

LONG BEACH UNIFIED SCHOOL DISTRICT

LOS ANGELES COUNTY

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2006

LONG BEACH UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
June 30, 2006**

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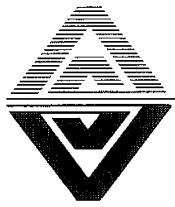
LONG BEACH UNIFIED SCHOOL DISTRICT

AUDIT REPORT

June 30, 2006

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Chairman

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Independent Auditors' Report

Principal

JERI A. WENGER

Senior Managers

JANETTE CAMPS

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

PHEBE M. McCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

Board of Education
Long Beach Unified School District
1515 Hughes Way
Long Beach, California 90810

We have audited the accompanying financial statements of the governmental activities, each major fund, fiduciary funds, and the aggregate remaining fund information of the Long Beach Unified School 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

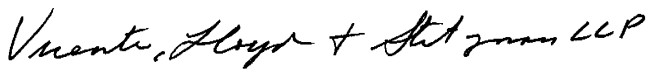
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, fiduciary funds and the aggregate remaining fund information of the Long Beach Unified School District as of June 30, 2006, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Long Beach Unified School District

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2006 on our consideration of the Long Beach Unified School 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 assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Long Beach Unified School District basic financial statements. The management's discussion and analysis and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Long Beach Unified School District. The supplementary section, including the schedule of expenditures of federal awards, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


VICENTI, LLOYD & STUTZMAN LLP

October 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

This section of Long Beach Unified School District's annual financial report presents a **discussion and analysis** of the District's financial performance during the fiscal year ended June 30, 2006. Please read this special report in conjunction with the financial statements following this section.

BACKGROUND

On June 30 of 1999, the Governmental Accounting Standards Board (GASB) adopted Statement No. 34 on the subject of Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This action culminated ten years of deliberation, debate and compromise on a series of controversial changes. The new reporting model now applies to every school district that issues financial statements in compliance with Generally Accepted Accounting Principles (GAAP).

The GASB 34 model calls for financial statements, note disclosures and supplementary schedules to be included with the traditional auditors report certifying that the District has fairly presented its financial condition at the fiscal year-end (June 30).

THE INTENT OF GASB 34 CHANGES

There has been an emerging consensus about the need for public schools to implement financial reporting changes that promote improved fiscal and operational accountability. GASB 34 is a profound change in the way that state and local governments present and explain their financial condition. For the first time, the depreciation of assets is treated on both a short-term and a long-term basis.

There are two separate and equally important aspects of accountability. Understanding these two components provides an insight into the rationale for GASB 34.

- Fiscal accountability requires that Districts demonstrate compliance with public decisions concerning the generation and spending of public monies in the short term, which is usually the annual budgetary cycle.
- Operational accountability requires that the District explain how it has met and will continue to meet its operating needs in an efficient manner well into the future.

Although GASB 34 calls for significant enhancements in financial reporting, it does not abandon the traditional public-sector approach to fund accounting and fiscal disclosure. Rather, GASB 34 has integrated many of the most popular features of traditional financial reporting into its model. The new requirements in GASB 34 are also designed to make annual reports easier for the public to understand. The new standards are a substantial advance in the presentation of more meaningful and useful financial information by school districts to their public constituencies.

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

Financial Highlights

1. Overall program and general revenues totaled \$852.3 million or \$42.7 million more than expenditures.
2. The District decreased its outstanding long-term debt by \$8.2 million (-2.6%) due to debt service payments for the District's General Obligation Bonds and Certificates of Participation.
3. Overall the District's net assets increased by \$42.7 million or 11.7% over the course of the year.

Overview of the Financial Statements

This financial report is presented in three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the required supplementary information. The financial statements included herein present these different views of District finances:

The statements on pages 1 and 2 provide both short-term and long-term information about the District's overall financial status.

- The subsequent statements are fund financial statements that focus on individual components of the District, reporting in more detail on District-wide operations.
- The governmental activities statements tell how basic services such as regular instruction and supportive services were financed in the short-term as well as plans for future funding.
- Proprietary funds statements offer short- and long-term financial information about the activities that operate like a private enterprise, such as the Self-Insurance Fund.
- The fiduciary fund statement provides information about financial activities for which the District acts solely as a trustee or agent for the benefit of others, such as the Student Activities Funds at schools.

The financial statements also include notes that provide explanations or more detailed information. The financial statements comparing the District's General Fund budgeted to actual amounts for the year are supplemented by a narrative on significant variances starting on page vi (see page 59).

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

District-Wide Statements

Two District-wide statements report financial information using accounting methods similar to those used by private-sector companies. The statement of net assets summarizes the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or expenses paid.

The following District-wide statements report on the District's net assets and how they have changed during the 2005-06 fiscal year. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health.

	<u>As of 6/30/2005</u>	<u>As of 6/30/2006</u>	<u>Variance</u>
Non-Capital Assets	\$ 254,320,531	\$ 286,136,817	12.51%
Capital Assets	<u>554,537,355</u>	<u>579,476,742</u>	4.50%
Total Assets	<u>808,857,886</u>	<u>865,613,559</u>	7.02%
Current Liabilities	122,475,085	146,402,730	19.54%
Long-term Liabilities	<u>319,984,348</u>	<u>310,085,549</u>	-3.09%
Total Liabilities	<u>442,459,433</u>	<u>456,488,279</u>	3.17%
Invested In Capital Assets, Net of Related Debt	277,510,599	297,607,307	7.24%
Net Assets Legally Restricted	45,150,562	49,835,632	10.38%
Net Assets Unrestricted	<u>43,737,292</u>	<u>61,682,341</u>	41.03%
Total Net Assets	<u>\$ 366,398,453</u>	<u>\$ 409,125,280</u>	11.66%

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

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

	<u>2004-05</u>	<u>2005-06</u>	<u>Variance</u>
Program Revenues	\$ 281,901,365	\$ 306,942,247	8.88%
General Revenues	<u>521,467,252</u>	<u>545,399,904</u>	4.59%
Total Revenues	<u>803,368,617</u>	<u>852,342,151</u>	6.10%
Instruction and Related Services	551,330,026	573,386,089	4.00%
Pupil Services	94,980,190	95,096,900	0.12%
General Administration	36,246,516	36,507,135	0.72%
Ancillary, Community, and Enterprise Activities	9,172,176	9,389,165	2.37%
Plant Services	78,587,438	80,478,803	2.41%
Debt Service	14,840,987	14,254,293	-3.95%
Other Outgo	<u>1,158,022</u>	<u>502,939</u>	-56.57%
Total Expenses	<u>786,315,355</u>	<u>809,615,324</u>	2.96%
Change in Net Assets	<u>17,053,262</u>	<u>42,726,827</u>	150.55%
Net Assets, Beginning	385,451,010	366,398,453	
Adjustments for Restatement	<u>(36,105,819)</u>	<u>-</u>	
Net Assets, Beginning as Restated	<u>349,345,191</u>	<u>366,398,453</u>	
Net Assets, Ending	<u>\$ 366,398,453</u>	<u>\$ 409,125,280</u>	11.66%

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

The District's combined net assets increased to \$409.1 million or 11.7% during fiscal year 2005-2006. Depreciation reduced capital assets by \$17.1 million.

Revenue Limit (State income) accounted for \$492.6 million or 57.9% of the District's total revenue. Federal Revenue accounted for \$142.1 million or 16.7% of the District's total income. Other State Revenue accounted for \$181.9 million or 21.4% of the District's total income. The remainder of the District's revenue came from interest and other local sources. Revenues for the District's governmental activities (excluding Other Financing Sources/Uses) increased by 6.0% from FY 2004-05.

- The expense for all governmental activities during FY 2005-06 was \$809.6 million (see page iv and 2)
- Most of the District's expenses were financed by general revenues and special items of \$545.4 million (see page iv and 2)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's operations, focusing on its most significant or "major" funds and not the District as a whole. Funds are accounting entities used by the District to track specific sources of funding and their related programmatic spending.

- Most fund designations are defined in state law and regulations
- The District establishes other funds to control and manage resources committed to particular purposes or to show that resources are properly used for certain categories of revenues.

The District operates three types of funds:

- **Governmental funds** (see page 3 and 5). Most of the District's basic instructional and support services are included in governmental funds, which generally focus on (1) how cash and other assets can readily be converted to cash flow and (2) the amount of funds remaining at year-end for subsequent year spending. Therefore, the governmental fund statements provide a detailed, short-term view to assist the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs and activities.
- **Internal service funds** (see pages 7, 8 and 9). The District uses internal service funds to report proprietary activities that provide services to its other program activities. The District currently has one internal service fund – the Self-Insurance Fund.

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

- **Fiduciary funds** (see pages 10 and 11). The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds at schools. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and only by those to whom the assets are entrusted. The District excludes these activities from the District-wide financial statements because it is prohibited from using these assets to finance its operations.

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds reported combined fund balances of \$166.6 million, which is slightly less than last year's combined ending balances of \$167.1 million. The General Fund ending balance increased \$23.7 million between years, the Building Fund decreased \$9.8 million as projects neared completion, and other governmental funds decreased \$14.3 million, mainly due to a decrease in the County School Facilities Fund as these projects also neared completion.

During FY 2005-06, those funds where expenditures exceeded revenues and other financing sources were: Child Development (\$.3 million), Cafeteria Fund (\$1.8 million), Deferred Maintenance (\$.9 million), Building Fund (\$9.8 million) Capital Facilities (\$3.6 million), County School Facilities (\$8.8 million), State School Building Lease-Purchase (\$.05 million) and the Bond Interest and Redemption Fund (\$.6 million).

General Fund Budgetary Highlights (see page 59)

Before describing major variances (+/-5%) between revised budget and actual amounts, it is important to note that the District adds all revenue and appropriations for carryovers and categorical resources to its revised budget because multi-year expenditures had been planned for the subsequent fiscal year. This common practice tends to inflate both revenues and appropriations and leads to some of the variances explained herein.

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

Revenue

- Federal Revenue...the entire amount of grants and entitlements are budgeted, even though funding periods may have extended into the subsequent fiscal year. The federal fiscal year ends September 30. Unspent revenues are deferred and made available in FY07 to continue program activities.
- Interest...interest is estimated conservatively for the original budget. The improvement in the economy led to increased interest rates, and more timely payments by the state, including new funding, resulted in higher interest income.
- Other Local Revenue... this category includes royalties and reimbursements from other agencies which are not appropriated.

Salary related expenditures

- Certificated Salaries...the District has been closely monitoring staffing levels and adjusting budget based on actual salary expenditures. Due to the timing of the 4% raise for FY06, there were some differences in the Final Revised Budget and Actual expenditures.
- Classified Salaries...the District continued its focus on controlling staffing levels and hourly assignments. This resulted in another year of decreased expenses compared to budget.
- Benefits including PERS Reduction...lower than budgeted expenditures for classified employees resulted in reduced payments into their pension fund, therefore resulting in a decrease in budgeted PERS Reduction. Reduced salary payments and changes to the benefits administrator contributed to the reduction in employee benefit expenses.

Non-Salary related expenditures

- The District has consciously scrutinized non-salary expenditures to maintain a balanced budget. Books and supplies budgets include amounts that are being held in reserve.

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

Capital Assets and Long-Term Debt (See pages 46 and 47)

Capital Assets

By the end of FY 2005-06, the District had invested \$895 million in a broad range of capital assets, including land, land improvements, buildings, vehicles, machinery and equipment. This amount represents an increase of \$41.1 million, or 4.8% from last year. Total depreciation expense for the year totaled \$17.1 million.

Long-Term Debt

At year-end, the District had \$320.3 million in long-term debt. General Obligation Bonds accounted for \$252.2 million, and outstanding Certificates of Participation totaled \$58.7 million. The remaining \$9.4 million represents the value of accumulated employee vacation time.

Economic Factors that may Affect the Future

The District has seen positive results from its monitoring of spending within its General Fund. Reserves that had been diminished are now being replenished. The District managed to not only restore its Reserve for Economic Uncertainties back to the required 2% level, but had additional amounts available to set aside for the future implementation of GASB 45 (Accounting for Post-Employment Benefits). The general improvement in the State of California's economy is now beginning to flow through to the school districts. District staff closely watches decisions made at the State level and will adjust discretionary spending levels as necessary or allowable during the year. Multi-year planning will depend on State budgets and District priorities.

Budget reductions in the past few years have impacted central offices and support services the most, while attempting to leave schools unscathed. Fiscal year 2006-07 financial planning will involve a system-wide review of all staffing and spending to take into account the effects of declining enrollment.

LONG BEACH UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006

FUNDS AND DEFINITIONS OF ACCOUNTING TERMS

The General Fund is always reported as a major fund. Other governmental and enterprise funds are to be reported as **major funds** based on the following criteria:

- Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund (excluding extraordinary items) are at least 10% of the corresponding total for all funds of the same category (i.e. governmental or enterprise funds), and,
- Total assets, liabilities, revenues or expenditures of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Any other governmental or enterprise fund may be reported as a major fund if the governmental entity believes that it is particularly important to the readers of their financial statements.

General Fund: The fund used to finance the basic operations of a school District and to serve students in grades kindergarten through twelve. These resources are available for any legally authorized purpose of the District.

Building Fund: Established to hold funds generated for capital outlay projects. These resources may come from the sale of District facilities and property, from the sale of school District bonds, from the sale of bonds by the state government or from a transfer of funds from the General Fund.

