5,330,232</u>
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TOTAL LIABILITIES 5,330,232

FUND BALANCE

Restricted	<u>251,680,660</u>
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TOTAL FUND BALANCE 251,680,660

TOTAL LIABILITIES AND FUND BALANCE \$ 257,010,892

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BOND BUILDING FUND - MEASURE K BOND PROGRAM

June 30, 2011

REVENUES

Interest Income \$ 2,706,963

TOTAL REVENUES 2,706,963

EXPENDITURES

Supplies 9,185

Services and Other Expenditures 6,215,409

Capital Outlay 26,520,334

TOTAL EXPENDITURES 32,744,928

Excess (Deficiency) of Revenues Over (Under) Expenditures (30,037,965)

OTHER FINANCING SOURCES

Proceeds from Sale of Bonds 74,947,219

TOTAL OTHER FINANCING SOURCES 74,947,219

Net Change in Fund Balance 44,909,254

Fund Balance at Beginning of Year 206,771,406

Fund Balance at End of Year \$ 251,680,660

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 - BOND BUILDING FUND - MEASURE K BOND PROGRAM**

June 30, 2011

	Budget*	Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest Income	\$ 2,706,963	\$ 2,706,963	\$ -
TOTAL REVENUES	<u>2,706,963</u>	<u>2,706,963</u>	<u>-</u>
EXPENDITURES			
Supplies	1,646,811	9,185	1,637,626
Contracted Services and Other Expenditures	137,639,967	6,215,409	131,424,558
Capital Outlay	168,503,963	26,520,334	141,983,629
TOTAL EXPENDITURES	<u>307,790,741</u>	<u>32,744,928</u>	<u>275,045,813</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(305,083,778)</u>	<u>(30,037,965)</u>	<u>275,045,813</u>
OTHER FINANCING SOURCES			
Proceeds from Sale of Bonds	74,947,219	74,947,219	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>74,947,219</u>	<u>74,947,219</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (230,136,559)</u>	<u>44,909,254</u>	<u>\$ 275,045,813</u>
Fund Balance at Beginning of Year		<u>206,771,406</u>	
Fund Balance at End of Year		<u>\$ 251,680,660</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 necessarily 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 PROGRAM FUND**

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

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 Bond Building Fund - Measure K Bond Program 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 Bond Building Fund - Measure K Bond Program 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 PROGRAM FUND**

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

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

FUND BALANCE CLASSIFICATION

During the current fiscal year, the District implemented the reporting model required by GASB statement No. 54. Therefore, 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 Bond Building Fund – Measure K fund balance 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 Bond Building Fund – Measure K Bond Program 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 Bond Building Fund – Measure K Bond Program 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 PROGRAM FUND**

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

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 Bond Building Fund – Measure K Bond Program in this pool as of June 30, 2011, as provided by the pool sponsor, was \$256,337,597.

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. 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 Bond Building Fund – Measure K Bond Program.

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 PROGRAM FUND**

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

NOTE 4 – BONDED DEBT: (continued)

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.

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 outstanding bonded debt for the Long Beach Unified School District at June 30, 2011 is:

Measure K	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Issued Current Year	Principal Payment Current Year ⁽¹⁾	Outstanding June 30, 2011
Series A	4/7/2009	3.5%-5.0%	8/1/2033	260,000,000	260,000,000		22,260,000	\$ 237,740,000
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
				<u>\$ 335,426,686</u>	<u>\$ 260,000,000</u>	<u>\$ 75,426,686</u>	<u>\$ 22,260,000</u>	<u>\$ 313,166,686</u>

(1) Redeemed current year to refund bond escrow agent:
Series E \$11,735,000

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

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

NOTE 4 – BONDED DEBT: (continued)

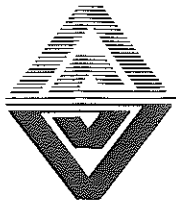
The annual requirements to amortize all bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest</u>	<u>Total</u>
2012	\$ 16,085,000	\$ 14,545,497	\$	\$ 30,630,497
2013	18,710,000	14,871,380		33,581,380
2014	9,015,000	14,264,330		23,279,330
2015	10,335,000	13,834,205		24,169,205
2016	11,745,000	13,342,630		25,087,630
2017-2021	74,521,000	56,644,903		131,165,903
2022-2026	99,800,000	34,472,969		134,272,969
2027-2031	38,960,000	14,368,025		53,328,025
2032-2036	<u>33,995,686</u>	<u>2,414,232</u>	<u>42,489,314</u>	<u>78,899,232</u>
Total	<u>\$ 313,166,686</u>	<u>\$ 178,758,171</u>	<u>\$ 42,489,314</u>	<u>\$ 534,414,171</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, a difference of \$479,467 between proceeds reported in the Bond Building Fund-Measure K and the principal amount of the Series B and B-1 bonds is also recorded in the District's Bond Interest and Redemption Fund and was used to pay the costs of issuing these bonds.

NOTE 5 – PURCHASE COMMITMENTS:

As of June 30, 2011, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$14,597,025. Projects will be funded through bond proceeds.



**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 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 Bond Building Fund - Measure K Bond Program of the Long Beach Unified School District as of and for the year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Long Beach Unified School District's internal control over Bond Building Fund - Measure K Bond Program financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Bond Building Fund – Measure K Bond Program 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 financial statements will not be prevented or detected and corrected on a timely basis.

**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 over fund financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 fund financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Long Beach Unified School District's Bond Building Fund – Measure K Bond Program 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 of the Bond Building Fund – Measure K bond Program disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, Citizens' Oversight Committee and District management, and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

November 17, 2011

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

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

There were no findings related to the financial audit of the Bond Building Fund - Measure K Bond Program for the fiscal year ended June 30, 2011.

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

STATUS OF PRIOR YEAR FINDINGS

June 30, 2011

FINDING 10-1 – SEPARATION OF MEASURE K AND MEASURE A EXPENDITURES

Audit Finding: The prior auditor 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. The prior auditor believes 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: The prior auditor recommends that financial reporting to the COC continue to separate Measure K from Measure A expenditures as accomplished in the June 2010 Quarterly Financial Update.

Current Status: Implemented.

FINDING 10-2 – FUNDING PAYROLL CHANGES 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. 14-110, 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, the prior auditor recommends 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.

Current Status: Management is not required to charge salaries expenditures to the Bond Building Fund – Measure K Bond Program, and as such has not done so. The District will continue to assess the feasibility of charging employee's compensation to the Measure K bond fund where appropriate.

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

**STATUS OF PRIOR YEAR FINDINGS
June 30, 2011**

FINDING 10-3 – INTERNAL AUDIT DEPARTMENT OVERSIGHT

Audit Finding: The prior auditor learned during the course of their inquiries that the District's internal audit department is not currently involved in monitoring the facilities area. They 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: The prior auditor recommends 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.

Current Status: Substantially implemented.

FINDING 10-4 – FRAUD HOTLINE

Audit Finding: The prior auditor's inquiries of contractors working on the Measure K Bond Program and District employees resulted in their 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 employer or affiliate of the District will report a potential concern through an anonymous means as provided by the District's fraud hotline.

Recommendation: The prior auditor recommends 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.

Current Status: Implemented.