



**OCEAN VIEW SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

**OCEAN VIEW SCHOOL DISTRICT
OF ORANGE COUNTY
HUNTINGTON BEACH, CALIFORNIA
JUNE 30, 2006**

GOVERNING BOARD

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Ms. Sharon Holland	President	2006
Ms. Carolee Focht	Clerk	2006
Ms. Debbie Cotton	Member	2008
Ms. Tracy Pellman	Member	2006
Vacant	Member	2008

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Mr. Michael A. Luker	Assistant Superintendent, Human Resources
Ms. Beverly Hempstead	Assistant Superintendent, Curriculum and Instruction
Mr. Scott Stark	Chief Operations and Facilities Officer

OCEAN VIEW SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2006

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	19
Proprietary Funds - Statement of Net Assets	21
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets	22
Proprietary Funds - Statement of Cash Flows	23
Fiduciary Funds - Statement of Net Assets	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	51
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SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	53
Schedule of Average Daily Attendance	54
Schedule of Instructional Time	55
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	56
Schedule of Financial Trends and Analysis	57
Note to Supplementary Information	58

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	61
General Fund Selected Financial Information - Unaudited	62
Cafeteria Account Selected Financial Information - Unaudited	63
Note to Supplementary Information - Unaudited	64

INDEPENDENT AUDITORS' REPORTS

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</i> Auditing Standards	66
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	68
Report on State Compliance	70

OCEAN VIEW SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	74
Financial Statement Findings	75
Federal Award Findings and Questioned Costs	76
State Award Findings and Questioned Costs	77
Summary Schedule of Prior Audit Findings	78
Management Letter	80

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Ocean View School District
Huntington Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ocean View School District (the "District") as of and for the year ended June 30, 2006, 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 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ocean View School District, as of June 30, 2006, and the respective changes in financial position 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 29, 2006, 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 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 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 conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 13 and budgetary comparison information on page 51, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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*, is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds and General Fund and Cafeteria Fund Selected Financial Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vadnick, Trine Day & Co., LLP

Rancho Cucamonga, California
September 29, 2006



"Equity and
Excellence"

Ocean View School District

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District Superintendent
Karen Colby

Board of Trustees
Sharon Holland, President
Carolee Focht, Clerk
Debbie Cotton, Member
Tracy Pellman, Member

This section of Ocean View School District's (OVSD) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's financial status remains positive. The ending balance of the General Fund increased \$2,342,179 between July 01, 2005 and June 30, 2006. The General Fund has consistently maintained a reserve for emergencies above the State mandated three percent reserve, and ended the fiscal year of June 30, 2006, with an emergency reserve of 2.88 percent.

The Westmont Phase I modernization project was completed during the 2005-2006 fiscal year. The final cost was \$3,095,513 paid for with a combination of State and District monies. In addition, planning for the Westmont Phase II modernization project began and contracts were awarded for this project in October of 2005 and April of 2006. Modernization project planning continued at Village View and Marine View with bids opened in October 2005 for work to be done in summer 2006.

The District continued to fund other capital projects as well as debt service on the 2002 COP with lease monies collected from tenants at closed school sites (short-term lease) and contribute to the required match for State funded modernization projects with long term lease revenue from the shopping centers built at the closed Crest View and Rancho View sites.

The District reduced its outstanding long-term obligations by \$791,158 or 7.2 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts — management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in more detail than the District-wide statements.
 - The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short term*, as well as what remains for future spending.
 - *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the District operates like business, such as child care.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others (Associated Student Body).

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities with the exception of other post-employment benefits. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. District-wide statements were not required of this District prior to the 2002-2003 fiscal year.

The District-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the condition of District school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-Type Activities

The District charges fees to cover the costs of certain services it provides. The District's child care program is included here.

Figure 1-A shows how the various parts of this annual report are arranged and related to one another.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Figure 1-A. Major Features of the District-Wide and Fund Financial Statements

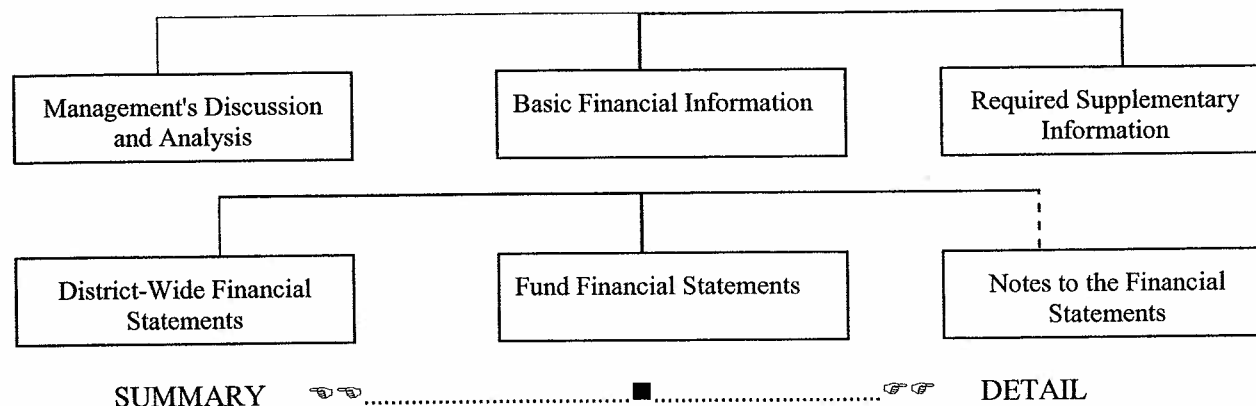
Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: Food Services and Adult Education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; ASB funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Figure 1-B summarizes the major features of the District's financial statements, including a portion of the District's activities they cover and the types of information they contain.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

**Figure 1-B. Organization of Ocean View School District's
Annual Financial Report**



The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were \$67,301,091 for the fiscal year ended June 30, 2006. Of this amount, \$5,529,385 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limit the Board of Trustees' ability to use those net assets for day-to-day operations. The analysis below focuses on the net assets (Table 1) and change in the net assets (Table 2) for the District's governmental and business-type activities.

See Table 1 next page

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 32,742,861	\$ 16,090,756	\$ 1,438,003	\$ 1,250,568	\$ 34,180,864	\$ 17,341,324
Capital assets	48,122,369	46,932,752	522,426	491,263	48,644,795	47,424,015
Total Assets	80,865,230	63,023,508	1,960,429	1,741,831	82,825,659	64,765,339
Current liabilities	4,951,903	5,462,001	450,762	323,732	5,402,665	5,785,733
Long-term obligations	9,861,903	10,517,899	260,000	395,162	10,121,903	10,913,061
Total Liabilities	14,813,806	15,979,900	710,762	718,894	15,524,568	16,698,794
Net assets:						
Invested in capital assets, net of related debt	38,779,428	36,976,507	262,426	96,101	39,041,854	37,072,608
Restricted	22,729,852	6,382,708	-	-	22,729,852	6,382,708
Unrestricted	4,542,144	3,684,393	987,241	926,836	5,529,385	4,611,229
Total Net Assets	\$ 66,051,424	\$ 47,043,608	\$ 1,249,667	\$ 1,022,937	\$ 67,301,091	\$ 48,066,545

The \$5,529,385 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay all of our bills today, including all of our non-capital liabilities (such as compensated absences), we would have \$5.5 million left.

Change in Net Assets

The District's Total revenues were \$86,641,933 and Total expenses were \$79,497,994. Table 2 presents Total revenues and Total expenses for governmental activities and business-type activities by category.