FINANCIAL SECTION

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
<u>Assets</u>	
Cash in county treasury	\$ 178,038,700
Cash on hand and in banks	2,346,242
Cash in revolving fund	1,489,631
Cash collections awaiting deposit	11,636
Cash with fiscal agent	160,011
Investments	6,089,640
Accounts receivable:	
Federal and state governments	84,165,183
Local governments	2,497,163
Miscellaneous	8,466,292
Inventories	2,431,964
Prepaid expenditures	440,355
Land	109,925,941
Work in progress	80,152,195
Depreciable assets, net	<u>389,398,606</u>
Total Assets	<u>865,613,559</u>
 <u>Liabilities</u>	
Accounts payable and other current liabilities	69,239,807
Deferred revenue	5,621,898
Estimated liability for open claims and IBNR's	56,185,154
Current portion of long-term liabilities:	
Certificates of participation	3,910,000
General obligation bonds	5,120,000
General obligation bonds-accrued interest	5,182,233
Compensated absences	1,143,638
Non-current portion of long-term liabilities:	
Certificates of participation	54,745,000
General obligation bonds	247,115,000
Compensated absences	<u>8,225,549</u>
Total Liabilities	<u>456,488,279</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	297,607,307
Restricted for:	
Debt service	11,437,880
Educational programs	38,397,752
Unrestricted	<u>61,682,341</u>
Total Net Assets	<u>\$ 409,125,280</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 482,849,339	\$ 1,141,677	\$ 152,479,427	\$ 17,544,764	\$ (311,683,471)
Instruction - related services	90,536,750	224,630	38,481,825		(51,830,295)
Pupil services	95,096,900	6,706,191	55,544,197		(32,846,512)
Ancillary services	796,727	4,446	7,007		(785,274)
Community services	8,399,926	1,971	55,431		(8,342,524)
Enterprise activities	192,512	28,036	44,183		(120,293)
General administration	36,507,135	172,384	14,026,579		(22,308,172)
Plant services	80,478,803	1,839,099	13,601,711		(65,037,993)
Other outgoing	502,939	1,914,916	3,123,773		4,535,750
Debt service - interest	14,254,293				(14,254,293)
Total School District	\$ 809,615,324	\$ 12,033,350	\$ 277,364,133	\$ 17,544,764	(502,673,077)
General Revenues					
Property taxes levied for					
General purposes					
Debt service					
Other specific purposes					
Federal and state aid not restricted to specific purposes					
Interest and investment earnings					
Miscellaneous					
Total General Revenues and Special Items					
Change in net assets					
Net Assets - Beginning of Year					
Net Assets - End of Year					

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash in county treasury	\$ 43,443,786	\$ 33,065,062	\$ 59,901,947	\$ 136,410,795
Cash on hand and in banks			2,346,242	2,346,242
Cash in revolving fund	406,650		2,981	409,631
Cash collections awaiting deposit			11,636	11,636
Cash with fiscal agent			160,011	160,011
Investments			6,089,640	6,089,640
Accounts receivable:				
Federal and state governments	69,222,685		14,942,498	84,165,183
Local governments	267,810		187,730	455,540
Miscellaneous	4,449,930	560,481	974,522	5,984,933
Due from other funds	11,963,627	26,557	5,812,272	17,802,456
Inventories	1,389,674		1,042,290	2,431,964
Prepaid expenditures	312,305			312,305
Total Assets	<u>\$ 131,456,467</u>	<u>\$ 33,652,100</u>	<u>\$ 91,471,769</u>	<u>\$ 256,580,336</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 57,749,727	\$ 217,823	\$ 8,923,586	\$ 66,891,136
Due to other funds	2,400,578	4,413,712	10,617,547	17,431,837
Deferred revenue	5,408,837		213,061	5,621,898
Total Liabilities	<u>65,559,142</u>	<u>4,631,535</u>	<u>19,754,194</u>	<u>89,944,871</u>
Fund Balances				
Restricted for debt service			11,437,880	11,437,880
Reserved for special purposes	2,108,629		1,045,271	3,153,900
Restricted for special purposes	35,085,002		3,312,750	38,397,752
Designated for:				
Economic uncertainties	14,297,129			14,297,129
Special purposes	12,485,782			12,485,782
Contingencies	1,920,783	29,020,565	55,921,674	86,863,022
Total Fund Balances	<u>65,897,325</u>	<u>29,020,565</u>	<u>71,717,575</u>	<u>166,635,465</u>
Total Liabilities and Fund Balances	<u>\$ 131,456,467</u>	<u>\$ 33,652,100</u>	<u>\$ 91,471,769</u>	<u>\$ 256,580,336</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS**

June 30, 2006

Amounts reported for governmental funds are different than the statement of net assets because:

Total fund balance – governmental funds		\$ 166,635,465
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$894,999,113 and the accumulated depreciation is \$315,522,371. The net value of capital assets is -		579,476,742
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are not accrued in the governmental funds.		2,041,623
The accrued interest payable for general obligation bonds is -		(5,182,233)
An internal service fund is used by the District to manage its Self-Insurance Fund. The assets and liabilities of the Self-Insurance Fund are included under governmental activities in the statement of net assets.		(13,587,130)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds principal payable	\$(252,235,000)	
Certificates of participation	(58,655,000)	
Accrued vacation payable	<u>(9,369,187)</u>	
		<u>(320,259,187)</u>
Total net assets – governmental activities		<u>\$ 409,125,280</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Revenue limit sources:				
State apportionments	\$ 401,021,961	\$	\$ 4,262,296	\$ 405,284,257
Charter schools general purpose entitlement	2,534,267			2,534,267
Local sources	68,844,386		15,959,245	84,803,631
Total revenue limit sources	472,400,614		20,221,541	492,622,155
Federal sources	99,817,823		42,308,853	142,126,676
Other state sources	149,740,138		32,247,946	181,988,084
Other local sources	16,588,110	1,592,225	16,315,523	34,495,858
Total Revenues	<u>738,546,685</u>	<u>1,592,225</u>	<u>111,093,863</u>	<u>851,232,773</u>
Expenditures				
Instruction	449,535,775		21,311,372	470,847,147
Instruction - related services	85,132,024		5,071,065	90,203,089
Pupil services	60,039,506		35,209,097	95,248,603
Ancillary services	798,464			798,464
Community services	8,418,537		737	8,419,274
Enterprise	3,424		212,470	215,894
General administration	39,748,057		2,416,110	42,164,167
Plant services	70,229,477	2,607,699	47,868,399	120,705,575
Other outgo	296,637	14,199	5,740,260	6,051,096
Debt service			17,000,008	17,000,008
Total Expenditures	<u>714,201,901</u>	<u>2,621,898</u>	<u>134,829,518</u>	<u>851,653,317</u>
Excess (deficiency) of revenues over expenditures	<u>24,344,784</u>	<u>(1,029,673)</u>	<u>(23,735,655)</u>	<u>(420,544)</u>
Other Financing Sources (Uses)				
Interfund transfers in			9,420,701	9,420,701
Interfund transfers out	(662,903)	(8,757,798)		(9,420,701)
Total Other Financing Sources (Uses)	<u>(662,903)</u>	<u>(8,757,798)</u>	<u>9,420,701</u>	<u>-</u>
Net changes in fund balances	<u>23,681,881</u>	<u>(9,787,471)</u>	<u>(14,314,954)</u>	<u>(420,544)</u>
Fund Balances - Beginning of Year, as originally stated	43,124,689	38,808,036	85,123,284	167,056,009
Adjustment for restatement (See Note 15)	(909,245)		909,245	-
Fund Balances - Beginning of Year, as restated	<u>42,215,444</u>	<u>38,808,036</u>	<u>86,032,529</u>	<u>167,056,009</u>
Fund Balances - End of Year	<u>\$ 65,897,325</u>	<u>\$ 29,020,565</u>	<u>\$ 71,717,575</u>	<u>\$ 166,635,465</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Net change in fund balances-total governmental funds \$ (420,544)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	\$ 41,122,261	
Depreciation expense	<u>(16,182,873)</u>	24,939,388

The District utilizes Certificates of Participation (COPs) as a mechanism for providing capital to purchase equipment, finance construction projects, or refinance existing leases. Repayments of certificates of participation are reported as expenses in the governmental funds but are reported as a reduction of a liability in the government-wide statements. 3,750,000

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	4,450,000	
Net decrease in accrued interest expense	<u>93,872</u>	
Change in long-term bond liability		4,543,872

In the statement of activities, certain operating expenses -- compensated absences (vacations), -- 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). During this year, the vacation payable increased (314,839)

Property taxes are recorded on a cash basis as they are not considered as "available" revenues in the governmental funds. The net change in the receivable related to property taxes levied for the repayment of debt is: 1,109,383

Internal service funds are used by the District to manage the district's Self-Insurance Fund. The net income of \$9,119,567 is reported with governmental activities. 9,119,567

Total net assets -- governmental activities \$ 42,726,827

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS

PROPRIETARY FUND

June 30, 2006

	Governmental Activities
	Self Insurance Fund
<u>Assets</u>	
Cash in county treasury	\$ 41,627,905
Cash in revolving fund	1,080,000
Accounts receivable:	
Miscellaneous	2,481,359
Due from other funds	2,045,369
Prepaid expense	128,050
Total Assets	<u>47,362,683</u>
<u>Liabilities</u>	
Accounts payable	2,348,671
Due to other funds	2,415,988
Estimated liability for open claims and IBNRs	56,185,154
Total Liabilities	<u>60,949,813</u>
<u>Net Assets</u>	
Unrestricted	<u>(13,587,130)</u>
Total Net Assets	<u>\$ (13,587,130)</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND**

For the Fiscal Year Ended June 30, 2006

	Governmental Activities
	Self Insurance Fund
Operating Revenues	
Self-insurance premiums	\$ 81,934,499
Total Operating Revenues	<u>81,934,499</u>
Operating Expenditures	
Salaries	374,729
Benefits	144,019
Other supplies	67,775
Payments for health and welfare claims	<u>72,880,817</u>
Total Operating Expenditures	<u>73,467,340</u>
Operating income	<u>8,467,159</u>
Non-Operating Revenues	
Interest income	<u>652,408</u>
Change in net assets	9,119,567
Net Assets - Beginning of Year	<u>(22,706,697)</u>
Net Assets - End of Year	<u>\$ (13,587,130)</u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 INCREASE IN CASH
 For the Fiscal Year Ended June 30, 2006**

	Governmental Activities
	Self Insurance Fund
Cash Flows from Operating Activities	
Cash received from premiums and other revenues	\$ 96,015,751
Cash paid for claims and operating expenses	<u>(73,158,316)</u>
Net cash provided by operating activities	22,857,435
Cash Flows from Investing Activities and Other Sources	
Interest income	<u>470,462</u>
Net cash provided by investing activities and other sources	<u>470,462</u>
Net increase in cash and cash equivalents	23,327,897
Cash and cash equivalents - July 1, 2005	<u>19,380,008</u>
Cash and cash equivalents - June 30, 2006	<u><u>\$ 42,707,905</u></u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 8,467,159</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	597,665
Decrease in due from other funds	14,081,252
Decrease in prepaid expense	242,183
(Decrease) in accounts payable	(9,877,872)
Increase in due to other funds	1,726,095
Increase in estimated claims	<u>7,620,953</u>
Total adjustments	<u>14,390,276</u>
Net Cash Provided by Operating Activities	<u><u>\$ 22,857,435</u></u>
Cash balances at June 30, 2006 consisted of the following:	
Cash in county treasury	\$ 41,627,905
Cash in revolving fund	<u>1,080,000</u>
Total cash balances at June 30, 2006	<u><u>\$ 42,707,905</u></u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS - FIDUCIARY FUNDS

June 30, 2006

	Associated Student Body Funds
<u>Assets</u>	
Cash on hand and in banks	\$ 5,166,041
Accounts receivable:	
Miscellaneous	25,907
Stores inventory	<u>11,056</u>
Total Assets	<u>5,203,004</u>
<u>Liabilities</u>	
Accounts payable	231,876
Funds held in trust	<u>2,614,799</u>
Total Liabilities	<u>2,846,675</u>
<u>Net Assets</u>	
Unrestricted	<u>2,356,329</u>
Total Net Assets	<u><u>\$ 2,356,329</u></u>

See the accompanying notes to the financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF CHANGES IN FUND NET ASSETS - FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2006

	Associated Student Body Funds
	<u> </u>
Additions	
Revenue from local sources	\$ 4,702,218
Total Additions	<u>4,702,218</u>
Deductions	
Other expenses	<u>4,501,156</u>
Total Deductions	<u>4,501,156</u>
Changes in net assets	201,062
Net Assets - Beginning of Year	<u>2,155,267</u>
Net Assets - End of Year	<u>\$ 2,356,329</u>

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

The significant accounting policies applicable to the District are described below.

A. BASIS OF PRESENTATION:

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements.

1. Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities displays information about the District as a whole. These statements include the financial activities of the primary government, including governmental activities of proprietary funds. Fiduciary funds are excluded.

The Statement of Net Assets presents the financial condition of the governmental activities of the District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements:

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary and proprietary funds are reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

Instruction – includes the activities directly dealing with the interaction between teachers and students.

Instruction-related services – includes supervision of instruction, instructional library, media and technology, and school site administration.

Pupil services – includes home to school transportation, food services and other pupil services.

Ancillary services – includes activities that are generally designed to provide students with experiences outside the regular school day.

Community services – includes activities that provide services to community participants other than students.

Enterprise activities – includes activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs are financed or recovered primarily through user charges. This function is used only within the Cafeteria Fund.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements: (continued)

General administration – includes data processing services and all other general administration services.

Plant services – includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

Other outgo – includes transfers to other agencies.

The proprietary and fiduciary fund expenditures are presented by natural classification.

B. FUND ACCOUNTING:

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

The Statements of Revenue, Expenditures and Changes in Fund Balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS - MAJOR

General Fund – is used to account for all financial transactions except those legally required to be accounted for in another fund. It is the general operating fund of the District. The District has elected to record Emerson Charter School activity in the General Fund as the funding comes through the General Fund.

Building Fund – used to account for the proceeds of Measure A – General Obligation Bonds.

GOVERNMENTAL FUNDS – NON-MAJOR

Debt Service Funds – used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

1. Bond Interest and Redemption Fund – used to finance and account for the payment of interest and principal on bonded debt.

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

1. Adult Education Fund - used to account for resources committed to adult education programs offered by the District.
2. Child Development Fund - used to account for resources committed to preschool children programs.
3. Cafeteria Fund - used to account for revenues received and expenditures made to operate the District's food and nutrition service program.
4. Deferred Maintenance Fund - used for the purpose of major repair or replacement of District property.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

Capital Projects Funds - used to account for the acquisition and/or construction of major governmental general fixed assets.

1. Capital Facilities Fund - used to account for resources received from developer impact fees and to account for the activity related to Certificates of Participation (COP) issued.
2. Special Reserve Fund – used to account for the resources received from redevelopment agencies and other funds used for capital facility projects.
3. State School Building Fund - used primarily to account for state apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17700-17780).
4. County School Facilities Fund – used to separately account for State apportionments as provided by SB 50 and Proposition 1A bond money.

PROPRIETARY FUNDS

Internal Service Fund - used to account for services rendered on a cost-reimbursement basis within the District. The Internal Service Fund consists of two sub-funds as follows:

1. Deductible Insurance Fund - used to account for resources committed to the District's self-insurance program for property loss or damage;
2. Health, Vision and Dental Insurance and Workers Compensation Fund - used to account for resources committed to the District's health, vision, dental and workers compensation insurance programs.

