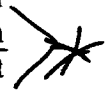


Board of Education  
Long Beach Unified School District

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*  
VICENTI, LLOYD & STUTZMAN LLP

October 6, 2006

**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

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  
Business Department  
1515 Hughes Way, Long Beach, CA 90810  
(562) 997-8189 \* Fax (562) 997-8284

August 18, 2004

Lance Tennison, President  
Superior Administrators, Inc.  
3720 S. Susan Street, Suite 200  
Santa Ana, CA 92704

Dear Lance:

Last Fall the district opened negotiations with its collective bargaining units on the subject of compensation (salaries and health plan coverages). We, like so many other large public entities, were facing double-digit increases in health plan costs while our revenues were declining relative to inflation. We were seeking creative solutions and that search lead us to your company.

Our initial decisions with you focused on what you had done in Torrance Unified by offering an alternative to Blue Shield – the CCN Network. You promised us a better value for both employer and employees.

We have arrived at the end of our fiscal year and the accounting data for health plan costs shows a staggering increase of \$12 million or 22%. This unexpected spike in spending has seriously depleted our General Fund Reserves to the point of jeopardizing our fund solvency.

This letter is intended to place your company on notice that we plan to initiate a full review/audit of our health plan design and FY2004 costs. We must soon formulate alternatives for FY2005 bargaining on the subject of "Health and Welfare Benefits." Your cooperation during this review is requested.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kim Stallings', written over a white background.

Kim Stallings  
Chief Business and Financial Officer