See Table 2 next page

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 1,220,196	\$ 1,163,655	\$ 2,082,694	\$ 2,072,647	\$ 3,302,890	\$ 3,236,302
Operating grants and contributions	18,977,120	17,331,049	711,901	680,208	19,689,021	18,011,257
Capital grants and contributions	3,781,777	1,771,275	-	-	3,781,777	1,771,275
General revenues:						
State revenue limit sources	21,425,280	20,703,712	-	-	21,425,280	20,703,712
Property taxes	26,394,814	25,460,361	-	-	26,394,814	25,460,361
Other State revenues	5,909,112	5,834,731	-	-	5,909,112	5,834,731
Other general revenues	6,139,039	5,322,845	-	24,329	6,139,039	5,347,174
Total Revenues	83,847,338	77,587,628	2,794,595	2,777,184	86,641,933	80,364,812
Expenses						
Instruction-related	56,952,230	55,411,286	2,616,575	2,390,139	59,568,805	57,801,425
Student support services	6,315,893	5,919,279	-	-	6,315,893	5,919,279
Administration	3,770,083	4,017,515	-	-	3,770,083	4,017,515
Maintenance and operations	6,516,274	6,160,517	-	-	6,516,274	6,160,517
Other	3,326,939	3,453,121	-	-	3,326,939	3,453,121
Total Expenses	76,881,419	74,961,718	2,616,575	2,390,139	79,497,994	77,351,857
Change in Net Assets	\$ 6,965,919	\$ 2,625,910	\$ 178,020	\$ 387,045	\$ 7,143,939	\$ 3,012,955

Property taxes and State formula aid accounted for 64.8 percent of the District's revenue. Another 25.5 percent came from State and Federal aid for specific programs, and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominately related to educating and caring for students (82.3 percent). The purely administrative activities of the District accounted for 4.9 percent of total costs. Total revenues surpassed expenses, increasing net assets \$19,234,546 (which includes a gain on the sale of the Bolsa Chica property totaling \$12,090,607) over last year.

Governmental Activities

Table 3 presents the costs of five major District activities: instruction-related, student support services, administration; maintenance, operations and facilities and other services. The table also shows each activity's *net cost* (Total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The cost of all governmental activities this year was \$76,881,419.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

- Some of the cost (\$1,220,196) was financed by the users of the District's programs.
- The Federal and State governments subsidized certain programs with grants and contributions (\$18,977,120).
- The District received State Bond money for modernization projects (\$3,781,777).
- Most of the District's costs (\$52,902,326) however, were financed by District taxpayers and the taxpayers of our state.
 - This portion of governmental activities was financed with property taxes, unrestricted State aid based on the statewide education aid formula, other State funding, investment earnings and miscellaneous revenues.

Table 3

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction-related activities	\$ 56,952,230	\$ 55,411,286	\$ 37,991,136	\$ 40,448,941
Student support services	6,315,893	5,919,279	2,491,088	1,847,760
Administration	3,770,083	4,017,515	3,191,911	3,542,002
Maintenance, operations and facilities	6,516,274	6,160,517	6,281,820	5,913,763
Other	3,326,939	3,453,121	2,946,371	2,943,273
Totals	\$ 76,881,419	\$ 74,961,718	\$ 52,902,326	\$ 54,695,739

Business-Type Activities

Revenues of the District's business-type activities were \$2,794,595 and expenses were \$2,616,575.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District established other funds to control and manage money for particular purposes (like capital facilities) or to show that it is properly using certain revenues (like cafeteria revenues).

The District has three kinds of funds:

Governmental funds — Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statement that explain the relationship (or differences) between them.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Fiduciary funds — The District is trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Proprietary funds — Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The strong financial performance of the District as a whole is reflected in its governmental funds as well. The main day-to-day operating fund of the District is the General Fund. The monies deposited into the General Fund represent the Federal, State and local revenues available for the ongoing costs related to instruction, school and District administration, student transportation and regular maintenance and operations. During 2005-06, the General Fund had revenues of \$74,255,693 and expenses of \$72,023,960. After factoring in transfers and other uses, the General Fund balance increased \$2,342,179 or 3.3 percent of expenses. The General Fund has maintained additional reserves above the State required three percent reserves for many years, reflecting that the District achieves a financial balance between revenues and expenditures for its ongoing day-to-day operations.

As the District completed the year, its governmental funds reported combined fund balances of \$27,928,247.

Proprietary Funds

The Child Care Fund had an increase in net assets of \$226,730 to equal a balance of \$1,249,667 during the 2005-2006 year. The ending balance is a combination of funds from the State funded preschool program and the District sponsored before and after school child care program. The ending balances are available to enhance the respective programs and provide a reserve for increased costs.

Fiduciary Funds

The Associated Student Body funds ended the year with assets of \$293,411 consisting of \$256,836 in bank deposits and \$36,575 in stores inventory, with liabilities of \$12,949 for vendor payables and \$280,462 due to student groups.

General Fund Budgetary Highlights

Over the course of the year, the Board approves three versions of the operating budget. These budget revisions are: Adopted Budget, First Interim and Second Interim, with the Unaudited Actuals brought forward after the year-end closing is completed. Budget adjustments are brought to the Board on a regular basis to reflect changes to both revenues and expenditures that become known during the year.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

While the District's estimated budget for the General Fund anticipated that revenues and expenditures would result in a General Fund ending balance of \$4,535,337, the actual ending balance was \$2,724,458 higher at \$7,259,796. The District's estimated budget includes all monies available, whereas the actual budget reflects final expenditures, which are often lower, and result in carryovers to be rolled into the following year. An example would be restricted State and Federal programs and school site carryover.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2005-2006, the District finalized planning and bid the Phase II modernization project at Westmont Elementary School, and Phase I Modernization projects at Village View Elementary School and Marine View Middle School. Construction contracts were awarded in the amount of \$2,279,135, \$1,987,456, and \$2,248,503, respectively, and construction began with completion anticipated in the fall 2006.

The District continued planning for two additional modernization projects:

- New Library and Child Care facilities at Village View
- New Child Care facilities at Hope View

Long-Term Obligations

At year-end, the District had \$10,121,903 in long-term obligations outstanding — a reduction of 7.2 percent from last year — as shown in Table 4.

Table 4

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Certificates of participation	\$ 9,015,000	\$ 9,405,000	\$ -	\$ -	\$ 9,015,000	\$ 9,405,000
Capitalized lease obligations	327,941	551,245	260,000	395,162	587,941	946,407
Other	518,962	561,654	-	-	518,962	561,654
Totals	\$ 9,861,903	\$ 10,517,899	\$ 260,000	\$ 395,162	\$ 10,121,903	\$ 10,913,061

- The District continued to pay down its debt, retiring \$858,912 of the 2002 COP and capital leases.
- The only new debt issued this year was a capital lease for copiers totaling \$110,446. The liability for compensated absences decreased by \$42,692.

OCEAN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

FACTORS BEARING ON THE DISTRICT'S FUTURE

Ocean View School District's enrollment, like many other districts in California, continues to decline. The decline in enrollment impacts the District's revenue. The District continues to make expenditure adjustments to assist in compensating for the loss in revenue and will continue to maintain a reserve level above the minimum level required.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Karen Colby, Superintendent
Ocean View School District
17200 Pinehurst Lane
Huntington Beach, California 92647

OCEAN VIEW SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 27,261,215	\$ 1,505,233	\$ 28,766,448
Receivables	5,210,412	78,316	5,288,728
Internal balances	145,546	(145,546)	-
Stores inventories	125,688	-	125,688
Total Current Assets	32,742,861	1,438,003	34,180,864
Capital assets			
Land and construction in process	15,598,779	49,140	15,647,919
Other capital assets	67,354,992	657,831	68,012,823
Less: Accumulated depreciation	(34,831,402)	(184,545)	(35,015,947)
Total Capital Assets	48,122,369	522,426	48,644,795
Total Assets	80,865,230	1,960,429	82,825,659
LIABILITIES			
Accounts payable	4,501,727	304,696	4,806,423
Accrued interest	137,289	-	137,289
Deferred revenue	312,887	146,066	458,953
Long-term liabilities:			
Current portion of long-term obligations	663,924	52,000	715,924
Noncurrent portion of long-term obligations	9,197,979	208,000	9,405,979
Total Liabilities	14,813,806	710,762	15,524,568
NET ASSETS			
Invested in capital assets, net of related debt	38,779,428	262,426	39,041,854
Restricted for:			
Debt service	310,445	-	310,445
Capital projects	17,914,403	-	17,914,403
Educational programs	2,211,806	-	2,211,806
Other activities	2,293,198	-	2,293,198
Unrestricted	4,542,144	987,241	5,529,385
Total Net Assets	\$ 66,051,424	\$ 1,249,667	\$ 67,301,091