FIDUCIARY FUNDS

Student Body Funds - used to account for the raising and spending of money to promote the general welfare, morale and educational experiences of the student body. The District operates 33 separate student body funds.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

B. FUND ACCOUNTING: (continued)

AGENCY ACTIVITIES

The District operates a warrant pass-through fund as a holding account for amounts withheld from employees for federal taxes, state taxes and other contributions. The District had cash in the County Treasury amounting to \$3,497,767 on June 30, 2006, which represents withholdings payable. These amounts were included as part of the General Fund activity.

C. BASIS OF ACCOUNTING:

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

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In accordance with GASB Statement No. 20, the District's proprietary fund follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District also applies all FASB statements issued after November 30, 1989 that are developed for business enterprises, unless those statements conflict with or contradict a GASB statement.

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

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING: (continued)

2. Receivables

Receivables are generally recorded when the amount is earned and can be estimated. Per Education Code Section 33128.1, a local education agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. The District has recognized receivables in accordance with this standard, the most notable being for the final P-2 apportionment.

3. Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable supplies held for consumption. At June 30, 2006, the inventory for supplies is \$1,389,674 and the inventory for food is \$1,042,290.

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING: (continued)

5. Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Statement of Net Assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. 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.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture and Equipment	5 to 20 years
Vehicles	6 years

6. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING: (continued)

7. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District. The current portion of the liability, if material, is recognized in the applicable fund at year-end. The entire compensated absences liability is reported on the government-wide financial statements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

Accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

8. Long Term Obligations

The District reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Balance Reservations and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING: (continued)

10. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors or laws or regulations of other governments.

11. State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year. Second period to annual corrections for revenue limits and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

12. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the State for revenue limit purposes. Property taxes for debt service purposes have been accrued in the Government-wide financial statements.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

C. BASIS OF ACCOUNTING: (continued)

13. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' and Public Employees Retirement Systems on behalf of all school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$7,300,000 for STRS.

14. Estimates

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

15. Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the District receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the District based on the above guidelines. In addition, the District receives donations of immaterial equipment and supplies which are not recorded upon receipt.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

D. REPORTING ENTITY:

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, The Financial Reporting Entity. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

D. REPORTING ENTITY: (continued)

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity:

1. Long Beach Education Foundation – The Foundation is a separate not-for-profit corporation. The Foundation Board of Directors is selected independent of any District Governing Board elections. The Foundation Board is responsible for approving its own budget and related accounting and finance activities.
2. California State University Dominguez Hills Foundation – The Foundation is a separate not-for-profit corporation. The Foundation Board of Directors are elected independent of any District Governing Board appointments. The Foundation Board is responsible for approving its own budget and accounting and finance related activities. The Foundation supports some functions of the California Academy of Mathematics and Science (CAMS) – a high school under the jurisdiction of the District.
3. Various PTA, PTO and Booster Clubs – Each of these types of organizations at each of the school sites within the District were evaluated using the three criterion listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO and the Booster Club individually are not significant to the District.
4. Charter Schools – Constellation and New City Charter Schools– These charter schools receive their funding directly from other government agencies and have a separate governing board. The condensed unaudited financial information for June 30, 2006 for these schools is presented on the following page.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

D. REPORTING ENTITY: (continued)

	<u>Constellation</u>	<u>New City</u>
Total Assets	\$ 780,411	\$ 294,837
Total Liabilities	<u>49,573</u>	<u>377,848</u>
Fund Balance	\$ <u>730,838</u>	\$ <u>(83,011)</u>
Total Revenues	\$1,305,429	\$1,368,493
Total Expenditures	<u>1,074,284</u>	<u>1,387,191</u>
Net Increase/(Decrease) in Fund Balance	\$ <u>231,145</u>	\$ <u>(18,698)</u>

Separate financial statements for these entities can be obtained through the District.

NOTE 2 - BUDGETS:

By state law, the District's Governing Board must approve a budget no later than July 1, using the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the General Fund is presented in a budgetary comparison schedule in the supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2006, \$18,978,374 of the District's bank balance of \$19,786,025 was exposed to credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name	\$15,929,330
Uninsured and uncollateralized	<u>3,049,044</u>
Total	<u>\$18,978,374</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool. The fair market value of the District's deposits as noted above in this pool as of June 30, 2006, as provided by the pool sponsor, was \$169,703,956.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments

As of June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
AIG Matched Funding Corp.	6/1/2024	\$ 6,089,640

This investment is in a Guaranteed Investment Contract (GIC) and is not required to identify ratings.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates

Credit Risk

Government Code Sections 16430 and 53601 allows governmental entities to invest surplus moneys in certain eligible securities. The District has no investment policy that would further limit its investment choices.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund activity has been eliminated in the Government-wide statements as required by GASB No. 34. The following balances and transactions are reported in the fund financial statements.

A. Interfund Receivables/Payables

Individual interfund receivable and payable balances at a June 30, 2006 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 11,963,627	\$2,400,578
Building Fund	26,557	4,413,712
Non-Major Funds:		
Special Revenue Funds:		
Adult Education Fund	32,876	750,939
Child Development Fund	822,212	4,938,128
Cafeteria Fund	363,640	4,414,773
Deferred Maintenance Fund	3,527,942	309,591
Capital Projects Funds:		
Special Reserve Fund	685,218	25,307
State School Building Fund	3,534	158,388
County School Facilities Fund	376,850	20,421
Proprietary Fund:		
Self-Insurance Fund	<u>2,045,369</u>	<u>2,415,988</u>
	<u>\$19,847,825</u>	<u>\$19,847,825</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2005-06 fiscal year are as follows:

Transfer from General Fund to the Adult Education Fund for Lottery allocation	\$ 53,711
Transfer from General Fund to the Child Development Fund to cover expenses for Headstart and Child Development programs	393,804
Transfer from the Building Fund to the Deferred Maintenance Fund for estimated match necessary to qualify for State funds	3,510,032
Transfer from the Building Fund to the Capital Facilities Fund for Certificates of Participation principal payment	3,750,000
Transfer from the Building Fund to the State School Facilities Fund for projects requiring a match	1,497,766
Transfer from the General Fund to the Cafeteria Fund for repayment of indirect charges per agreement and to cover expenses for non student food	<u>215,388</u>
Total	<u>\$9,420,701</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED:

The following amounts were reserved by the Board of Education for the special purposes below:

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Total</u>
Revolving Cash	\$ 406,650	\$ 2,981	\$ 409,631
Stores Inventory	1,389,674	1,042,290	2,431,964
Prepaid Expenses	<u>312,305</u>	<u> </u>	<u>312,305</u>
 Total	 \$ <u>2,108,629</u>	 \$ <u>1,045,271</u>	 \$ <u>3,153,900</u>

The following ending balances were legally restricted as to use:

Major Funds:

General Fund:

Medi-Cal Billing Option	\$ 1,840,592
School Facilities Needs Assessment	120,370
English Language Acquisition Program	1,586,360
California Public School Library	66,183
State Lottery	2,787,177
ROP Professional Training	2,297,467
CAHSEE	222,938
School Safety and Violence Prevention	398,229
Limited English Proficiency	4,894,106
Tech Support and Staff Development	39,499
Gifted and Talented Education	528,119
Instructional Materials Funding Realignment Program	13,120,971
Instructional Materials - Williams Case	684,344
Instructional Materials - Core Reading	123,148
Pupil Retention Block Grant	216,071
Teacher Credentialing Block Grant	556,522
Professional Development Block Grant	16,143
School & Library Improvement Block Grant	2,059,388
Peer Assistance and Review	359,794
International Baccalaureate	6,224
Tenth Grade Counseling	90,537
Principal Training	8,550
Cal Safe	136,958
Routine Restricted Maintenance	1,656,186
Donor Restricted Gifts	<u>1,269,126</u>
	 <u>\$35,085,002</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED: (continued)

Non-Major Funds:

Child Development Fund:	
Child Nutrition Program	\$ 43,350
Donor Restricted Gifts	<u>15,161</u>
	\$ <u>58,511</u>
Adult Education Fund:	
Adult Education Apportionment	\$ 3,145,878
State Lottery Prop 20	24,493
Donor Restricted Gifts	<u>83,868</u>
	\$ <u>3,254,239</u>

The following amounts were designated by the Board of Education for the special purpose below:

	<u>General Fund</u>
Major Funds:	
General Fund:	
Economic Uncertainties	\$ 14,297,129
Designated for Retiree Health Benefits	6,343,548
Designated for Site Carryover	6,142,234
Contingencies	<u>1,920,783</u>
Total General Fund	<u>28,703,694</u>
Building Fund:	
Contingencies (Construction, Capital Outlay)	<u>29,020,565</u>
Total Major Funds	\$ <u>57,724,259</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED: (continued)

Non-Major Funds:

Contingencies	
Adult Education Fund	\$ 7,456
Cafeteria Fund	4,779,686
Deferred Maintenance Fund	18,977,103
Capital Facilities Fund	9,152,001
Special Reserve Fund	3,640,763
State School Building Fund	1,749,720
County School Facilities Fund	<u>17,614,945</u>
 Total Non-Major Funds	 <u>\$55,921,674</u>

NOTE 6 – OPERATING LEASES:

The District has entered into various operating leases for buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2006-07	\$3,583,587
2007-08	3,126,527
2008-09	2,209,640
2009-10	385,312
2010-11	<u>88,140</u>
 Total	 <u>\$9,393,206</u>

2005-06 expenditures for operating leases is approximately \$4,252,400. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION:

The District has entered into a long-term lease agreement to provide for the financing of the acquisition, construction, installation and modernization of capital improvements of the District. A portion of the proceeds was used to redeem previously issued certificates of participation.

The agreement dated November 1, 2001, is between the Long Beach Unified School District as the "lessee" and the California School Facilities Financing Corporation as the "lessor" or "corporation". The California School Facilities Financing Corporation is a legally separate entity which was formed for the sole purpose of constructing and equipping school facilities and acquiring other fixed assets and then leasing such items to the District.

The Corporation's funds for acquiring these items were generated by the issuance of \$74,010,000 in Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments. These funds are not available for general purpose expenditures.

Lease Payments - Lease payments are required to be made by the District under the lease agreement for the use and possession of the facilities. Interest payments will be quarterly on the first day of March, June, September and December commencing March 1, 2002. Principal payments are due on June 1 commencing June 1, 2002 and terminating June 1, 2024. The interest rate is a variable rate.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. The trustee will pay from the lease payment fund the required principal and interest payments.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

The outstanding balance at June 30, 2006 is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,910,000	\$ 1,871,095	\$ 5,781,095
2008	3,920,000	1,746,366	5,666,366
2009	4,075,000	1,621,318	5,696,318
2010	4,255,000	1,491,325	5,746,325
2011	4,425,000	1,355,591	5,780,591
2012-2016	18,315,000	4,847,525	23,162,525
2017-2021	13,400,000	2,119,119	15,519,119
2022-2024	<u>6,355,000</u>	<u>410,235</u>	<u>6,765,235</u>
	<u>\$58,655,000</u>	<u>\$15,462,574</u>	<u>\$74,117,574</u>

NOTE 8 - BONDED DEBT:

A. Series A

On July 15, 1999 the District offered for sale \$25,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the first issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements including the repair and rehabilitation of schools and the construction of new classrooms and school facilities.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2001. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 4.5% to 7.5%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

A. Series A (continued)

The annual requirements to amortize Series A bond payable, outstanding as of June 30, 2006, are as follows:

Series A

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 525,000	\$ 1,164,091	\$ 1,689,091
2008	550,000	1,123,779	1,673,779
2009	575,000	1,090,216	1,665,216
2010	600,000	1,063,479	1,663,479
2011	620,000	1,035,109	1,655,109
2012-2016	3,555,000	4,682,549	8,237,549
2017-2021	4,535,000	3,665,234	8,200,234
2022-2026	5,820,000	2,322,338	8,142,338
2027-2030	<u>5,820,000</u>	<u>630,000</u>	<u>6,450,000</u>
Totals	<u>\$22,600,000</u>	<u>\$16,776,795</u>	<u>\$39,376,795</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

B. Series B

On July 1, 2000 the District offered for sale \$30,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the second issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements in particular to upgrade outdated heating, plumbing, ventilation and electrical systems, rehabilitate 50 year old classrooms, repair leaky roofs, upgrade classroom electrical systems for computers, and build new classrooms and schools to eliminate overcrowding and allow students to attend neighborhood schools.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2003. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 5.0% to 8.0%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

B. Series B (continued)

The annual requirements to amortize Series B bond payable, outstanding as of June 30, 2006, are as follows:

Series B

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 585,000	\$ 1,505,290	\$ 2,090,290
2008	620,000	1,457,090	2,077,090
2009	660,000	1,405,890	2,065,890
2010	690,000	1,362,240	2,052,240
2011	725,000	1,326,865	2,051,865
2012-2016	4,220,000	6,037,950	10,257,950
2017-2021	5,490,000	4,802,690	10,292,690
2022-2026	7,240,000	3,086,050	10,326,050
2027-2030	<u>7,440,000</u>	<u>847,275</u>	<u>8,287,275</u>
Totals	<u>\$27,670,000</u>	<u>\$21,831,340</u>	<u>\$49,501,340</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

C. Series C

On August 1, 2001 the District offered for sale \$60,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the third issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements in particular to upgrade outdated heating, plumbing, ventilation and electrical systems, rehabilitate 50 year old classrooms, repair leaky roofs, upgrade classroom electrical systems for computers, and build new classrooms and schools to eliminate overcrowding and allow students to attend neighborhood schools.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2003. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 4.3% to 7.3%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

C. Series C (continued)

The annual requirements to amortize Series C bond payable, outstanding as of June 30, 2006, are as follows:

Series C

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,140,000	\$ 2,758,485	\$ 3,898,485
2008	1,190,000	2,706,060	3,896,060
2009	1,240,000	2,649,835	3,889,835
2010	1,300,000	2,589,510	3,889,510
2011	1,355,000	2,528,148	3,883,148
2012-2016	7,720,000	11,650,285	19,370,285
2017-2021	9,730,000	9,443,581	19,173,581
2022-2026	12,440,000	6,655,438	19,095,438
2027-2031	16,065,000	3,093,750	19,158,750
2032	<u>3,740,000</u>	<u>95,838</u>	<u>3,835,838</u>
Totals	<u>\$55,920,000</u>	<u>\$44,170,930</u>	<u>\$100,090,930</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

D. Series D

On May 1, 2002 the District offered for sale \$40,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the fourth issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements in particular to upgrade outdated heating, plumbing, ventilation and electrical systems, rehabilitate 50 year old classrooms, repair leaky roofs, upgrade classroom electrical systems for computers, and build new classrooms and schools to eliminate overcrowding and allow students to attend neighborhood schools.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2003. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 4.125% to 6.0%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

D. Series D (continued)

The annual requirements to amortize Series D bond payable, outstanding as of June 30, 2006, are as follows:

Series D

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 790,000	\$ 1,898,587	\$ 2,688,587
2008	830,000	1,849,987	2,679,987
2009	870,000	1,798,988	2,668,988
2010	915,000	1,750,013	2,665,013
2011	955,000	1,703,263	2,658,263
2012-2016	5,380,000	7,798,731	13,178,731
2017-2021	6,685,000	6,334,875	13,019,875
2022-2026	8,495,000	4,448,625	12,943,625
2027-2031	10,865,000	2,040,375	12,905,375
2032	<u>2,515,000</u>	<u>62,875</u>	<u>2,577,875</u>
Totals	<u>\$38,300,000</u>	<u>\$29,686,319</u>	<u>\$67,986,319</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

E. Series E

On May 1, 2003 the District offered for sale \$60,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the fifth issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements in particular to upgrade outdated heating, plumbing, ventilation and electrical systems, rehabilitate 50 year old classrooms, repair leaky roofs, upgrade classroom electrical systems for computers, and build new classrooms and schools to eliminate overcrowding and allow students to attend neighborhood schools.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2007. Principal payments are due annually on August 1 of each year, commencing August 1, 2007. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 2.0% to 5.0%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

E. Series E (continued)

The annual requirements to amortize Series E bond payable, outstanding as of June 30, 2006, are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,205,000	\$ 2,549,916	\$ 3,754,916
2008	1,250,000	2,522,268	3,772,268
2009	1,300,000	2,490,363	3,790,363
2010	1,355,000	2,452,975	3,807,975
2011	1,410,000	2,411,500	3,821,500
2012-2016	7,900,000	11,264,288	19,164,288
2017-2021	9,605,000	9,516,950	19,121,950
2022-2026	11,955,000	6,920,500	18,875,500
2027-2031	15,070,000	3,574,569	18,644,569
2032-2033	<u>7,095,000</u>	<u>340,931</u>	<u>7,435,931</u>
Totals	<u>\$58,145,000</u>	<u>\$44,044,260</u>	<u>\$102,189,260</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

F. Series F

On June 1, 2004 the District offered for sale \$50,000,000 of general obligation bonds under the provisions of Title 1, Division 1, Part 10, Chapter 2 of the State of California Education Code, commencing with Section 15100. The bonds represent the sixth issue of a total of \$295,000,000 of bonds approved by District voters on March 30, 1999. The bonds were issued to finance various capital improvements in particular to upgrade outdated heating, plumbing, ventilation and electrical systems, rehabilitate 50 year old classrooms, repair leaky roofs, upgrade classroom electrical systems for computers, and build new classrooms and schools to eliminate overcrowding and allow students to attend neighborhood schools.

Payment

Interest due is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2007. Principal payments are due annually on August 1 of each year, commencing August 1, 2007. The principal with respect to the bonds is payable upon maturity or upon redemption in whole or in part at the corporate trust office of the Paying Agent. The bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The bonds bear an interest rate ranging from 3.5% to 5.375%.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

F. Series F (continued)

The annual requirements to amortize Series F bond payable, outstanding as of June 30, 2006, are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 875,000	\$ 2,440,437	\$ 3,315,437
2008	910,000	2,409,200	3,319,200
2009	955,000	2,374,175	3,329,175
2010	995,000	2,330,200	3,325,200
2011	1,040,000	2,279,325	3,319,325
2012-2016	5,950,000	10,600,288	16,550,288
2017-2021	7,500,000	8,940,550	16,440,550
2022-2026	9,630,000	6,714,769	16,344,769
2027-2031	12,505,000	3,938,875	16,443,875
2032-2034	<u>9,240,000</u>	<u>709,250</u>	<u>9,949,250</u>
Totals	<u>\$49,600,000</u>	<u>\$42,737,069</u>	<u>\$92,337,069</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 8 - BONDED DEBT: (continued)

The outstanding bonded debt of Long Beach Unified School District at June 30, 2006 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued Current Year</u>	<u>Principal Payment Current Year</u>	<u>Outstanding June 30, 2006</u>
Series A	7/15/99	4.5%-7.5%	8/1/2029	\$ 25,000,000	\$ 23,100,000	\$	\$ 500,000	\$ 22,600,000
Series B	7/01/00	5.0%-8.0%	8/1/2029	30,000,000	28,220,000		550,000	27,670,000
Series C	8/01/01	4.3%-7.3%	8/1/2031	60,000,000	57,010,000		1,090,000	55,920,000
Series D	5/01/02	4.125%-6.0%	8/1/2031	40,000,000	39,055,000		755,000	38,300,000
Series E	5/01/03	2.0-5.0%	8/1/2032	60,000,000	59,300,000		1,155,000	58,145,000
Series F	6/01/04	3.50-5.375%	8/1/2033	50,000,000	50,000,000		400,000	49,600,000
				<u>\$265,000,000</u>	<u>\$256,685,000</u>	<u>\$ 0</u>	<u>\$4,450,000</u>	<u>\$252,235,000</u>

NOTE 9 - OTHER ACCOUNTING DISCLOSURES:

A. **Long-term debt** - A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amount Due in One Year</u>
Accrued vacation	\$ 9,054,348	\$ 314,839	\$	\$ 9,369,187	\$ 1,143,638
Certificates of participation	62,405,000		3,750,000	58,655,000	3,910,000
General obligation bonds	256,685,000		4,450,000	252,235,000	5,120,000
Totals	<u>\$328,144,348</u>	<u>\$ 314,839</u>	<u>\$ 8,200,000</u>	<u>\$320,259,187</u>	<u>\$ 10,173,638</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 9 - OTHER ACCOUNTING DISCLOSURES: (continued)

B. Capital assets - A schedule of changes in general fixed assets for the year ended June 30, 2006, is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments*</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:					
Land	\$ 107,738,867	\$	\$	\$ 2,187,074	\$ 109,925,941
Work In Progress	44,107,840	38,109,254	2,064,899		80,152,195
Total capital assets not being depreciated:	<u>151,846,707</u>	<u>38,109,254</u>	<u>2,064,899</u>	<u>2,187,074</u>	<u>190,078,136</u>
Capital assets being depreciated:					
Land Improvements	15,764,147	251,620		161,219	16,176,986
Buildings and Improvements	609,933,114	2,373,169		114,612	612,420,895
Books and Media In Library	18,054,118			(658,099)	17,396,019
Vehicles	10,634,456	312,469	69,050		10,877,875
Machinery and Equipment	47,644,310	595,917	254,582	63,557	48,049,202
Total capital assets being depreciated	<u>702,030,145</u>	<u>3,533,175</u>	<u>323,632</u>	<u>(318,711)</u>	<u>704,920,977</u>
Accumulated depreciation for:					
Land Improvements	12,334,838	340,337		12,077	12,687,252
Buildings and Improvements	219,720,291	11,415,861		4,012	231,140,164
Books and Media In Library	15,889,769	955,859		(658,099)	16,187,529
Vehicles	9,850,155	388,507	69,050		10,169,612
Machinery and Equipment	41,544,444	4,039,371	254,582	8,581	45,846,978
Total accumulated depreciation	<u>299,339,497</u>	<u>17,139,935</u>	<u>323,632</u>	<u>(633,429)</u>	<u>316,169,635</u>
Total capital assets being depreciated, net	<u>402,690,648</u>	<u>(13,606,760)</u>	<u>-</u>	<u>314,718</u>	<u>388,751,342</u>
Governmental activities capital assets, net	<u>\$ 554,537,355</u>	<u>\$ 24,502,494</u>	<u>\$ 2,712,163</u>	<u>\$ 2,501,792</u>	<u>\$ 578,829,478</u>

*Adjustments were made to the balance of capital assets as a result of a reconciliation that was done by the District.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 10 – INTERNAL SERVICE FUND(S):

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through the year, the District has maintained the following self-insurance programs and accounts for them in Internal Service Funds. The District is self insured for property and liability, health, vision, dental and workers compensation. These funds account for and finance the uninsured portion of losses. The Deductible Insurance Fund provides general liability coverage for a maximum of \$100,000, primarily for particular property damage and bodily injury claims. The District participates in a Joint Powers Authority for claims in excess of the amount provided by the Deductible Insurance Fund and for certain other risks up to \$1,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. In addition, through the Deductible Insurance Fund, the District is completely self-insured for certain other types of claims, principally related to property losses due to vandalism and natural disasters.

Through its Health, Vision and Dental Insurance Fund, the District is partially self-insured for health, vision and dental plan claims. The District maintains an excess insurance policy for health program claims over \$250,000.

The District is self insured for the first \$500,000 of claims related to workers compensation. The District carries excess insurance for claims over this amount. The District has estimated a receivable of \$2,050,932 as of June 30, 2006 related to claims in excess of the \$500,000.

Payments from the applicable government fund type are made to the self-insurance fund in amounts needed to pay the estimated claims as well as fund future obligations.

Liabilities for loss and loss adjustment expenses for each Internal Service Fund are based on the ultimate cost of settling the claims which include the accumulation of estimates for losses reported prior to the balance sheet date and an estimate of losses incurred but not reported. Such liabilities, which are not discounted, are estimates of future expected settlement and are based upon analysis of historical patterns of the number of incurred claims and their values. Individual reserves are continuously monitored and reviewed, and as settlements are made, or reserves adjusted, differences are reflected in current operations.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 10 – INTERNAL SERVICE FUND(S): (continued)

At June 30, 2006, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of liability is estimated at \$56,185,154. Accrual of this liability has resulted in a combined negative fund balance of \$13,587,130. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Workers' Compensation	\$ 38,805,000	\$ 14,858,643	\$ 12,172,642	\$ 41,491,001
Deductible Insurance	1,944,837	692,210	461,120	2,175,927
Health, Vision and Dental	<u>7,814,364</u>	<u>55,564,772</u>	<u>50,860,910</u>	<u>12,518,226</u>
	<u>\$ 48,564,201</u>	<u>\$ 71,115,625</u>	<u>\$ 63,494,672</u>	<u>\$ 56,185,154</u>

NOTE 11 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Public Agency Retirement Planning, Inc. (PARP).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the 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, disability 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 Boulevard, Sacramento, CA 95826.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-06 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (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 Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% 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 average required employer contribution for fiscal year 2005-06 was 9.116% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2004	28,739,895	100%	10,319,067	100%
2005	28,952,046	100%	10,277,464	100%
2006	30,210,195	100%	10,059,148	100%

NOTE 12 – ALTERNATE PENSION PLANS:

Alternate Retirement System for Part-Time, Seasonal and Temporary Employees (ARS)

Plan Description

The Alternate Retirement System for Part-Time, Seasonal and Temporary Employees (ARS) is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by the ARS Plan Administrator. Eligible employees hired prior to January 1, 2002, contribute 3.75% of their covered compensation to this plan. Eligible employees hired after January 1, 2002, contribute 7.5% of their covered compensation to this plan.

Employees who have received distributions	631
Terminated plan members entitled to but not yet receiving benefits	3,239
Active plan members	11,432
Number of participating employers	1
Contributions by Employee for the year	\$1,158,316
Contributions by Employer for the year	\$ 0

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 12 – ALTERNATE PENSION PLANS: (continued)

Long Beach Schools Business Management Authority Retirement Plan

In 1998 the Long Beach Unified School District approved the development of an alternate retirement system for management employees of the District. The Long Beach Schools Business Management Authority Retirement Plan (LBSBMA) is a defined benefit pension plan established as an alternative to PERS (Public Employees Retirement System). As of July 1, 2004, the plan is no longer accepting new members. Currently, the District is negotiating to have participating employees reinstated in PERS. LBSBMA covered pension benefits for employees that elected to participate in the plan. Employees were eligible for the plan if they were certain non-certificated executive, administrative, management, and related services furnished within the business, human resources and instruction departments. The plan was established under IRS Code 401(a).

Plan Description and Contribution Information

Retirees and beneficiaries receiving benefits	19
Terminated plan members entitled to but not yet receiving benefits	113
Active plan members	0
 Number of participating employers	 1
 Contributions by Employee for the year	 \$0
Contributions by Employer for the year	\$0

Per GASB 34 paragraph 10G the financial information for both plans is provided below as there are no separate GAAP financial statements for the plans.

	LBSBMA	ARS
Assets:		
Cash and cash equivalents	\$ (18,725)	\$ 843
Accounts Receivable	3,074	6,378
Investments, at fair value:		
U.S. Government obligations	4,524,530	20,585,003
Total Assets	\$ 4,508,879	\$ 20,592,224

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 12 – ALTERNATE PENSION PLANS: (continued)

Plan Description and Contribution Information (continued)

	<u>LBSBMA</u>	<u>ARS</u>
Additions		
Contributions:		
Employer	\$ -	\$ -
Plan members	-	1,158,316
Total Contributions	<u>-</u>	<u>1,158,316</u>
Investment earnings:		
Net increase in fair value of investments	-	554,052
Interest and Dividends	34,438	104,364
Net investment Earnings	<u>34,438</u>	<u>658,416</u>
 Total Additions	 <u>34,438</u>	 <u>1,816,732</u>
 Deductions:		
Benefits	122,867	547,886
Administrative Expenses	32,665	60,504
Total deductions	<u>155,532</u>	<u>608,390</u>
 Change in net assets	 (121,094)	 1,208,342
 Net assets - beginning of year	 4,629,973	 19,383,882
Net assets - end of year	<u>\$ 4,508,879</u>	<u>\$ 20,592,224</u>

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 13 – POST EMPLOYMENT - HEALTH BENEFITS:

At June 30, 2006, there were 1,106 retirees receiving medical (health) benefits under the District health plans. The District pays for the health benefit coverage of eligible retirees, including employees who retire on disability, who have attained the age of 55 and have worked for the District for at least 15 or 17 years depending on their bargaining unit. Their benefits are paid until the retiree reaches the age of 65 or 67, respectively. However, in the case of disability retirees, there is no age requirement and coverage is until the person reaches age 67 or for up to 39 months, whichever comes earlier. The District paid \$5,398,050 for the health benefits of 592 retirees that qualified for this coverage during 2005-06. The other 514 retirees received their medical benefit coverage by paying for the coverage themselves (“self-paid”). In the fiscal year ended June 30, 2006, the District collected \$4,277,720 from retirees to cover the cost of the “self-paid” health benefits. Approximately \$5,428,079 is projected for the district-paid portion in 2006-07.