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

OCEAN VIEW SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 49,955,323	\$ -	\$ 12,444,092	\$ 3,781,777
Instruction-related activities:				
Supervision of instruction	2,193,648	-	2,028,874	-
Instructional library, media, and technology	663,714	-	664,959	-
School site administration	4,139,545	-	41,392	-
Pupil services:				
Home-to-school transportation	1,960,326	8,249	952,203	-
Food services	2,288,912	1,150,619	1,182,061	-
All other pupil services	2,066,655	-	531,673	-
General administration:				
Data processing	395,834	-	-	-
All other general administration	3,374,249	61,328	516,844	-
Plant services	6,516,274	-	234,454	-
Ancillary services	55,469	-	-	-
Community services	130,441	-	125,979	-
Interest on long-term obligations	451,977	-	-	-
Other outgo	331,101	-	254,589	-
Depreciation (unallocated)	2,357,951	-	-	-
Total Governmental-Type Activities	76,881,419	1,220,196	18,977,120	3,781,777
Business-Type Activities:				
Child care services	2,616,575	2,082,694	711,901	-
Total Business-Type Activities	2,616,575	2,082,694	711,901	-
Total School District	\$ 79,497,994	\$ 3,302,890	\$ 19,689,021	\$ 3,781,777
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for other specific purpose				
State revenue limit apportionment				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Excess (Deficiency) of Revenues Over Expenses				
Special and extraordinary items - Gain on sale of land				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (33,729,454)	\$ -	\$ (33,729,454)
(164,774)	-	(164,774)
1,245	-	1,245
(4,098,153)	-	(4,098,153)
(999,874)	-	(999,874)
43,768	-	43,768
(1,534,982)	-	(1,534,982)
(395,834)	-	(395,834)
(2,796,077)	-	(2,796,077)
(6,281,820)	-	(6,281,820)
(55,469)	-	(55,469)
(4,462)	-	(4,462)
(451,977)	-	(451,977)
(76,512)	-	(76,512)
(2,357,951)	-	(2,357,951)
(52,902,326)	-	(52,902,326)
-	178,020	178,020
-	178,020	178,020
(52,902,326)	178,020	(52,724,306)
26,294,984	-	26,294,984
99,830	-	99,830
21,425,280	-	21,425,280
5,909,112	-	5,909,112
732,215	48,710	780,925
5,358,114	-	5,358,114
59,819,535	48,710	59,868,245
6,917,209	226,730	7,143,939
12,090,607	-	12,090,607
19,007,816	226,730	19,234,546
47,043,608	1,022,937	48,066,545
\$ 66,051,424	\$ 1,249,667	\$ 67,301,091

OCEAN VIEW SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2006

	General Fund	County School Facilities Fund
ASSETS		
Deposits and investments	\$ 5,485,079	\$ 5,632,790
Receivables	4,878,880	23,089
Due from other funds	269,956	-
Stores inventories	113,572	-
Total Assets	\$ 10,747,487	\$ 5,655,879
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	3,205,955	562,278
Due to other funds	1,287	1,880
Deferred revenue	280,449	-
Total Liabilities	3,487,691	564,158
FUND BALANCES		
Reserved	2,374,378	-
Unreserved:		
Designated	1,801,131	-
Undesignated, reported in:		
General Fund	3,084,287	-
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	5,091,721
Total Fund Balance	7,259,796	5,091,721
Total Liabilities and Fund Balances	\$ 10,747,487	\$ 5,655,879

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

Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 12,579,647	\$ 3,563,699	\$ 27,261,215
51,556	256,887	5,210,412
1,880	-	271,836
-	12,116	125,688
<u>\$ 12,633,083</u>	<u>\$ 3,832,702</u>	<u>\$ 32,869,151</u>
358,446	375,048	4,501,727
-	123,123	126,290
32,438	-	312,887
<u>390,884</u>	<u>498,171</u>	<u>4,940,904</u>
-	13,116	2,387,494
-	-	1,801,131
-	-	3,084,287
-	2,293,198	2,293,198
-	447,734	447,734
<u>12,242,199</u>	<u>580,483</u>	<u>17,914,403</u>
<u>12,242,199</u>	<u>3,334,531</u>	<u>27,928,247</u>
<u>\$ 12,633,083</u>	<u>\$ 3,832,702</u>	<u>\$ 32,869,151</u>

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OCEAN VIEW SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2006

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

Total Fund Balance - Governmental Funds		\$ 27,928,247
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	\$ 82,953,771	
Accumulated depreciation is	<u>(34,831,402)</u>	
Net Capital Assets		48,122,369
 In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		 (137,289)
 Long-term liabilities, including general obligation bonds, 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:		
Certificates of participation	(9,015,000)	
Compensated absences	(518,962)	
Capital lease obligations	<u>(327,941)</u>	
Total Long-Term Liabilities		(9,861,903)
Total Net Assets - Governmental Activities		<u>\$ 66,051,424</u>

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

OCEAN VIEW SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund
REVENUES			
Revenue limit sources	\$48,124,539	\$ -	\$ -
Federal sources	5,256,400	-	-
Other State sources	13,656,610	3,639,271	-
Other local sources	7,218,144	142,506	2,673,472
Total Revenues	<u>74,255,693</u>	<u>3,781,777</u>	<u>2,673,472</u>
EXPENDITURES			
Current			
Instruction	49,979,927	-	-
Instruction-related activities:			
Supervision of instruction	2,192,236	-	-
Instructional library, media, and technology	664,027	-	-
School site administration	4,139,545	-	-
Pupil services:			
Home-to-school transportation	1,957,060	-	-
Food services	-	-	-
All other pupil services	2,067,290	-	-
General administration:			
Data processing	390,566	-	-
All other general administration	3,389,037	-	-
Plant services	6,353,513	3,857	126,167
Facility acquisition and construction	12,503	3,045,258	438,505
Ancillary services	55,469	-	-
Community services	127,252	-	-
Other outgo	331,101	-	-
Debt service			
Principal	333,750	-	-
Interest and other	30,684	-	-
Total Expenditures	<u>72,023,960</u>	<u>3,049,115</u>	<u>564,672</u>
Deficiency of Revenues Over Expenditures	<u>2,231,733</u>	<u>732,662</u>	<u>2,108,800</u>
Other Financing Sources (Uses):			
Transfers in	315,000	2,080,387	-
Other sources	110,446	-	12,320,000
Transfers out	(315,000)	-	(3,187,524)
Net Financing Sources (Uses)	<u>110,446</u>	<u>2,080,387</u>	<u>9,132,476</u>
NET CHANGE IN FUND BALANCES	<u>2,342,179</u>	<u>2,813,049</u>	<u>11,241,276</u>
Fund Balance - Beginning	<u>4,917,617</u>	<u>2,278,672</u>	<u>1,000,923</u>
Fund Balance - Ending	<u>\$ 7,259,796</u>	<u>\$ 5,091,721</u>	<u>\$ 12,242,199</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 48,124,539
1,171,881	6,428,281
471,761	17,767,642
1,554,490	11,588,612
<u>3,198,132</u>	<u>83,909,074</u>
-	49,979,927
-	2,192,236
-	664,027
-	4,139,545
-	1,957,060
2,293,548	2,293,548
-	2,067,290
-	390,566
148,831	3,537,868
54,131	6,537,668
231,767	3,728,033
-	55,469
-	127,252
-	331,101
390,000	723,750
426,006	456,690
<u>3,544,283</u>	<u>79,182,030</u>
<u>(346,151)</u>	<u>4,727,044</u>
1,107,137	3,502,524
-	12,430,446
-	(3,502,524)
<u>1,107,137</u>	<u>12,430,446</u>
760,986	17,157,490
2,573,545	10,770,757
<u>\$ 3,334,531</u>	<u>\$ 27,928,247</u>

OCEAN VIEW 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, 2006

Total Net Change in Fund Balances - Governmental Funds **\$ 17,157,490**
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 statement of activities.

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

Capital outlays

\$ 3,887,407

Depreciation expense

(2,357,951)

Net Expense Adjustment

1,529,456

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.

(110,446)

In the statement of activities, only the gain on the sale of the unimproved land is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the land sold.

(339,839)

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there are no special termination benefits. Vacation earned was less than the amounts used by \$42,692.

42,692

Repayment of debt 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:

Certificates of participation

390,000

Capital lease obligations

333,750

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

OCEAN VIEW SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2006

Interest on long-term obligations 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. Accrued interest on the certificates of participation and capital lease obligations decreased by \$4,713.