NOTE 14 - JOINT POWERS AGREEMENTS:

The Long Beach Unified School District participates in two joint powers agreement (JPA) entities, the Alliance of Schools for Collective Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF). The relationship between the district and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

ASCIP arranges for and provides property and liability insurance for its member districts. Long Beach Unified School District pays a premium commensurate with the level of coverage requested.

SELF arranges for and provides a self-funded or additional insurance for excess liability funding for approximately 1,100 public educational agencies. SELF is governed by a board comprised of 17 elected voting members, elected alternates and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual premium based upon the amounts calculated by SELF's board of directors and shares surpluses and deficits proportionate to its participation in SELF.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 14 - JOINT POWERS AGREEMENTS: (continued)

The most current financial information for ASCIP and SELF is summarized as follows:

	ASCIP 6/30/2006 <u>(Unaudited)</u>	SELF 6/30/2006 <u>(Unaudited)</u>
Total assets	\$132,904,091	\$217,906,001
Total liabilities	<u>94,815,362</u>	<u>191,182,670</u>
Fund equity	<u>\$ 38,088,729</u>	<u>\$ 26,723,331</u>
Total revenues	\$ 63,646,057	\$ 62,837,181
Total expenditures	<u>55,637,905</u>	<u>39,336,948</u>
Net increase (decrease) in fund equity	<u>\$ 8,088,152</u>	<u>\$ 23,500,233</u>

NOTE 15 – ADJUSTMENT FOR RESTATEMENT:

The District restated the General Fund and Special Reserve Fund for Capital Outlay Projects by \$(909,245) and \$909,245 respectively to correctly record revenue received from AB1290 Redevelopment. This restatement impacts the fund statements only.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

A. Contingent Liability

In 2002-03, the District restated its fund balance in the Cafeteria Fund and the General Fund to adjust the undercharging of indirect costs by the General Fund for prior years. This resulted in an addition to the General Fund and reduction in the Cafeteria Fund amounting to \$3,862,992. The Nutrition Services Division of the California Department of Education has issued a letter dated August 11, 2005, indicating that the District's General Fund must return this to the Cafeteria Fund. The General Fund will reimburse the Cafeteria Fund for a portion of the restatement in the amount of \$1,968,212 over a ten year period to end in the fiscal year 2014-2015. This is not reflected in the government wide statements since it is within the funds of the District.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 16 - COMMITMENTS AND CONTINGENCIES: (continued)

B. Litigation

The District has been named as defendant in several lawsuits. The lawsuits are seeking, among other things, to require the District to reinstate terminated and laid-off employees. Management believes that the ultimate outcome of such lawsuits will not have a material impact on the District's financial condition.

C. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

D. County School Facilities Funds

The District is currently involved in several construction and modernization projects partially funded through the State Facility Program. These projects are subject to future audits by the State, which may result in revenue adjustments to the fund.

E. Purchase Commitments

As of June 30, 2006, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$14.4 million. Projects will be funded through Bond Proceeds, County School Facilities Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and General Funds.

F. LBSBMA

The District is currently negotiating with PERS regarding the dissolution of LBSBMA. As noted in Note 12, the assets available in LBSBMA at June 30, 2006 are approx. \$4.5. However, based on preliminary estimates, this will not be sufficient to cover the obligation needed to reinstate employees in PERS and cover past LBSBMA obligations. Because the final determination and amounts have not yet been agreed to or actuarially calculated, these financial statements do not include an estimate for this future obligation.

LONG BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 17 – SUBSEQUENT EVENT:

GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 45 outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement would be effective for phase one GASB Statement No. 34 implementers in fiscal year 2007-08. The statement requires governmental agencies to record and disclose the actuarially determined cost based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. Annual required contributions shall include the employer's normal cost and a provision for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years. The statement also requires that an actuarial valuation be performed every two years for a plan with more than 200 members and every three years for plans with fewer than 200 members.

SUPPLEMENTARY INFORMATION SECTION

LONG BEACH UNIFIED SCHOOL DISTRICT

HISTORY AND ORGANIZATION

June 30, 2006

The Long Beach Unified School District began operations as a newly formed unified district on July 1, 1945. During the current year, the District maintained fifty-one elementary schools, twenty-three middle and K-8 schools, three charter schools, eight high schools, one continuation school and one adult school.

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Jon Meyer	President	July, 2008
Dr. Felton Williams	Vice President	July, 2008
Dr. David Barton	Member	July, 2010
Mary Stanton	Member	July, 2010
Michael Ellis	Member	July, 2010
Cory Morris	Student Member	July, 2007

ADMINISTRATIVE OFFICERS

Christopher Steinhauser	Superintendent of Schools
Christine Dominguez	Deputy Superintendent
Kim Stallings	Chief Business and Financial Officer

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Revised Final Budget - Positive (Negative)
	Original	Revised Final		
Revenues:				
Revenue Limit Sources	\$ 466,522,574	\$ 472,069,383	\$ 472,400,614	\$ 331,231
Federal Sources	75,952,324	118,585,785	99,817,823	(18,767,962)
Other State Sources	137,661,123	152,552,435	149,740,138	(2,812,297)
Interest	1,000,000	1,729,529	3,351,075	1,621,546
Other Local Sources	5,126,239	11,937,574	13,237,035	1,299,461
Total Revenues	<u>686,262,260</u>	<u>756,874,706</u>	<u>738,546,685</u>	<u>(18,328,021)</u>
Expenditures:				
Certificated Salaries:				
Teachers Salaries	283,811,122	304,254,054	292,903,108	11,350,946
Pupil Support	21,550,748	24,757,312	27,084,762	(2,327,450)
Supervisors' and Administrators' Salaries	23,037,412	26,005,275	26,532,192	(526,917)
Other Certificated Salaries	6,648,966	11,501,973	11,109,768	392,205
Classified Salaries:				
Instructional Aides' Salaries	23,521,746	23,206,653	21,923,666	1,282,987
Support Salaries	27,437,956	38,109,627	37,616,308	493,319
Supervisors' and Administrators' Salaries	14,270,923	21,882,127	21,617,243	264,884
Clerical, Technical and Office Staff Salaries	18,592,312	22,734,695	22,218,610	516,085
Other Classified Salaries	5,695,633	5,416,002	6,189,627	(773,625)
Employee Benefits:				
STRS	25,209,368	28,837,769	29,180,319	(342,550)
PERS	7,252,037	8,061,658	8,498,116	(436,458)
PERS Reduction	1,464,527	3,700,143	2,612,997	1,087,146
OASDI	9,477,342	12,291,217	11,960,768	330,449
Health and Welfare Benefits	69,968,021	70,926,742	66,554,736	4,372,006
Unemployment Insurance	2,942,039	3,047,529	2,351,727	695,802
Workers' Compensation	20,159,439	22,666,095	23,307,997	(641,902)
Retiree Benefits	3,000,000	3,004,553	5,398,068	(2,393,515)
Other Employee Benefits	-	4,297	4,132	165

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Revised Final Budget - Positive (Negative)
	Original	Revised Final		
Books & Supplies:				
Textbooks	8,506,234	10,288,038	6,858,689	3,429,349
Books other than Textbooks	437,618	4,982,570	3,381,110	1,601,460
Materials and Supplies	20,625,600	49,669,129	11,846,382	37,822,747
Noncapitalized Equipment	260,940	6,471,480	5,195,429	1,276,051
Food Service Supplies	57,968	10,222	8,244	1,978
Services, Other Operating Expenses:				
Travel and Conferences	657,718	2,697,727	1,524,418	1,173,309
Dues and Memberships	114,684	148,278	129,377	18,901
Insurance	733	17,446	16,608	838
Operating and Housekeeping Services	8,134,788	8,352,907	8,924,228	(571,321)
Rentals, Leases and Repairs	8,198,418	6,783,499	6,361,967	421,532
Direct Costs - Interfund	(95,496)	539,109	(96,499)	635,608
Other Services and Operating Expenses	45,207,673	57,517,581	51,191,836	6,325,745
Communications	2,503,831	2,579,865	3,148,305	(568,440)
Capital Outlay:				
Sites and Improvements of Sites	3,569,597	205,738	149,475	56,263
Buildings and Improvements of Buildings	14,723,512	4,152,976	1,115,823	3,037,153
Equipment	85,662	1,158,781	457,643	701,138
Equipment Replacement	225,000	1,204,278	319,331	884,947
Other Outgo:				
Transfers to Charter Schools In-Lieu of Property Taxes	855,321	253,452	274,827	(21,375)
Other Transfers Out	-	5,261	21,810	(16,549)
Direct Support/Indirect Costs:				
Interfund Transfers of Direct Support/Indirect Costs	(3,599,538)	(3,249,976)	(3,691,246)	441,270
Total Expenditures	<u>674,509,854</u>	<u>784,196,082</u>	<u>714,201,901</u>	<u>69,994,181</u>
Excess of Revenues over Expenditures	11,752,406	(27,321,376)	24,344,784	51,666,160
Other financing sources (uses):				
Transfer out	(33,097)	(662,903)	(662,903)	-
Net change in fund balances	<u>\$ 11,719,309</u>	<u>\$ (27,984,279)</u>	23,681,881	<u>\$ 51,666,160</u>
Fund Balance at Beginning of Year*			42,215,444	
Fund Balance - June 30, 2005			<u>\$ 65,897,325</u>	

* Includes adjustment for restatement. See note 15

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2006

The requirements governing ADA, admission of pupils, types of schools, recording and reporting of pupil attendance, and similar matters are controlled by provisions of the Education Code and by regulations of the California Department of Education.

ADA statistics reported to the State excluding Charter Schools, for the fiscal year ended June 30, 2006 are as follows:

	<u>Revised Second Period</u>	<u>Revised Annual</u>
Elementary:		
Kindergarten	6,011	6,010
First through third grade	19,464	19,361
Fourth through eighth grade	33,701	33,598
Opportunity schools	54	59
Home and hospital - temporary physical disabilities	56	55
Special education master plan	1,660	1,663
Special Education - nonpublic, nonsectarian schools	43	55
Community day school	22	24
Extended year special education - mandated	105	106
Extended year - nonpublic, nonsectarian schools	<u>6</u>	<u>7</u>
Total elementary ADA	<u>61,122</u>	<u>60,938</u>
Secondary:		
Regular classes	25,224	24,965
Continuation education	104	96
Opportunity schools	60	67
Home and hospital - temporary physical disabilities	45	44
Special education master plan	836	830
Special Education - nonpublic, nonsectarian schools	139	134
Community day school	10	10
Extended year special education - mandated	93	93
Extended year - nonpublic, nonsectarian schools	<u>24</u>	<u>24</u>
Total secondary ADA	<u>26,535</u>	<u>26,263</u>
Regional occupation program	<u>791</u>	<u>936</u>
Adult Education:		
Concurrently enrolled	24	40
Not concurrently enrolled	<u>1,241</u>	<u>1,699</u>
Total Adult Education ADA	<u>1,265</u>	<u>1,739</u>
Total ADA	<u>89,713</u>	<u>89,876</u>

Hourly Programs

Hours of Attendance

Elementary Hourly	771,289
Secondary Summer School	<u>643,945</u>
	<u>1,415,234</u>

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Fiscal Year Ended June 30, 2006

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multi-Year Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,747	36,000	180	180	Complies
Grades 1 through 3	50,400	49,930	50,440	180	180	Complies
Grades 4 through 8	54,000	52,110	54,010	180	180	Complies
Grades 9 through 12	64,800	64,800	64,868	180	180	Complies

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Categorical Aid Programs:			
U.S. Department of Education:			
Indian Education	84.060	(1)	\$ 34,235
Reserve Officers Training Corps	84.186	(1)	378,091
Magnet School Assistance	84.165	(1)	2,844,187
Gear Up	84.334A	(1)	1,477,534
Smaller Learning Communities	84.215L	(1)	622,875
Teaching American History Grant	(1)	(1)	271,252
Bilingual Education - Discretionary Grants	84.195B	(1)	228,164
Hands on Math Through Art	84.351D	(1)	256,945
Elementary and Secondary School Counseling Demonstration Program	84.215E	(1)	308,483
History of the United States for Elementary Education	(1)	(1)	295,944
Fund for the Improvement of Education	84.215K	(1)	48,221
Emergency Response & Crisis Management	84.184E	(1)	39,199
Subtotal: Direct program			<u>6,805,130</u>
Pass-Through Programs From			
California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	3799	\$ 46,313,311
Title I, Part B, Reading First	84.357	14328	3,199,058
Title II, Part A, Improving Teacher Quality	84.367	14341	4,905,199
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.138	14334	566,989
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.138	14368	1,560,426
Title III, English Language Acquisition	84.365	14346	211,170
Title III, Limited English Proficient Children	84.365	10084	2,575,522
Title V, Part A, Innovative Ed Strategies	84.298	3340	3,254,765
Even Start Family Literacy	84.213	3700	275,200
Even Start Family Literacy Coaching	84.213C	(1)	146
Special Education - IDEA Basic Local Assistance Entitlement	84.027	3143	13,498,221
Special Education - Federal Preschool Grants	84.173A	3430	355,280
Special Education - Preschool Local Entitlement	84.027A	13682	964,004
Special Education - Early Intervention	84.181	23761	264,596
Adult Ed - Adult Basic Education ABE	84.002A	13973	209,025
Adult Ed- Family Literacy	84.002A	13977	101,025
Adult Ed- Secondary ASE/GED	84.002A	13978	30,150
Adult Ed- ESL	84.002A	13974	63,225
Vocational Education-Basic Grants to States	84.048	(1)	1,175,571
Homeless Children Education	84.196	3697	75,000
Migrant Education	84.011	3239	683,288
Title IV, Part B, 21st Century Learning	84.287A	10042	7,935,115
Safe & Drug Free Schools	84.186	1007	463,968
Safe & Drug Free Schools - Emergency Reponse and Crisis Management	84.184E	(1)	238,054
GAIN/GROW Vocational Assessment	(1)	(1)	51,811
Afterschool Enrichment Program (YMCA)	(1)	(1)	1,366,388
Special Education Alternative Dispute Resolution	84.027A	3007	2,067
ROP Carl D. Perkins Vocational and Technical Education	84.048	13923	177,009
Standardized Testing and Reporting	(1)	24371	2,810
Charter Schools Grant	84.282	03150	121,946
Special Education Interpreter Certification	84.027A	14466	20,340
New Student Data Systems Office	(1)	(1)	47,996
Subtotal: Pass-Through Programs			<u>90,708,675</u>
Total: U.S. Department of Education			<u>97,513,805</u>