Change in Net Assets of Governmental Activities

\$	4,713
\$	19,007,816

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

OCEAN VIEW SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities
	Child Care
ASSETS	
Current Assets	
Deposits and investments	\$ 1,505,233
Receivables	78,316
Due from other funds	1,287
Total Current Assets	1,584,836
Noncurrent Assets	
Capital assets	706,971
Less: accumulated depreciation	(184,545)
Total Noncurrent Assets	522,426
Total Assets	2,107,262
LIABILITIES	
Current Liabilities	
Accounts payable	304,696
Due to other funds	146,833
Deferred revenue	146,066
Current portion of long-term obligations	52,000
Total Current Liabilities	649,595
Noncurrent Liabilities	
Noncurrent portion of long-term obligations	208,000
NET ASSETS	
Invested in capital assets, net of related debt	262,426
Unrestricted	987,241
Total Net Assets	\$ 1,249,667

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

OCEAN VIEW SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities
	Child Care
OPERATING REVENUES	
Charges for services	\$ 2,082,694
OPERATING EXPENSES	
Payroll costs	2,157,114
Professional and contract services	117,984
Supplies and materials	151,168
Facility rental	20,259
Other operating costs	142,342
Depreciation	27,708
Total Operating Expenses	2,616,575
Operating Loss	(533,881)
NONOPERATING REVENUES	
Interest income	48,710
Grants	711,901
Total Nonoperating Revenues	760,611
Change in Net Assets	226,730
Total Net Assets - Beginning	1,022,937
Total Net Assets - Ending	\$ 1,249,667

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

OCEAN VIEW SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities
	Child Care
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 2,168,433
Cash payments to employees for services	(2,086,837)
Cash payments to suppliers for goods and services	(269,152)
Cash payments for other operating expenses	(159,241)
Net Cash Used by Operating Activities	(346,797)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	704,921
Net Cash Provided by Non-Capital Financing Activities	704,921
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(58,871)
Principal paid on capital debt	(135,162)
Interest paid on capital debt	(3,360)
Net Cash Used by Capital and Related Financing Activities	(197,393)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	48,710
Net Cash Provided by Investing Activities	48,710
Net Increase in Cash and Cash Equivalents	209,441
Cash and Cash Equivalents - Beginning	1,295,792
Cash and Cash Equivalents - Ending	\$ 1,505,233
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (533,881)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	27,708
Changes in assets and liabilities:	
Receivables	16,405
Accrued liabilities and internal balances	72,485
Deferred revenue	70,486
NET CASH USED BY OPERATING ACTIVITIES	\$ (346,797)

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

OCEAN VIEW SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2006

	<u>Agency Funds</u> <u>Student Funds</u>
ASSETS	
Deposits and investments	\$ 256,836
Stores inventories	36,575
Total Assets	<u>\$ 293,411</u>
LIABILITIES	
Accounts payable	12,949
Due to student groups	280,462
Total Liabilities	<u>\$ 293,411</u>

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

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Ocean View School District (the District) was organized in 1874 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 kindergarten through eight as mandated by the State and Federal agencies. The District operates eleven elementary and four middle schools.

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 Ocean View School District, this includes general operations, child care operations, food service, and student related activities of the District.

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. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The District and the Ocean View School District Facilities Corporation (the Corporation), as represented by the Certificates of Participation (COP), have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14, "The Financial Reporting Entity", for inclusion of the Corporation as a component unit of the District. Accordingly, the financial activity of the Corporation is presented in the financial statements as the Debt Service Fund. The COP issued by the Corporation is included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. These organizations are:

Southern Orange County Property/Liability Joint Powers Authority
Western Orange County Self-Funded Workers' Compensation Agency
Orange County Fringe Benefits Joint Powers Authority

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 three broad fund categories: governmental, proprietary, 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 governmental funds:

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.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay 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:

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 Non-Capital Fund The Special Reserve Non-Capital Fund is used to provide for the accumulation of General Fund monies for general operating purposes.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following non-major capital projects funds:

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).

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:

Debt Service Fund The Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

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:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the child care program of the District.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District has the following fiduciary 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).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and 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 or business segment 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 and proprietary 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 enterprise fund is presented in a single column on the face of the proprietary fund statements.

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 statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide 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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met 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. Principal and interest on long-term obligations, 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.

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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Investments

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at the lower of cost or market, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

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. 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. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statement of net assets. 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.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds.

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: land improvements, 20 to 50 years; buildings and improvements, 20 to 50 years; equipment, 5 to 15 years.

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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 statement of net assets. 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. 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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund 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, special termination benefits, and contractually required pension contributions 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 compensated absences are recognized as liabilities in the governmental fund financial statements when due.

Fund Balance Reserves and Designations

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

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

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$22,729,852 of restricted net assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are childcare fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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.

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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 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 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In July 2004, GASB issued GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In June 2005, GASB issued GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASB Statement No. 47 should be applied simultaneously with the requirements of GASB Statement No. 45 [GASB Statement No. 45 is effective in three phases, with implementation required for Phase 1 governments in periods beginning after December 15, 2006.] For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASB Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASB Statement No. 47 is encouraged.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 27,261,215
Business-type activities	1,505,233
Fiduciary funds	256,836
Total Deposits and Investments	<u>\$ 29,023,284</u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 267,149
Cash in revolving	50,000
Investments	28,706,135
Total Deposits and Investments	<u>\$ 29,023,284</u>

Policies and Practices

The District is authorized under California Government Code and the Entity's investment policy 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 (if such transactions are matched to maturity); 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.

Investment 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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

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 primarily investing in the county pool and money market funds.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
Money Market Mutual Funds	\$ 13,127	10 days*
Investment Agreement	434,607	3/1/2022
County Pool	28,250,242	115 days*
Total	<u>\$ 28,697,976</u>	

* Average days to maturity

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. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Not Required To Be Rated	Fair Value	Moody's Rating as of Year End	
			Aaa	Unrated
Money Market Mutual Funds	X	\$ 13,127	\$ 13,127	\$ -
Investment Agreement	X	434,607	-	434,607
County Pool	X	28,250,242	28,250,242	-
Total		<u>\$ 28,697,976</u>	<u>\$ 28,263,369</u>	<u>\$ 434,607</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. The District's policy requires that all monies deposited in a bank account outside of the County Treasury be fully insured or collateralized. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 10 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, the District's bank balance of \$353,765 was not exposed to custodial credit risk because it was insured or collateralized with securities in the name of the District.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities	Child Care Enterprise
Federal Government						
Categorical aid	\$ 1,490,470	\$ -	\$ -	\$ 222,526	\$ 1,712,996	\$ 9,484
State Government						
Apportionment	1,262,660	-	-	-	1,262,660	-
Categorical aid	1,104,872	-	-	13,558	1,118,430	45,677
Lottery	360,667	-	-	-	360,667	-
Local Government						
Interest	45,958	23,089	50,973	12,423	132,443	5,752
Other Local Sources	614,253	-	583	8,380	623,216	17,403
Total	<u>\$ 4,878,880</u>	<u>\$ 23,089</u>	<u>\$ 51,556</u>	<u>\$ 256,887</u>	<u>\$ 5,210,412</u>	<u>\$ 78,316</u>

All receivables are expected to be collected within one year.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 10,893,943	\$ -	\$ 339,839	\$ 10,554,104
Construction in process	1,355,473	3,689,202	-	5,044,675
Total Capital Assets				
Not Being Depreciated	12,249,416	3,689,202	339,839	15,598,779
Capital Assets Being Depreciated				
Land improvements	6,378,757	-	-	6,378,757
Buildings and improvements	50,324,227	-	-	50,324,227
Furniture and equipment	10,596,902	198,205	143,099	10,652,008
Total Capital Assets				
Being Depreciated	67,299,886	198,205	143,099	67,354,992
Less Accumulated Depreciation				
Land improvements	5,100,244	318,938	-	5,419,182
Buildings and improvements	20,565,245	1,335,303	-	21,900,548
Furniture and equipment	6,951,061	703,710	143,099	7,511,672
Total Accumulated Depreciation	32,616,550	2,357,951	143,099	34,831,402
Governmental Activities Capital Assets, Net	\$ 46,932,752	\$ 1,529,456	\$ 339,839	\$ 48,122,369
Business-Type Activities				
Capital Assets Not Being Depreciated				
Construction in process	-	49,140	-	49,140
Capital Assets Being Depreciated				
Buildings and improvements	648,100	-	-	648,100
Furniture and equipment	-	9,731	-	9,731
Total Capital Assets				
Being Depreciated	648,100	9,731	-	657,831
Less accumulated depreciation				
Buildings and improvements	156,837	25,924	-	182,761
Furniture and equipment	-	1,784	-	1,784
Total Accumulated Depreciation	156,837	27,708	-	184,545
Business-Type Activities Capital Assets, Net	\$ 491,263	\$ 31,163	\$ -	\$ 522,426

Depreciation expense was charged to governmental and business-type activities as unallocated.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts due for cost allocation or to cover another fund's operating deficit. Interfund receivable and payable balances at June 30, 2006, between major and non-major governmental funds, and non-major enterprise funds are as follows:

Due To	Due From				Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Child Care Enterprise	
General Fund	\$ -	\$ -	\$ 123,123	\$ 146,833	\$ 269,956
Special Reserve Capital Outlay Fund	-	1,880	-	-	1,880
Child Care Enterprise	1,287	-	-	-	1,287
Total	<u>\$ 1,287</u>	<u>\$ 1,880</u>	<u>\$ 123,123</u>	<u>\$ 146,833</u>	<u>\$ 273,123</u>

The balance of \$123,123 due to the General Fund from the non-major governmental funds resulted from indirect and payroll related costs paid by the General Fund but incurred by the Cafeteria Fund. The balance of \$146,833 due to the General Fund from the Child Care Enterprise resulted from indirect and payroll related costs paid by the General Fund but incurred by the Child Care Enterprise. The balance of \$1,287 due to the Child Care Enterprise from the General Fund resulted from reimbursement of payroll related expenditures. The balance of \$1,880 due to the Special Reserve Capital Outlay Fund from the County School Facilities Fund is for modernization.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Operating Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfer To	Transfer From	
	General Fund	Special Reserve Capital Outlay Fund
General Fund	\$ -	\$ 315,000
County School Facilities Fund	-	2,080,387
Non-Major Governmental Funds	315,000	792,137
Total	\$ 315,000	\$ 3,187,524

The Special Reserve Capital Outlay Fund transferred to the General Fund for a portion of the deferred maintenance match.	\$ 315,000
The Special Reserve Capital Outlay Fund transferred to the COP Debt Service Fund for the debt service payments.	792,137
The Special Reserve Capital Outlay Fund transferred to the County School Facilities Fund for modernization.	2,080,387
The General Fund transferred to the Deferred Maintenance Fund for the State match.	315,000
Total	\$ 3,502,524

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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	\$2,675,530	\$ -	\$ -	\$ 110,717	\$ 2,786,247
Materials and supplies	20,118	-	-	3,243	23,361
Services and other operating	307,348	-	1,482	244,952	553,782
State categorical programs	31,911	-	-	-	31,911
Construction	-	562,278	356,964	-	919,242
Other vendor payables	171,048	-	-	16,136	187,184
Total	<u>\$3,205,955</u>	<u>\$ 562,278</u>	<u>\$ 358,446</u>	<u>\$ 375,048</u>	<u>\$ 4,501,727</u>

	Child Care Enterprise	Fiduciary Fund
Salaries and benefits	\$ 209,336	\$ -
Materials and supplies	697	-
Services and other operating	7,944	-
State categorical programs	34,582	-
Construction	-	-
Other vendor payables	52,137	12,949
Total	<u>\$ 304,696</u>	<u>\$ 12,949</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2006, consists of the following:

	General Fund	Special Reserve Capital Outlay Fund	Total Governmental Activities	Child Care Enterprise
Federal financial assistance	\$ 155,790	\$ -	\$ 155,790	\$ -
State categorical aid	120,740	-	120,740	-
Other local	3,919	32,438	36,357	146,066
Total	<u>\$ 280,449</u>	<u>\$ 32,438</u>	<u>\$ 312,887</u>	<u>\$ 146,066</u>

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

Governmental Activities

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Due in One Year
Certificates of participation	\$ 9,405,000	\$ -	\$ 390,000	\$ 9,015,000	\$ 405,000
Compensated absences	561,654	-	42,692	518,962	-
Capital leases	551,245	110,446	333,750	327,941	258,924
	<u>\$ 10,517,899</u>	<u>\$ 110,446</u>	<u>\$ 766,442</u>	<u>\$ 9,861,903</u>	<u>\$ 663,924</u>

Business-Type Activities

Capital leases	<u>\$ 395,162</u>	<u>\$ -</u>	<u>\$ 135,162</u>	<u>\$ 260,000</u>	<u>\$ 52,000</u>
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Payments for the Certificates of Participation are made by the Debt Service Fund. Capital leases for District equipment and portable buildings are paid by the General Fund, and capital leases for portable buildings used in the Child Care Program are paid by the Child Care Enterprise Fund. The accrued vacation will be paid by the fund for which the employee worked.

2002 Certificates of Participation

On March 1, 2002, the District issued certificates of participation in the amount of \$10,500,000 with interest rates ranging from 3.5 to 4.75 percent. At June 30, 2006, the principal balance outstanding was \$9,015,000.

The certificates mature through March 1, 2022, as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 405,000	\$ 411,868	\$ 816,868
2008	420,000	396,682	816,682
2009	435,000	379,881	814,881
2010	455,000	361,938	816,938
2011	475,000	344,420	819,420
2012-2016	2,680,000	1,406,276	4,086,276
2017-2021	3,365,000	716,296	4,081,296
2022	780,000	39,390	819,390
	<u>\$ 9,015,000</u>	<u>\$ 4,056,751</u>	<u>\$ 13,071,751</u>

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2006, amounted to \$518,962.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$2,806,439 with corresponding accumulated depreciation of \$1,017,268 at June 30, 2006. The District's liability on lease agreements with options to purchase are summarized below:

Governmental Activities

	Equipment	Modulars	Total
Balance, Beginning of Year	\$ 536,652	\$ 51,420	\$ 588,072
Additions	110,446	-	110,446
Payments	(300,436)	(51,420)	(351,856)
Balance, End of Year	<u>\$ 346,662</u>	<u>\$ -</u>	<u>\$ 346,662</u>

Business-Type Activities

	Modulars
Balance, Beginning of Year	\$ 398,522
Payments	(138,522)
Balance, End of Year	<u>\$ 260,000</u>

The capital leases have minimum lease payments as follows:

Governmental Activities

Year Ending June 30,	Lease Payment
2007	\$ 272,847
2008	24,605
2009	24,605
2010	24,605
Total	<u>346,662</u>
Less: Amount Representing Interest	18,721
Present Value of Minimum Lease Payments	<u>\$ 327,941</u>

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Business-Type Activities

Year Ending June 30,	Lease Payment
2007	\$ 52,000
2008	52,000
2009	52,000
2010	52,000
2011	52,000
Total	260,000
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 260,000</u>

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 9 - FUND BALANCES

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

	General Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 49,000	\$ -	\$ -	\$ 1,000	\$ 50,000
Stores inventory	113,572	-	-	12,116	125,688
Restricted programs	2,211,806	-	-	-	2,211,806
Total Reserved	2,374,378	-	-	13,116	2,387,494
Unreserved					
Designated					
Site carryover	419,067	-	-	-	419,067
Site book replacement	10,758	-	-	-	10,758
Governor's reading award	15,977	-	-	-	15,977
Governor's performance award	30,026	-	-	-	30,026
Academic performance index	3,046	-	-	-	3,046
Health pool	82,500	-	-	-	82,500
Emergency reserve	1,059,830	-	-	-	1,059,830
Lottery	179,927	-	-	-	179,927
Total Designated	1,801,131	-	-	-	1,801,131
Undesignated, reported in					
General Fund	3,084,287	-	-	-	3,084,287
Special revenue funds	-	-	-	2,293,198	2,293,198
Debt service funds	-	-	-	447,734	447,734
Capital projects funds	-	5,091,721	12,242,199	580,483	17,914,403
Total Unreserved	4,885,418	5,091,721	12,242,199	3,321,415	25,540,753
Total	\$ 7,259,796	\$ 5,091,721	\$ 12,242,199	\$ 3,334,531	\$ 27,928,247

NOTE 10 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. Employee health programs are administered through the purchase of commercial insurance. The District participates in the Orange County public entity risk pools (JPA's) for the workers' compensation program, property and liability program, and dental program. Refer to Note 13 for additional information regarding the JPA's.