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Rehabilitation:			
Pass-Through Program From			
California Department of Education:			
Special Education Workability II	84.158	10006	<u>157,881</u>
Total: Department of Rehabilitation			<u>157,881</u>
CA Service Corporation:			
Americore Planning Grant			
Total: CA Service Corporation	(1)	(1)	<u>8,219</u>
Office of Homeland Security:			
Pass-Through Program From			
California Department of Education:			
Critical Infrastructure Protection	97.000	(1)	<u>101</u>
Total: Office of Homeland Security			<u>101</u>
Department of Health and Human Services:			
Headstart Services Basic			
Early Head Start	93.600	10016	15,464,475
Head Start Training TEC	93.600	(1)	1,800,241
Head Start Training TEC	93.600	93.600	144,928
Head Start Training TEC	93.600	93.600	44,669
Pass-Through Programs From			
California Department of Education:			
School Age Resource Contracts	93.575	13941	23,122
Infant/Toddler	93.575	93.575	14,209
Quality Improvement	93.575	93.575	33,097
Medi-Cal - Administrative	(1)	10600	456,722
Medi-Cal	93.773	10013	<u>1,848,891</u>
Total: Department of Health and Human Services			<u>19,830,354</u>
Department of Labor:			
Pass-Through Program From			
California Department of Education:			
Workforce Investment Act	17.255	3322	<u>102,807</u>
Total: Department of Labor			<u>102,807</u>
Federal Emergency Management Agency			
Pass-Through Program From			
California Department of Education:			
Hazard Mitigation	83.544	10014	<u>2,449</u>
Total: Federal Emergency Management Agency			<u>2,449</u>
Department of Agriculture:			
National School Lunch Program			
Especially Needy Breakfast	10.555	3523	17,857,981
Basic School Breakfast	10.553	3526	4,355,521
Child and Adult Care Food Program	10.553	3525	64,866
Federal Snack Program	10.558	3527	1,632,065
Federal Snack Program	(1)	(1)	<u>467,917</u>
Total: Department of Agriculture			<u>24,378,350</u>
Reconciliation to Federal Revenues:			
Total Federal Program Expenditures			141,993,966
Expenditure in excess of revenue related to Federal Entitlements:			
Program Child and Adult Care Food			(103,514)
Program Medi-Cal			<u>236,224</u>
Total Federal Grants			<u>\$ 142,126,676</u>

(1) Federal catalog number or pass-through entity identifying number not readily available.

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30,

	<u>(Budget) 2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>GENERAL FUND:</u>								
<u>Revenue</u>								
Revenue Limit Sources	\$ 495,942,376	70.7	\$ 472,400,614	66.1	\$ 451,719,483	65.3	\$ 436,591,650	64.8
Federal	77,983,241	11.1	99,817,823	14.0	95,216,961	13.8	80,376,131	11.9
State	143,269,969	20.4	149,740,138	20.9	144,791,047	20.9	137,543,069	20.4
County and Local	5,757,369	0.9	16,588,110	2.3	10,417,777	1.5	16,051,055	2.5
Other Sources							330,157	0.0
Total Revenue	<u>722,952,955</u>	<u>103.1</u>	<u>738,546,685</u>	<u>103.3</u>	<u>702,145,268</u>	<u>101.5</u>	<u>670,892,062</u>	<u>99.6</u>
<u>Expenditures</u>								
Certificated Salaries	325,109,749	46.4	357,629,830	50.0	344,413,772	49.8	342,722,819	50.9
Classified Salaries	98,150,525	14.0	109,565,454	15.3	106,287,149	15.4	103,842,685	15.4
Employee Benefits	149,794,429	21.4	149,868,860	21.0	146,502,166	21.2	132,435,136	19.7
Books and Supplies	45,007,742	6.4	27,289,854	3.8	25,602,238	3.7	24,909,366	3.7
Services and Other Operating Expenses	76,128,505	10.9	71,200,240	10.0	70,541,715	10.2	69,797,510	10.4
Capital Outlay	3,080,954	0.4	2,042,272	0.3	1,609,307	0.2	1,005,188	0.1
Other Transfers Out	813,614	0.1	296,637	0.0	1,039,096	0.1	1,671,439	0.2
Direct Support/Indirect Costs	(2,790,471)	(0.4)	(3,691,246)	(0.5)	(5,138,012)	(0.8)	(2,822,311)	(0.5)
Interfund Transfers Out	5,742,361	0.8	662,903	0.1	1,111,365	0.2	349,911	0.1
Total Expenditures	<u>701,037,408</u>	<u>100.0</u>	<u>714,864,804</u>	<u>100.0</u>	<u>691,968,796</u>	<u>100.0</u>	<u>673,911,743</u>	<u>100.0</u>
Change in Fund Balance	<u>\$ 21,915,547</u>	<u>3.1</u>	<u>\$ 23,681,881</u>	<u>3.3</u>	<u>\$ 10,176,472</u>	<u>1.5</u>	<u>\$ (3,019,681)</u>	<u>(0.4)</u>
Adjustment for Restatement			<u>\$ (909,245)</u>	<u>(0.1)</u>			<u>\$ 2,079,498</u>	<u>0.3</u>
Ending Fund Balance	<u>\$ 87,812,872</u>	<u>12.5</u>	<u>\$ 65,897,325</u>	<u>9.2</u>	<u>\$ 43,124,689</u>	<u>6.2</u>	<u>\$ 32,948,217</u>	<u>4.9</u>
Available Reserve	<u>\$ 13,994,099</u>	<u>2.0</u>	<u>\$ 14,297,129</u>	<u>2.0</u>	<u>\$ 8,237,106</u>	<u>1.2</u>	<u>\$ 6,817,160</u>	<u>1.0</u>
Recommended Reserve Percentage		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>
Average Daily Attendance	<u>85,388</u>		<u>87,657</u>		<u>90,550</u>		<u>91,210</u>	
Total Long-Term Debt	<u>\$ 310,085,549</u>		<u>\$ 320,259,187</u>		<u>\$ 328,144,348</u>		<u>\$ 335,205,014</u>	

IMPORTANT NOTES:

Available reserves are those amounts designated for economic uncertainty, contingencies and any other remaining undesignated fund balance from the General Fund.

Fiscal year 2007 original budget, as reflected in the 2006 Unaudited Actuals

All percentages are of total expenditures.

Average daily attendance is based upon P-2 and excludes Adult Education and ROP.

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2006**

<u>Charter School</u>	<u>Included in District Audit Report</u>
Emerson Charter School	Yes
New City Charter Schools	No
Constellation Charter School	No

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

There were no differences between the fund balances reported on the June 30, 2006 Annual Financial and Budget Report for the governmental funds and the audited financial statements.

See the accompanying notes to the supplementary information.

LONG BEACH UNIFIED SCHOOL DISTRICT

**NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2006**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Budgetary Comparison Schedule For The General Fund

GASB Statement No. 34 requires a budgetary comparison be presented for the general fund and for any major special revenue fund that has a legally adopted annual budget. This schedule presents the budget as originally adopted, the revised budget as of the fiscal year end, actual amounts at fiscal year end and the variance between the final budget and actual amounts.

B. Schedule of Average Daily Attendance (ADA)

Average daily attendance 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.

C. 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.

D. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133, this schedule was prepared for the District and is presented on the modified accrual basis of accounting.

E. Schedule of Financial Trends and Analysis

The State Controller's Office requires that this schedule be prepared showing financial trends of the general fund over the past three fiscal years as well as the current year budget. This schedule is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

LONG BEACH UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

F. Schedule of Charter Schools

The State Controller's Office requires that this schedule list all charter schools chartered by the District and inform the users whether or not the charter school information is included in the District's financial statements.

G. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the annual Financial and Budget Report form to the audited financial statements.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

Excesses of expenditures over appropriations, by major object accounts, occurred in the following funds:

Non-Major Funds

Child Development Fund:	
Classified Salaries	\$42,360
Employee Benefits	39,014
Direct Support/Indirect Costs	183,835
 Cafeteria Fund:	
Classified Salaries	651,122
 County School Facilities Fund:	
Employee Benefits	2,590

LONG BEACH UNIFIED SCHOOL DISTRICT

DISTRICT DEFINED TERMS For the Fiscal Year Ended June 30, 2006

Terms are **defined** to assist readers in the review of this document.

Accounts Payable: Amounts due and owed to private persons, business firms, governmental agencies, or other institutions for goods received or services rendered prior to the end of the fiscal year. The definition includes amounts billed but not yet paid.

Accounts Receivable: Amounts due and owed to the district by private persons, business firms, governmental units, or others for goods or services provided by the district prior to the end of the fiscal year. The definition includes amounts billed but for which payment is not yet received.

Accrual Basis: The method of accounting which records revenue when earned, even though not collected, and records expenses when the liabilities are incurred, even if not paid. School districts use the modified accrual basis of accounting within the individual funds.

Appropriation for Contingencies: The part of the current fiscal year's budget that is not appropriated for any specific purpose but is held in reserve, subject to intrabudget transfer, i.e., transfer to a specific appropriation account as needed during the fiscal year.

Bond: A certificate containing a written promise to pay a specified sum of money (the face value), at a fixed time in the future (the date of maturity), and specifying interest at a fixed rate, usually payable periodically.

Bond Interest and Redemption Fund: A fund established to pay bond interest and liquidate indebtedness when due and payable. The Office of the Los Angeles County Auditor-Controller reports activities in this fund to the District.

Bonded Indebtedness: An obligation incurred by the sale of bonds for the acquisition of school facilities or other capital expenditures. Since 1986, districts have been able to levy a special local property tax to amortize bonds upon approval of two-thirds of those who vote.

Budget: A plan of financial operation consisting of an estimate of proposed revenue and expenditures for a given period and purpose. The word usually refers to a financial plan for a single fiscal year.

Building Fund: Established to hold funds generated for capital outlay projects. These resources may come from the sale of district facilities and property, from the sale of school district bonds, from the sale of bonds by the state government, or from a transfer of funds from the General Fund.

Capital Project Funds: Financial resources to be used for the acquisition or construction of major capital facilities.

LONG BEACH UNIFIED SCHOOL DISTRICT

DISTRICT DEFINED TERMS For the Fiscal Year Ended June 30, 2006

Capital Outlay: Amounts paid for the acquisition of fixed assets or additions to fixed assets, including land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings or initial and additional equipment that meets or exceeds the district's capitalization policy.

Deferred Revenue: Revenue received in a given period, but unearned, which is then set up as a liability to be included as revenue in subsequent budget periods.

Depreciable Capital Assets: An exhaustible capital asset that has a useful life of greater than one year, and is subject to wear. Some examples of these assets are: machinery/equipment, vehicles, portable classrooms, etc.

Fiduciary Funds: Assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Fiscal Year: A period of one year, beginning and the ending dates of which are fixed by statute. In California, the fiscal year for school districts is the period beginning on July 1 and ending on the subsequent June 30.

Fund: The sum of money or other resources set aside for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. A fund is a separate and distinct fiscal entity.

Governmental Funds: Those funds through which most governmental functions typically are financed.

General Obligation Bonds: Bonds issued by a governmental agency. Their repayment is tied to a specific revenue source. Local school district bonds must be approved by a two-thirds vote of those who vote, while a state bond measure requires only a simple majority.

Internal Service Funds: The financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. (Self-Insurance Fund for Health, Vision, and Dental coverages, Workers' Compensation and Deductible Insurance).

Liabilities: Legal obligations that are unpaid. This definition also includes deferred revenue.

Reserve for Economic Uncertainties: Typically referred to as that district reserve set aside for unforeseen conditions which may arise during the year. California has established a rate of 3% for districts of a small to medium size. The reserve rate is 2% for the district's General Fund.

LONG BEACH UNIFIED SCHOOL DISTRICT

DISTRICT DEFINED TERMS For the Fiscal Year Ended June 30, 2006

Revenue: An addition to assets, not accompanied by an obligation to perform service or deliver products. The major categories are:

1. Revenue Limit – state income under Proposition 98 formulas.
2. Federal Revenues are categorical funds allocated to serve identified student populations. All Federal funds are restricted as to their use.
3. Other State Income includes most of the state categorical programs. These funds are all restricted except for most of State Lottery proceeds and all mandated cost reimbursements.
4. Other Local Revenue is minimal; most of these income items are unrestricted with the exception of voted tax levies, transportation fees, and transfers from other agencies for special education purposes.

Revenue Limit: The maximum amount of annual revenue that a district can collect for general purposes from a combination of local property taxes and state aid (the Prop. 98 formula). In addition to revenue limit income, a district may receive state and federal categorical aid, locally-approved special purpose taxes, and other sources of local income such as interest earned, rents and donations. The Revenue Limit is composed of a base revenue limit – an amount for basic educational services apportioned per unit of Average Daily Attendance (ADA). It is re-computed by formula each year from the previous year's base revenue limit – and a number of revenue limit adjustments authorized in annual school finance legislation.



**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**

Board of Education
Long Beach Unified School District
1515 Hughes Way
Long Beach, California 90810

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU

RENÉE S. GRAVES

WADE N. McMULLEN

KARIN HECKMAN NELSON

CARL PON

GEMA M. PTASINSKI

MARY ANN QUAY

LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

JANETTE CAMPS

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

PHEBE M. MCCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Long Beach Unified School District (the District) as of and for the year ended June 30, 2006 which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 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 Long Beach Unified 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Long Beach Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

**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**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe none of the reportable conditions described is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Long Beach Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 06-03 and 06-08.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office and 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.

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

October 6, 2006



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

Board of Education
Long Beach Unified School District
1515 Hughes Way
Long Beach, California 90810

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COLLEEN K. TAYLOR

Compliance

We have audited the compliance of Long Beach Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Long Beach Unified School District's major federal programs are identified in the summary of auditor's 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 Long Beach Unified School District's management. Our responsibility is to express an opinion on Long Beach Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Long Beach Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Long Beach Unified School District's compliance with those requirements.