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

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 11 - 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).

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 2005-2006 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, 2006, 2005, and 2004, were \$3,074,423, \$2,943,417, and \$3,005,708, respectively, and equal 100 percent of the required contributions for each year.

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.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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 2005-2006 was 9.116 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, 2006, 2005, and 2004 were \$1,212,511, \$1,217,752, and \$1,247,023, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security.

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 \$1,683,639 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report (Unaudited Actuals). These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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, 2006.

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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, 2006.

Other Postemployment Benefits

The District provides supplementary retirement benefits for eligible District employees. To be eligible for the program, the employee must:

- Retire under the STRS/PERS retirement program;
- Have attained a minimum age of 50 years as required by STRS/PERS, and;
- Have been a management or confidential employee at the District for a minimum of ten years.

Currently, eleven employees have already retired under the program, and one employee may be eligible for the program in the future.

During 1995, the program was discontinued for employees who were not already retired under the program. At that time, the District negotiated a buy-out of 28 management employees who waived their rights under this plan.

Over the past ten years, the District has offered various retirement incentive programs to certificated and classified employees, as well as an annuity and district-paid health and welfare benefits for management/confidential retirees (up to an annual amount equal to the amount paid to the District's management and confidential employees). District-paid medical and dental insurance shall cease at the end of the month in which the retirees becomes 65 years of age. The District paid \$507,062 in postemployment benefits during the year ending June 30, 2006.

Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Westmont Modernization	\$ 2,727,445	06/30/07
Village View Modernization	1,942,734	06/30/07
Marine View Modernization	2,276,906	06/30/07
	<u>\$ 6,947,085</u>	

OCEAN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Southern Orange County Property/Liability Joint Powers Authority, the Western Orange County Self-Funded Workers' Compensation Agency, and the Orange County Fringe Benefits Joint Powers Authority public entity risk pools. The District pays an annual premium to each entity for its property/liability, workers' compensation, and dental coverage. The relationships between the District and the pools 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. Audited financial statements are available from the respective entities.

During the year ended June 30, 2006, the District made payments of \$351,124, \$764,649 and \$1,035,058 to Southern Orange County Property/Liability Joint Powers Authority, the Western Orange County Self-Funded Workers' Compensation Agency and Orange County Fringe Benefits Joint Powers Authority, respectively, for annual premium payments.

REQUIRED SUPPLEMENTARY INFORMATION

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OCEAN VIEW SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources	\$47,872,229	\$48,132,253	\$ 48,124,539	\$ (7,714)
Federal sources	4,800,870	5,220,208	5,256,400	36,192
Other State sources	10,946,096	11,811,445	13,656,610	1,845,165
Other local sources	6,005,655	6,992,136	7,218,144	226,008
Total Revenues ¹	69,624,850	72,156,042	74,255,693	2,099,651
EXPENDITURES				
Current				
Instruction	47,904,459	48,810,238	49,979,927	(1,169,689)
Instruction-related activities:				
Supervision of instruction	2,314,547	2,395,305	2,192,236	203,069
Instructional library, media, and technology	697,811	743,109	664,027	79,082
School site administration	4,102,990	4,147,282	4,139,545	7,737
Pupil services:				
Home-to-school transportation	1,883,642	1,943,868	1,957,060	(13,192)
All other pupil services	1,923,262	2,026,219	2,067,290	(41,071)
General administration:				
Data processing	315,770	354,624	390,566	(35,942)
All other general administration	3,336,022	3,411,096	3,389,037	22,059
Plant services	6,228,021	6,276,139	6,353,513	(77,374)
Facility acquisition and construction	-	12,600	12,503	97
Ancillary services	49,646	49,945	55,469	(5,524)
Community services	141,553	134,803	127,252	7,551
Other outgo	261,000	260,500	331,101	(70,601)
Debt service				
Principal and interest	299,662	324,267	364,434	(40,167)
Total Expenditures ¹	69,458,385	70,889,995	72,023,960	(1,133,965)
Excess (Deficiency) of Revenues	166,465	1,266,047	2,231,733	965,686
Other Financing Sources (Uses):				
Transfers in	315,000	315,000	315,000	-
Other sources	-	110,446	110,446	-
Transfers out	(315,000)	(315,000)	(315,000)	-
Net Financing Sources (Uses)	-	110,446	110,446	-
NET CHANGE IN FUND BALANCES	166,465	1,376,493	2,342,179	965,686
Fund Balance - Beginning	4,917,617	4,917,617	4,917,617	-
Fund Balance - Ending	\$ 5,084,082	\$ 6,294,110	\$ 7,259,796	\$ 965,686

¹ On behalf payments of \$1,683,639 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

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SUPPLEMENTARY INFORMATION

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OCEAN VIEW SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
21st Century Community Learning Centers	84.287	[2]	\$ 303,719
Indian Education	84.060A	[2]	124,880
Passed through from Huntington Beach Union High School District:			
Adult Education Center Program	84.002	13973	56,189
Passed through from California Department of Education (CDE):			
No Child Left Behind Act			
Title I, Part A - Basic Grants	84.010	13797	1,451,636
Title I - Even Start Family Literacy [1]	84.213C	13700	535,682
Title II, Part A - Improving Teacher Quality [1]	84.367A	14341	674,243
Title II, Part D - Education Technology Competitive Grant	84.318	14335	26,853
Title II, Part D - Education Technology Formula Grant	84.318	14334	112,249
Title III - Limited English Proficiency	84.365A	10084	118,820
Title IV - Drug-Free Schools	84.186	13453	31,864
Title V - Innovative Strategies	84.298	13340	21,158
Title VI - California Alternate Performance Assessment	[3]	14488	275
Passed through from West Orange County Consortium for Special Education:			
Individuals with Disabilities Education Act			
Federal Preschool [1]	84.173	13430	71,590
Local Assistance [1]	84.027A	13379	1,485,627
Preschool Local Entitlement [1]	84.027A	13682	162,097
Low Incidence [1]	84.027A	13459	2,438
Total U.S. Department of Education			<u>5,179,320</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through from CDE:			
Child Nutrition Cluster			
National School Lunch Program [1]	10.555	13396	1,017,098
Especially Needy Breakfast [1]	10.553	13390	105,052
Meals Supplements [1]	10.555	13755	20,449
Food Distribution	10.550	13389	29,283
Total U.S. Department of Agriculture			<u>1,171,882</u>
U.S. DEPARTMENT HEALTH AND HUMAN SERVICES			
Passed through CDE:			
LEA Medi-Cal Billing Option	93.778	10013	164,469
Total Expenditures of Federal Awards			<u>\$ 6,515,671</u>

[1] Tested as a Major Program

[2] Direct-funded; no PCA number

[3] CFDA number not available

See accompanying note to supplementary information.

OCEAN VIEW SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2006

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,132	1,128
First through third	2,892	2,890
Fourth through sixth	3,060	3,055
Seventh and eighth	2,194	2,190
Special education	275	276
Total Elementary	9,553	9,539
		Hours of Attendance
SUMMER SCHOOL		
K-8		55,748

See accompanying note to supplementary information.

OCEAN VIEW SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2006

Grade Level	1982-83	1986-87	2005-06	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	35,200	36,000	36,000	180	-	Complied
Grades 1 - 3	48,911	50,400	50,400	180	-	Complied
Grades 4 - 5	57,967	54,000	57,984	180	-	Complied
Grades 6 - 8	57,967	54,000	58,320	180	-	Complied

See accompanying note to supplementary information.

OCEAN VIEW SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2006.

See accompanying note to supplementary information.

OCEAN VIEW SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

	(Budget) 2007 ¹	2006	2005	2004
GENERAL FUND				
Revenues	\$ 73,779,743	\$ 74,255,693	\$ 70,722,354	\$ 66,287,158
Other sources and transfers in	315,000	425,446	315,000	225,000
Total Revenues and Other Sources	74,094,743	74,681,139	71,037,354	66,512,158
Expenditures	72,314,368	72,023,960	69,974,116	67,593,343
Other uses and transfers out	315,000	315,000	315,000	315,000
Total Expenditures and Other Uses	72,629,368	72,338,960	70,289,116	67,908,343
INCREASE (DECREASE) IN FUND BALANCE	\$ 1,465,375	\$ 2,342,179	\$ 748,238	\$ (1,396,185)
ENDING FUND BALANCE	\$ 8,725,171	\$ 7,259,796	\$ 4,917,617	\$ 4,169,379
AVAILABLE RESERVES ²	\$ 4,379,565	\$ 3,092,455	\$ 2,264,966	\$ 2,044,934
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.03%	4.38%	3.30%	3.01%
LONG-TERM OBLIGATIONS	N/A	\$ 10,121,903	\$ 10,913,061	\$ 11,564,385
K-12 AVERAGE DAILY ATTENDANCE AT P-2	9,453	9,553	9,666	9,779

The General Fund balance has increased by \$3,090,417 over the past two years. The fiscal year 2006-2007 budget projects a further increase of \$1,465,375 (20 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 two of the past three years and anticipates incurring an operating surplus during the 2006-2007 fiscal year. Total long-term obligations have decreased by \$1,442,482 over the past two years.

Average daily attendance has decreased by 226 over the past two years. Additional decline of 100 ADA is anticipated during fiscal year 2006-2007.

¹ Budget 2007 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances contained within the General Fund and the Special Reserve Fund (non capital outlay).

³ On-behalf payments of \$1,683,639 and \$1,611,565 have been excluded from the calculation of available reserves for fiscal years ending June 30, 2006 and 2005, respectively.

See accompanying note to supplementary information.

OCEAN VIEW SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

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.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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.

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.

SUPPLEMENTARY INFORMATION - UNAUDITED

OCEAN VIEW SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - UNAUDITED JUNE 30, 2006

	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund
ASSETS			
Deposits and investments	\$ 598,967	\$ 1,905,157	\$ 8,136
Receivables	240,646	7,729	32
Stores inventories	12,116	-	-
Total Assets	\$ 851,729	\$ 1,912,886	\$ 8,168
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	129,912	213,434	-
Due to other funds	123,123	-	-
Total Liabilities	253,035	213,434	-
Fund Balances:			
Reserved for:			
Revolving cash	1,000	-	-
Stores inventories	12,116	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	585,578	1,699,452	8,168
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total Fund Balances	598,694	1,699,452	8,168
Total Liabilities and Fund Balances	\$ 851,729	\$ 1,912,886	\$ 8,168

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 603,705	\$ 447,734	\$ 3,563,699
8,480	-	256,887
-	-	12,116
<u>\$ 612,185</u>	<u>\$ 447,734</u>	<u>\$ 3,832,702</u>
31,702	-	375,048
-	-	123,123
<u>31,702</u>	<u>-</u>	<u>498,171</u>
-	-	1,000
-	-	12,116
-	-	2,293,198
-	447,734	447,734
580,483	-	580,483
<u>580,483</u>	<u>447,734</u>	<u>3,334,531</u>
<u>\$ 612,185</u>	<u>\$ 447,734</u>	<u>\$ 3,832,702</u>

OCEAN VIEW SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2006

	Cafeteria Fund	Deferred Maintenance Fund
REVENUES		
Federal sources	\$ 1,171,881	\$ -
Other State sources	83,799	387,962
Other local sources	1,230,614	61,013
Total Revenues	2,486,294	448,975
EXPENDITURES		
Current		
Food services	2,293,548	-
General administration:		
All other general administration	120,685	-
Plant services	-	54,131
Facility acquisition and construction	-	213,250
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	2,414,233	267,381
Excess (Deficiency) of		
Revenues Over Expenditures	72,061	181,594
Other Financing Sources (Uses):		
Transfers in	-	315,000
Net Financing Sources (Uses)	-	315,000
NET CHANGE IN FUND BALANCES	72,061	496,594
Fund Balance - Beginning	526,633	1,202,858
Fund Balance - Ending	\$ 598,694	\$ 1,699,452

See accompanying note to supplementary information - unaudited.

Special Reserve Non-Capital Fund	Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,171,881
-	-	-	471,761
317	237,135	25,411	1,554,490
317	237,135	25,411	3,198,132
-	-	-	2,293,548
-	28,146	-	148,831
-	-	-	54,131
-	18,517	-	231,767
-	-	390,000	390,000
-	-	426,006	426,006
-	46,663	816,006	3,544,283
317	190,472	(790,595)	(346,151)
-	-	792,137	1,107,137
-	-	792,137	1,107,137
317	190,472	1,542	760,986
7,851	390,011	446,192	2,573,545
\$ 8,168	\$ 580,483	\$ 447,734	\$ 3,334,531

OCEAN VIEW SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2006

(Amounts in thousands)

	Actual Results for the Years					
	2005-2006		2004-2005		2003-2004	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 5,257	7.1	\$ 5,278	7.5	\$ 5,294	8.0
State and local revenue included in revenue limit	48,125	64.8	46,366	65.5	44,525	67.2
Other State revenue	13,657	18.4	12,249	17.3	9,830	14.8
Other local revenue	2,036	2.7	1,753	2.5	1,482	2.2
Tuition and transfers in	5,182	7.0	5,076	7.2	5,155	7.8
Total Revenues	<u>74,257</u>	<u>100.0</u>	<u>70,722</u>	<u>100.0</u>	<u>66,286</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	37,633	50.7	36,086	51.0	36,598	55.2
Classified salaries	12,390	16.7	11,225	15.9	11,118	16.8
Employee benefits	13,652	18.4	13,113	18.5	11,258	17.0
Total Salaries and Benefits	63,675	85.8	60,424	85.4	58,974	89.0
Books and supplies	2,933	3.9	3,748	5.3	3,282	4.9
Services and operating expenses	4,860	6.5	5,053	7.1	4,558	6.9
Capital outlay	161	0.2	209	0.3	303	0.4
Other outgo	71	0.1	240	0.3	176	0.3
Debt service	324	0.4	300	0.4	300	0.5
Total Expenditures	<u>72,024</u>	<u>96.9</u>	<u>69,974</u>	<u>98.8</u>	<u>67,593</u>	<u>102.0</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,233	3.1	748	1.2	(1,307)	(2.0)
OTHER FINANCING SOURCES (USES)						
Net other sources (uses)	110	0.1	-	-	(90)	(0.1)
INCREASE (DECREASE) IN FUND BALANCE	2,343	3.2	748	1.2	(1,397)	(2.1)
FUND BALANCE, BEGINNING	4,917	6.6	4,169	5.9	5,566	8.4
FUND BALANCE, ENDING	<u>\$ 7,260</u>	<u>9.8</u>	<u>\$ 4,917</u>	<u>7.1</u>	<u>\$ 4,169</u>	<u>6.3</u>
BASE REVENUE LIMIT PER ADA	<u>\$ 4,932</u>		<u>\$ 4,730</u>		<u>\$ 4,598</u>	

See accompanying note to supplementary information - unaudited.

OCEAN VIEW SCHOOL DISTRICT

CAFETERIA FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2006

(Amounts in thousands)

	Actual Results for the Years					
	2005-2006		2004-2005		2003-2004	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal meal program	\$ 1,172	47.1	\$ 1,179	47.8	\$ 1,275	50.6
State meal program	84	3.4	70	2.8	69	2.7
Food sales	1,212	48.8	1,219	49.4	1,169	46.5
Other	18	0.7	-	0.0	5	0.2
Total Revenues	2,486	100.0	2,468	100.0	2,518	100.0
EXPENDITURES						
Salaries and employee benefits	834	33.5	780	31.6	756	30.0
Food	1,293	52.0	1,296	52.5	1,370	54.4
Supplies	116	4.7	107	4.3	98	3.9
Other	171	6.9	176	7.1	244	9.7
Total Expenditures	2,414	97.1	2,359	95.5	2,468	98.0
INCREASE IN FUND BALANCE	72	2.9	109	4.5	50	2.0
FUND BALANCE, BEGINNING	527	21.2	418	16.9	368	14.6
FUND BALANCE, ENDING	\$ 599	24.1	\$ 527	21.4	\$ 418	16.6

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2005-2006		2004-2005		2003-2004	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	244,613	34.6	253,754	34.9	248,492	33.6
Reduced price	69,201	9.8	71,247	9.8	79,119	10.7
Free	393,333	55.6	402,953	55.3	411,853	55.7
Total Lunches	707,147	100.0	727,954	100.0	739,464	100.0
BREAKFAST						
Paid	4,847	6.5	4,557	5.9	4,599	6.0
Reduced price	7,704	10.2	8,575	11.0	8,515	11.0
Free	62,659	83.3	64,757	83.1	64,116	83.0
Total Breakfast	75,210	100.0	77,889	100.0	77,230	100.0

See accompanying note to supplementary information - unaudited.