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

In our opinion, Long Beach Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 06-09 and 06-10.

Internal Control Over Compliance

The management of Long Beach Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Long Beach Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 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 noncompliance with the 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 Board, management, the California Department of Education, the State Controller's Office and 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.

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

October 6, 2006



Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU
 RENÉE S. GRAVES
 WADE N. McMULLEN
 KARIN HECKMAN NELSON
 CARL PON
 GEMA M. PTASINSKI
 MARY ANN QUAY
 LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

JANETTE CAMPS
 TIMOTHY D. EVANS
 PRISCILLA OSBORNE FLORES
 TINA HENTON
 PHEBE M. McCUTCHEON
 SHARI PROSSER
 COLLEEN K. TAYLOR

REPORT ON STATE COMPLIANCE

Board of Education
 Long Beach Unified School District
 1515 Hughes Way
 Long Beach, California 90810

We have audited the basic financial statements of the Long Beach Unified School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Yes
Kindergarten continuation	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational center/programs	6	Yes

REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community day schools	9	No (see below)
Class size reduction program:		
General requirements	7	Yes
Option 1	3	Yes
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Morgan-Hart class size reduction program	7	Not applicable
Instructional materials:		
General requirements	12	Yes
Grades K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable
GANN limit calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Yes
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	Yes
School Accountability Report Card	3	Yes
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Nonclassroom-based instructional/independent study	1	Yes
Additional nonclassroom-based instruction	1	Yes
Determination of funding for nonclassroom-based instruction	3	Yes
Annual instructional minutes – classroom based	3	Yes
Office of Criminal Justice Planning	-	Not applicable

The District did not participate in the Early Retirement Incentive Program; therefore, the compliance procedures are not applicable. We did not perform testing for Community Day Schools because the ADA was under the level which requires testing. The District did not participate in the Morgan-Hart class size reduction program. The District had two options under which to implement class size reduction; the District exercised Option 1, therefore, audit procedures for Option 2 were not performed. Testing for Emerson Charter School was done in conjunction with the District audit. Testing for all other Charter Schools was done by each school's respective auditor.

REPORT ON STATE COMPLIANCE

Based on our audit, we found that, for the items tested, the Long Beach Unified School District complied with the laws and regulations of the state programs referred to above, except for item 06-03 described in the schedule of findings and questioned costs section of this audit report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Long Beach Unified School District had not complied with the laws and regulations of state programs and requirements, except as noted in the schedule of findings and questioned costs section of this audit report.

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

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

October 6, 2006

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2006

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for
 major programs: Unqualified

Any audit findings disclosed that are required to be
 Reported in accordance with Circular A-133,
 Section .510(a) X Yes No

Identification of major programs tested:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173A, 84.027A and 84.181	Special Education
93.600	Head Start
84.367	Title II, Part A – Improving Teacher Quality
84.287A	Title IV, Part B – 21 st Century Learning
84.048	Vocational Education
84.186	Safe and Drug Free Schools
84.002A	Adult Education

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X Yes No

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

Per Assembly Bill 3627, all audit findings must be identified as one or more of the following six categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Note: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Questioned costs, if applicable are listed separately. The District response that follows the finding is the District's corrective action plan.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-01 – CAPITAL ASSET PROCEDURES

20000

Original Finding 04-08

Finding: According to District policy, all equipment purchases over \$5,000 should be added to the fixed asset listing. While testing the additions in the current year, we noted six items were not appropriately added. Upon investigation, we found that these items were delivered directly to the sites for installation and were not tagged by the warehouse. The effect is that the asset listing was understated by \$135,042. In addition, the District's Board policy states that the method of depreciation is straight-line with no salvage value. The system, GFAMS, is calculating two different monthly depreciation expense amounts. One amount is in line with District policy as stated above, however for the financial report it is using the other amount which is incorrect. This was noted when several assets were selected to recalculate the depreciation expense, five of twelve assets tested were incorrect.

Questioned Costs: Not applicable

Recommendation: We recommend that all items that qualify be added to GFAMS promptly, upon delivery to the District. Additionally, develop procedures to ensure items delivered directly to sites are tagged through alternate procedures. It is our understanding that the vendor is no longer supporting GFAMS software. Therefore, we recommend that the District find software to track the depreciable assets and calculate depreciation to avoid potential misstatements.

District Response: The six items noted have been added to the District's fixed asset listing. The majority of the items noted were not recorded in the GFAMS system by 6/30 due to the timing of the receipt late in the fiscal year. These items were scheduled to be inventoried and recorded as soon as possible. The warehouse has been given direction to include this as a priority in their year-end closing procedures. One of the items noted is a donation. Per Business Department Procedure 7-3009, the District does not automatically inventory donated items and record in the fixed asset record.

Once an asset has been purchased for direct delivery to a site, the warehouse office reviews their copy of the purchase order to determine if the item purchased will require an inventory tag and listing in GFAMS. If it does, a copy of the receiving report is held at the inventory control desk. Once the item has been received, the Purchasing & Contracts office notifies the warehouse office. The Inventory Control Assistant contacts the receiving site to identify the location of the item, a contact person, and set an appointment for a Warehouse Material Processor to come to the site to inventory the asset. The warehouse staff member takes the paperwork to the site, inventories the asset, records the appropriate data, and returns the paperwork to inventory control for entry into GFAMS. This is done on a regular basis each month as required.

The District is in the process of finding new software for tracking fixed assets including calculating depreciation.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-02 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000

Original Finding 04-09

I. Standardized system development methodology

Finding: The District has not implemented a standardized system development methodology that would document how the organization acquires, develops, documents and maintains software systems. The District has designed and developed significant systems for the financial reporting of the District. Developing software can allow more risk if the development and modifications are not well-controlled with formal procedures for systems analysis, documentation standards, modification controls, testing and resolving of conflicts and ongoing maintenance.

Questioned Costs: Not applicable

Recommendation: We recommend the processes be formally documented. All staff members should be trained in these processes and procedures and internal audit should monitor compliance with the procedures annually.

District Response: The District concurs that a standardized process for submitting development requests, estimating time and costs, approvals and project management needs to be implemented. Current staffing levels have our developers also performing application support, needs assessment and project management.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-02 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000
(continued)

II. Disaster Recovery Plan

Finding: A written disaster recovery plan helps to ensure that an organization can efficiently recover after a significant interruption of information systems services. A written plan should include recovery roles and responsibilities, emergency contacts, prioritization of systems and applications, recovery procedures and vendor contacts. Although the District has backup procedures, the district does not have a written comprehensive disaster recovery plan.

Questioned Costs: Not applicable

Recommendation: We recommend the District develop a formal comprehensive disaster recovery plan. The plan should be prepared and regularly updated. It should be tested at least annually and the results of these tests be reviewed by internal audit and presented to the Board. Any complications found and/or modifications should be resolved and their resolution documented.

District Response: The District concurs that a Disaster Recovery Plan is a prudent business measure to have in place.

The District has a Disaster Recovery *Strategy* and elements of this strategy are tested and refined on an ongoing basis; however, this strategy has yet to be developed into a formal Disaster Recovery Plan. The District will complete the development of a scope of work and solicit proposals and cost estimates from vendors to develop and institute such a plan.

Those estimates will be presented to senior administrators and the District will implement all funded plans and/or plan elements

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-02 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000
(continued)

III. Access and modification controls

Finding: In a controlled development environment, it is essential that production data and programs be protected from unauthorized manipulation and modification. We found that software developers have access to production systems.

Questioned Costs: Not applicable

Recommendation: Production areas are where the actual programs process the actual data and access to these areas should be severely limited. Only after testing is code moved to the production library. These changes must be well documented and someone not in the programming staff must perform the movement of programs to the production library.

District Response: The District concurs that a formal change control process should be implemented. The infrastructure and software licensing are now in place to allow for this functionality. A formal change control process will be implemented by July 1, 2007

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-02 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000
(continued)

IV. Access and modification controls

Finding: The information systems department does not have a standardized process for documenting changes to their various systems. Each development group documents and tracks changes to their system based on their own preferences and needs.

Questioned Costs: Not applicable

Recommendation: The change control process should be standardized for all systems in the department. This process should document the change request, its priority, subsequent disposition, testing results, sign off by the user and cross referencing to the changed programs. The change requests should be maintained in a department wide repository.

District Response: The District will ensure that access to sensitive data is limited and only provided to individuals whose job function requires access. All code changes are currently tested in a test environment before moving them to production. The Information Services Branch is awaiting organizational guidance. At this point in time the District does not have additional qualified staff available to complete these tasks. The District relies on specific Vendor Compliance Agreements to set boundaries. When changes are required by contractors, it is under the supervision of a knowledgeable District employee.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-03 – STATE COMPLIANCE – TEACHER CREDENTIALS 40000

Finding: State compliance guidelines require that we review and verify valid teaching credentials for teachers. At Fremont Elementary School, one teacher did not have a valid teaching credential for part of the 2005-06 fiscal year. The teacher's credential expired December 1, 2005. The State requires that all teachers have a valid teaching credential or a State waiver. Pursuant to *Education Code* Section 45037(b), this condition can result in a penalty based on the percentage of days taught by the non-credentialed teacher in relation to the total days taught in the District. This percentage is then applied to the District's revenue limit entitlement to determine the amount of the penalty.

Questioned Cost: The penalty calculated pursuant to *Education Code* Section 45037(b) is \$93,098.

Recommendations: We recommend that the District immediately contact the California Commission on Teacher Credentialing (CCTC) and inquire if a waiver can be obtained from the CCTC that would be effective from December 1, 2005 through June 16, 2006. The District should continue to monitor the recently implemented procedures that require review of teacher's credentials throughout the entire year and seek resolution regarding potential loss of ADA and incentive funding.

District Response: The teacher in question resigned from the District effective June 2006. The District submitted a one-year appeal for this teacher's preliminary multiple subject credential. The application was returned and lost in the mail. The District was not aware of the situation until August 2006. The teacher submitted a one-year credential appeal application prior to resignation.

Although the teacher has resigned and there is not a remedy available to correct the teacher's expired credential, the District now has extensive procedures and practices in place to prevent this situation in the future.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-04 – SELF INSURANCE PROGRAMS

60000

Original Findings 04-03 and 04-04

Finding: The District has made significant improvements in the management of its self insured programs. One of the findings reported in prior year audits related to the fact that two of the self insured programs; Property and Liability and Workers' Compensation, were under-funded. The District has developed a plan to recover these deficits over time. The District did eliminate the negative ending fund balance for Property and Liability and made progress on the Workers' Compensation fund. However, at the end of June 30, 2006 there is still a deficit reported in the Workers Comp sub-fund of (\$19,880,364).

In addition, there are still unresolved issues with the previous administrators in both the medical program and the workers' compensation program. The District had the Blue Shield claims process audited, however only limited procedures were performed on the audit of claims for the other administrators. This includes the tracking of stop loss payments made to the administrators that have not been accounted for.

It is our understanding that the Director of Risk Management is currently working on implementing spot checking controls of claims payments, but is in need of electronic data base files from some vendors and adequate staffing. This is one of the most crucial internal controls in this area.

The Board has approved additional staff positions however suitable candidates have not been located. Interviews occurred in September 2006.

Questioned Costs: Not Applicable

Recommendation: Continue to implement the recovery plan for the Districts self insured program to assure solvency of the programs. We believe it is critical that the District continue the efforts to obtain a thorough audit of the claims expenses and other expenses previously made. And finally, we believe that attention be given to the staffing needs of risk management to assure that there are adequate resources, both in number of staff and competency level to best protect and monitor these self insured programs.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-04 – SELF INSURANCE PROGRAMS
(continued)

60000

Original Findings 04-03 and 04-04

District Response: The District concurs with the audit recommendation. The District is continuing its efforts to complete audits of the previous benefits administrator and Workers' Compensation claims administrator.

The District continues to implement the recommendations made in 2003/04. At June 30, 2004, the Property and Liability Fund had a negative fund balance of (\$2,632,883). In 2004/05, the District implemented a three-year plan to eliminate the negative fund balance and assure the solvency of the Property and Liability Fund, which is a sub-fund of the Self-Insurance Fund. The fund balance was restored to a positive \$553,013 at June 30, 2006.

The Actuarial study conducted by Bay Actuarial Consultants (January 2005) for the District's Workers' Compensation Agency projected a liability of unpaid losses of (\$38,805,000) at June 30, 2004. In Fiscal Year 2004/05, this amount was accrued, thus causing a negative ending fund balance of (\$28,270,692). As of June 30, 2006 the negative ending balance has been reduced to (\$19,880,364).

In FY 2005/06, the District increased its contribution rate to 5% (of total payroll). The District will continue to monitor and adjust its contribution rate accordingly.

The District's Health, Vision and Dental Self-Insurance Fund had a positive fund balance of \$5,740,221 at June 30, 2006.

The combined ending fund balance of these three sub-funds was a negative (\$13,587,130) at June 30, 2006.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-05 – CAPITAL FACILITIES

60000

Finding: The District receives a percent of the collection of developer fees from the appropriate City governments. The District does not verify or do a periodic review of the cities to ensure that the developer fees submitted by the cities are the full and correct amount to be received. Controls should be implemented and reviewed for developer fees that are collected by cities and distributed to the District to ensure the full amount legally available to the District is intact.

Questioned Costs: Not Applicable

Recommendation: We recommend a periodic audit by the internal audit department be done to ensure that the District is receiving what they are entitled to and that the cities have controls in place for collection of fees. The District may also want to consider collecting their own fees to allow for greater control and more expedient collection of these fees.

District Response: The District agrees that it would be beneficial to perform periodic reviews of the City of Long Beach's developer fee process to ensure that fees submitted are the full and correct amounts. The District will investigate the possibility of collecting developer fees directly.

LONG BEACH UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS**

June 30, 2006

FINDING 06-06 – ANTI-FRAUD PROGRAM

60000

Finding: In accordance with our auditing standard (SAS 99) related to our consideration of fraud, we were required to assess the organizations anti-fraud program. The District has many processes and procedures in place however we believe that additional controls and policies would strengthen the District's programs and bring into alignment with the newly published recommendations issued by the American Institute of Certified Public Accountants. The following recommendations for improvements are the result of our analysis.