OCEAN VIEW SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

General Fund Selected Financial Information - Unaudited

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

Cafeteria Account Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria account 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
Ocean View School District
Huntington Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ocean View School District as of and for the year ended June 30, 2006, which collectively comprise the Ocean View School District's basic financial statements and have issued our report thereon dated September 29, 2006. 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 Ocean View School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ocean View 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*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Ocean View School District in a separate letter dated September 29, 2006.

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.

Vavnick, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 29, 2006



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

Governing Board
Ocean View School District
Huntington Beach, California

Compliance

We have audited the compliance of Ocean View 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, 2006. Ocean View 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 Ocean View School District's management. Our responsibility is to express an opinion on Ocean View 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 Ocean View 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 Ocean View School District's compliance with those requirements.

In our opinion, Ocean View 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, 2006.

Internal Control Over Compliance

The management of Ocean View 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 Ocean View 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 caused by error or fraud 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.

Vavinek, Time, Day & Co., LLP

Rancho Cucamonga, California
September 29, 2006



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Ocean View School District
Huntington Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ocean View School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Ocean View School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Ocean View 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	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Not Applicable
State school facilities funds	1	Yes
Alternative pension plans	2	Yes, See Below
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Additional Non classroom-based instruction	1	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform step 2 for alternative pension plans because the District does not have such a plan for permanent full-time employees.

Based on our audit, we found that for the items tested, the Ocean View School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Ocean View School District had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Our audit does not provide a legal determination on Ocean View School District's compliance with the State laws and regulations referred to above.

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, the California Department of Finance, 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.

Vavrinek, Tine, Day & Co., LLP

Rancho Cucamonga, California
September 29, 2006

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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OCEAN VIEW SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2006

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>None reported</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)	
Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.213C</u>	<u>Title I - Even Start Family Literacy</u>
<u>84.367A</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>84.027A-84.173</u>	<u>Special Education Cluster</u>
<u>10.553-10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

OCEAN VIEW SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

None reported.

OCEAN VIEW SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

None reported.

OCEAN VIEW SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

The following findings represent instances of noncompliance and questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Teacher Misassignment

2006-1 71000

Finding

During our attendance testing, we noted that out of the 10 teachers selected for review, two were teaching in a classroom with more than 20 percent limited-English proficient students, but did not have proper authorization to instruct such pupils.

Recommendation

All teachers must have the appropriate authorization or certification to instruct limited-English proficient pupils. District personnel should monitor those teachers who are currently not in compliance with the requirement and notify those employees that may need to obtain the necessary authorization to teach limited-English proficient pupils.

District Response

The two teachers identified by the auditors as lacking proper authorization completed AB 2913 training during the summer of 2006. They are awaiting their State certification letter.

OCEAN VIEW SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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.

Federal Awards Findings

Even Start Family Literacy

Questioned Cost = \$201,080

2005-1 50000

Finding

The time documentation compliance requirements of the Office of Management and Budget's (OMB) Circular A-87 were not complete for Title I – Even Start Program. The requirements are that for employees whose salary is charged to more than one source maintain monthly activity logs to support the percentages charged to each source, and if the variance is more than 10 percent, the charges must be adjusted. Employees who are charged fully to one Federal program are to certify semi-annually that they have worked solely in the program to which their salary was charged. In place of the requirements noted above, the District may elect to use the State of California's time accounting system as approved by the Federal oversight agencies.

Recommendation

The District should implement the procedures outlined in the Circular A-87 including actual monthly time logs, quarterly review and cost allocation adjustments, and semi-annual certifications as outlined in the finding for the program.

Current Status

Implemented.

2005-2 50000

Finding

In order to be eligible for the Even Start Program, children must be under the age of seven, meet Federal income guidelines and have parents who meet English literacy guidelines. In testing the eligibility determination made for families enrolled in the program, we noted that the documentation for income eligibility was insufficient. Eight out of 10 representative samples selected for testing lacked income documentation to substantiate income eligibility following the Federal poverty guideline.

OCEAN VIEW SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

The District should review the procedures followed in determining eligibility for the program to ensure that all families being enrolled in the program are eligible. This includes obtaining proof of income and verifying that it meets the Federal poverty guidelines.

Current Status

Implemented.

State Awards Findings

Teacher Misassignment

2005-3 40000

Finding

During our attendance testing, we noted that of the 24 elementary school teachers selected for review, five were teaching in a classroom with more than 20 percent limited-English proficient students, but did not have proper authorization to instruct such students.

Recommendation

All teachers must have the appropriate authorization or certification to instruct limited-English proficient pupils. District personnel should monitor those teachers who are currently not in compliance with the requirement and notify those employees that may need to obtain the necessary authorization to teach English Learners pupils.

Current Status

Not implemented. See current year finding 2006-1.



Governing Board
Ocean View School District
Huntington Beach, California

In planning and performing our audit of the financial statements of Ocean View School District for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated September 29, 2006, on the financial statements of Ocean View School District.

INTERNAL CONTROLS

Bank Reconciliations

Finding

During our review of the bank reconciliations for the various clearing and revolving cash accounts, we noted that a review of the bank reconciliations by an independent third person is not performed.

Recommendation

To strengthen the segregation of duties and internal control procedures over cash accounts, the District should consider implementing a review process for all bank accounts. The reviewer should be an independent third person who is not involved in either maintaining or reconciling the account. This review can also assist the District in identifying issues that may arise during the reconciliation process.

Cash Receipting

Finding

Monies received at the District Office for deposit to the county treasury are not receipted or recorded on a cash receipts log prior to deposit.

Recommendation

Although it was noted that the majority of funds received by the District are in the form of a check versus cash, thus reducing the risk of loss, the District should consider implementing a procedure that would require all monies to be recorded in a cash receipts log prior to being deposited. Ideally, the log would be maintained by a centralized person who does not assist in deposits, such as the person responsible for opening and distributing the mail. The monies would be logged prior to being distributed to the financial technician responsible for depositing the funds. This would provide a record of all monies received by the District, including the date received, source of receipt, and amount. In the event that a question arose regarding whether monies had been received or not, the log would serve as the primary source document to assist in investigating the situation. In addition, it would provide documentation that all monies received have been deposited.

ASSOCIATED STUDENT BODY

Marine View Middle School, Mesa View Middle School

Finding

During our review of the ASB trust account balances at Marine View, we noted negative balances in three accounts. For the tested month of December, those accounts were noted as account 045-322 – Dances in the amount of (\$536.04), 045-334 – Awards in the amount of (\$2,002.84), and 045-350 – Leadership in the amount of (\$326.81).

During our review of the trust account balances at Mesa View, we noted a negative balance in one account. For the tested month of December, this account was noted as 050-334 – Awards in the amount of (\$1,658.11).

Recommendation

Trust accounts should not be allowed to spend in excess of their available cash. By allowing trusts to do so, they are in effect spending the resources of other trusts. The site should ensure that all trusts have sufficient funds available in their account prior to expenditures made.

Mesa View Middle

Finding

During our review of expenditures, we noted that not all expenditures were approved prior to the purchase being made. We noted that all four expenditures reviewed had an invoice date prior to the ASB approval date of the purchase.

Recommendation

All expenditures should be approved prior to the purchase being made. This is to ensure that the purchase is one for approved items and to determine whether there is sufficient funding in the applicable account for the purchase.

Governing Board
Ocean View School District

We will review the status of the current year comments during our next audit engagement.

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
September 29, 2006