Recommendation:

- 1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a written document to promote ethical conduct throughout the District. This should be communicated to employees annually and included in training programs offered by the District.
- 2) Integrate ethics and fraud awareness into training programs for both certificated and classified employees. This will demonstrate the organization's commitment to a high standard of ethics and its vigilant posture regards to fraud awareness.
- 3) Conduct an analysis of the role internal audit has in developing and implementing the antifraud program. Items to consider include the emphasis and focus of internal audit, whether the staffing levels are appropriate, whether training programs are sufficient and whether the organizational structure provides a sufficient level of authority, independence and oversight.
- 4) Review and clarify the make up and role of the audit committee. We believe it may be appropriate to expand the audit committee to include additional members from sources independent of the District. We believe that increased objectivity and independence could be accomplished by having internal audit provide periodic reports to the audit committee.

District Response: The District has formed an Ethics Committee which will focus on the refinement and promotion of an organizational-wide code of ethics. The District concurs with the additional recommendations and will take them under consideration.

LONG BEACH UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS**

June 30, 2006

FINDING 06-07 – COUNTY SCHOOL FACILITIES FUND

60000

Finding: The District has transferred bond monies into the County School Facilities Fund to cover their state match and to pay for facilities projects. Some of these projects have not been approved for state funding. The District has a tracking system in place to properly account for these projects, which are approved bond projects; however, the funds are being expended from the County School Facilities Fund (Fund 35) instead of the Bond Building Fund. (Fund 21)

Recommendation: We recommend that only those projects that are state approved projects be accounted for in Fund 35. Bond monies that have been transferred into the County School Facilities Fund that are not for state approved projects, should be transferred back to the Bond Building Fund. At June 30, 2006 the District believes that approximately \$10,000,000 is in the County School Facilities Fund that will be transferred to the bond fund in 2006-07. It should be noted that there have not been state monies spent for unauthorized projects.

District Response: The District's policy since the inception of the bonds has been to account for each approved or potentially approved State funded project in the County School Facilities Fund (Fund 35) by contributing bond funds as the District match or for amounts necessary beyond the District match. Since there are now expenses for projects that will no longer be pursued as State-funded projects in Fund 35, the District concurs that amounts transferred into Fund 35 above the level of current expenses will be transferred to the Bond Building Fund (Fund 21).

For future projects or new bond issuances, the District will no longer transfer bond funds into the County School Facilities Fund, but will make payments from State apportionments received in the County School Facilities Fund and bond funds from the Bond Building Fund.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2006

FINDING 06-08 – REQUIRED ROUTINE MAINTENANCE **60000**

Finding: Per Education Code Section 17070.75, the District is required to deposit 3% of its total general fund expenditures budget, including other financing uses, to an account for routine repair and maintenance. The District has incorrectly calculated this amount by excluding from the total budget those expenditures budgeted for maintenance expenses. The District deposited \$19,449,224, which is short by \$787,065 when the calculation is done properly.

However, we believe that per the Education Code, the District may apply up to ½ percent of the budget towards the amount contributed to the Deferred Maintenance Fund. The District did not do so in 2005-06. The District uses local bond monies to fund the state required match and therefore, this expenditure does not appear in the general fund. We believe it is appropriate to use this match as part of meeting the RRM requirements, even though the amount was not expended from the general fund. Doing so, the District has exceeded the required RRM expenditures and therefore has met the current year RRM requirement.

Questioned Costs: Not Applicable

Recommendation: The District must correct its calculation of the RRM requirement for 2006-07 and should transfer the state match from the Bond Building Fund to the General Fund to assure that the accounting system properly reports the total RRM expenditures.

District Response: The District will apply the Deferred Maintenance Match contribution amount to the calculation of the Routine Restricted Maintenance (RRM) deposit for 2005/06 to meet the contribution requirement. Any carryover funds will remain in the Routine Restricted Maintenance resource for expenditure in future years. The 2006/07 contribution of \$21,224,360 exceeds the minimum requirement and therefore, no adjustment is necessary. However, the District will explore the possibility of applying the allowable ½ % of the 3% RRM contribution, instead of bond funds, towards the 2006/07 Deferred Maintenance Match contribution.

LONG BEACH UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2006

FINDING 06-09 – SCHOOLWIDE PROGRAM PLAN

50000

Original Finding 05-07

Program: Special Education

CFDA Number: 84.027, 84.173A and 84.181

Total Program Expenditures: \$15,082,101

Finding: 34 CFR Section 200.28(e) requires a school wide program in an elementary school to include plans for assisting preschool students in the successful transition from early childhood programs, such as Head Start, Even Start, Early Reading First, or a preschool program under IDEA or a State-run preschool program, to the schoolwide program. This topic was not specified in six of the ten elementary site plans reviewed during the audit. It is our understanding that the District did not know this element was mandatory.

Questions Costs: Not applicable

Recommendation: We recommend that the school wide plans be revised to include specific transition plans for pre-K students into the school wide program.

District Response: Both elementary principals and preschool providers have met to provide current conditions and a basic framework for all schools to follow and include in their School wide Effectiveness Plan for preschool transition. This will be articulated to both principals and program facilitators to use in their revised plans. The school will also include all additional transitional plans in their plan. All plans will be checked by Special Projects Services for completed preschool transition plans.

LONG BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2006

FINDING 06-10 – MULTI-FUNDED EMPLOYEES

50000

Federal Program: Adult Education
Federal Catalog No.: 84.002A
Total Program Expenditures: \$403,425

Finding: During our testing of federal programs, it was noted that two out of ten employees tested did not have the proper documentation to support the allocation of time and effort for multi-funded employees whose salaries are charged to one or more Federal programs. Salaries charged to a categorically funded program must have the proper documentation as required by OMB circular A-87. Categorical funding could be disallowed if adequate documentation is not maintained.

Questioned Costs: Approximately \$44,260 for the two employees.

Recommendation: The District should maintain an accurate and current listing of all employees that fall under this requirement and verify on a regular basis that the appropriate supporting documentation is obtained and maintained.

District Response: Specific plans have been developed and formulated to make certain that all employee job descriptions and activity schedules are correct for both direct and indirect services at the school site and central office level. These employees will complete hourly logs in both January and May of 2007. In subsequent years, the District plans to have employees complete these hourly logs three times a year. These logs will be checked against the noted job description/ activity schedule on file. If there are discrepancies we will adjust the funding source percentages.

**STATUS OF PRIOR YEAR
FINDINGS AND QUESTIONED COSTS**

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006**

FINDING 05-01 - FINANCIAL STABILITY

60000

Original Finding 04-01

Finding: Although the District did not experience deficit spending in 2004-05 and is not projected to deficit spend in 2005-06, the available reserve balance is below the State-recommended reserve level of 2%.

California continues to experience a severe economic downturn, and although some restoration of funds has been made, significant budget reductions for local educational agencies have continued. As a result, the District has made numerous budget reductions. However, even after reductions, we are concerned about the District's ability to meet upcoming financial obligations and restore reserves.

As mentioned in Note 16 (A) and (B), there are contingent liabilities that are currently not reflected in the financial statements. These contingent liabilities may put additional strain on the General Fund if payment is required. Additionally, the cost of health and welfare benefits currently offered by the District continues to increase. The trend schedule shows this cost as a larger percentage of total expenditures every year, which is illustrated by noting that benefits constituted 21.2% of total expenditures for the 2004-05 fiscal year; an increase from 19.7% in the 2003-04 fiscal year.

Questioned Costs: Not applicable

Recommendation: It is extremely important that the District closely examine their budget and the impact that declining enrollment, increased benefit costs, special education encroachments, future salary increases, self insurance program costs and other important factors may have on the future solvency of the District. We suggest that the benefit package be closely examined in relation to the ability to continue funding the current offerings of benefits. The District must also consider the impact that GASB 43 and 45 may have in relation to accounting for and setting aside monies to pay for retiree benefit costs. The plan should include increasing the reserve level to the State recommended level.

Current Status: Implemented.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2006**

FINDING 05-02 - SELF INSURANCE FUND

60000

Original Findings 04-03 and 04-04

Finding: The District has made significant improvements in the management of its self insured programs. One of the findings reported in last year's audit related to the fact that two of the self insured programs; Property and Liability and Workers Compensation, were under-funded. The District has developed a plan to recover these deficits over time. However, at the end of June 30, 2006 there is still a deficit of \$22,706,698 related to these self insured programs.

In addition, there are still unresolved issues with the previous administrators in both the medical program and the workers compensation program. The District has taken steps to audit the claims, but has encountered some difficulties in gaining access to the records. This includes the tracking of stop loss payments made to the administrators that have not been accounted for.

It is our understanding that the Director of Risk Management is currently working on implementing spot checking controls of claims payments, but is in need of electronic data base files from some vendors and adequate staffing. This is one of the most crucial internal controls in this area.

Questioned Costs: Not applicable

Recommendation: Continue to implement the recovery plan for the Districts self insured program to assure solvency of these programs. We believe it is critical that the District continue the efforts to obtain a thorough audit of the claims expenses and other expenses previously made. We also suggest that attention be given to the staffing needs of risk management to assure that there are adequate resources, both in number of staff and competency level to best protect and monitor these self insured programs.

Current Status: Significant progress has been made. See current year finding 06-04.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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FINDING 05-03 – REVENUE LIMIT

30000

Finding: There is not a quality control review process in place for the completion of the revenue limit calculation. The RL form was completed using the prior year amount for state unemployment insurance expenses and the original P-2 ADA amounts when a revised P-2 had been filed. This resulted in a net misstatement of \$16,000 as the errors were offsetting.

Questioned Costs: Not applicable

Recommendation: We recommend that a process be implemented to include a final review of the revenue limit calculation by District personnel who have the expertise to analyze the calculation as a whole. The District may consider the use of the internal audit department to ensure that the information used to prepare the revenue limit calculation is the most current.

Current Status: Implemented.

FINDING 05-04 - ROP ATTENDANCE

40000

Finding: The attendance records for the ROP program did not provide a clear audit trail for hours of attendance reported. For class section 620601 - Clerical/Office Occupations, we noted that the hours reported for student's work experience and class time often overlapped. For class section 822001 – Medical Assistant, we were unable to tie the detail report of student hours to the Student Hours By Course and Program Summary Report. Additionally, we were unable to determine if the attendance by cooperative vocational education students was properly limited to 15 hours per week as many of the timesheets did not indicate student classification.

Questioned Costs: Unable to determine at time of audit. The District is currently investigating to determine the amount needed for revision.

Recommendation: All detail reports for the school year should be reviewed to determine if the proper number of hours were claimed. Monthly attendance reports should be analyzed and reprinted and the Attendance Report should be revised to reflect the changes to ADA. We recommend the District develop a procedure to ensure the hours worked and hours of class attended can be properly combined and limited (when appropriate) for work experience attendance claimed. ROP site personnel other than the attendance clerk should review the monthly reports to ensure that the summary report matches the detail and the attendance claimed is appropriate.

Current Status: Implemented.

LONG BEACH UNIFIED SCHOOL DISTRICT

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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FINDING 05-05 - CAPITAL ASSETS PROCEDURES

20000

Original Finding 04-08

Finding: All equipment purchases over \$5,000 should be added to the fixed asset listing. While testing the additions in the current year, we noted two items that were not found on GFAMS. Upon investigation, we found that these items were delivered directly to the sites for installation and were not tagged by the warehouse. The effect is that the asset listing was understated by \$43,595.

Questioned Costs: Not applicable

Recommendation: We recommend that all items that qualify be added to GFAMS promptly, upon delivery to the District. Additionally procedures should be developed to ensure items delivered directly to sites are tagged through alternate procedures.

Current Status: Not implemented. See current year finding at 06-01.

FINDING 05-06 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000

Original Finding 04-09

Standardized system development methodology

Finding: The District has not implemented a standardized system development methodology that would document how the organization acquires, develops, documents and maintains software systems. The District has designed and developed significant systems to the financial reporting of the District. Developing software can allow more risk if the development and modifications are not well-controlled with formal procedures for systems analysis, documentation standards, modification controls, testing and resolving of conflicts and ongoing maintenance.

Questioned Costs: Not applicable

Recommendation: We recommend the processes should be formally documented. All staff members should be trained in these processes and procedures and internal audit should monitor compliance with the procedures annually.

LONG BEACH UNIFIED SCHOOL DISTRICT

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FINDING 05-06 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000

(continued)

Disaster Recovery Plan

Finding: A written disaster recovery plan helps to ensure that an organization can efficiently recover after a significant interruption of information systems services. A written plan should include recovery roles and responsibilities, emergency contacts, prioritization of systems and applications, recovery procedures and vendor contacts. Although the District has backup procedures, the District does not have a written comprehensive disaster recovery plan.

Questioned Costs: Not applicable

Recommendation: We recommend the District develop a formal comprehensive disaster recovery plan. The plan should be prepared and regularly updated. It should be tested at least annually and the results of these tests be reviewed by internal audit and presented to the Board. Any complications found and/or modifications should be resolved and their resolution documented.

Access and modification controls

Finding: In a controlled development environment, it is essential that production data and programs be protected from unauthorized manipulation and modification. We found that software developers have access to production systems.

Questioned Costs: Not applicable

Recommendation: Production areas are where the actual programs process the actual data and access to these areas should be severely limited. Only after testing is code moved to the production library. These changes must be well documented and someone not in the programming staff must perform the movement of programs to the production library.

LONG BEACH UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2006

FINDING 05-06 - INFORMATION SYSTEMS DEPARTMENT REVIEW 30000
(continued)

Access and modification controls

Finding: The information systems department does not have a standardized process for documenting changes to their various systems. Each development group documents and tracks changes to their system based on their own preferences and needs.

Questioned Costs: Not applicable

Recommendation: The change control process should be standardized for all systems in the department. This process should document the change request, its priority, subsequent disposition, testing results, sign off by the user and cross referencing to the changed programs. The change requests should be maintained in a department wide repository.

Current Status: In process. See current year finding at 06-02.

LONG BEACH UNIFIED SCHOOL DISTRICT
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FINDING 05-07 – SCHOOLWIDE PROGRAM PLAN

50000

Program: Title I
CFDA Number: 84.010
Total Program Expenditures: \$43,570,258

Finding: 34 CFR Section 200.28(e) requires a school wide program in an elementary school to include plans for assisting preschool students in the successful transition from early childhood programs, such as Head Start, Even Start, Early Reading First, or a preschool program under IDEA or a State-run preschool program, to the school wide program. This topic was not included in any of the seven elementary site plans reviewed during the audit. It is our understanding that the District did not know this element was mandatory.

Questions Costs: Not applicable

Recommendation: We recommend that the school wide plans be revised to include transition plans for pre-K students into the school wide program.

Current Status: Not implemented. See current year finding at 06-09.