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Independent Auditors' Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), which collectively comprise the District's basic financial statements, as of and for the year ended June 30, 2007 and have issued our report thereon dated December 5, 2008. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the Proposition BB School Bond Construction Program of the District for the period from April 8, 1997 (inception) through June 30, 2007. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of bond expenditures, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the period from April 8, 1997 (inception) through June 30, 2007 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2007

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			
		April 8, 1997 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	Unexpended balance (unaudited)
New construction:					
New construction:					
Construction	\$ 252,301,451	222,368,067	23,135,719	245,503,786	6,797,665
Tests	3,399,824	2,538,623	—	2,538,623	861,201
Inspection	6,326,457	4,082,529	140,942	4,223,471	2,102,986
Sites	429,979,718	418,374,527	4,755,203	423,129,730	6,849,988
Plans	92,288,532	80,058,163	3,874,732	83,932,895	8,355,637
Nonreimbursable cost	907,123	852,784	—	852,784	54,339
Project related salaries -- new facilities	1,840,611	1,840,611	—	1,840,611	—
Total new construction	787,043,716	730,115,304	31,906,596	762,021,900	25,021,816
Class size reduction:					
Portables	884,610	257,598	15,601	273,199	611,411
Portables -- growth	17,840,773	13,873,481	3,542,258	17,415,739	425,034
New schools/centers	19,343,618	15,468,491	1,563,185	17,031,676	2,311,942
Total class size reduction	38,069,001	29,599,570	5,121,044	34,720,614	3,348,387
Total new construction	825,112,717	759,714,874	37,027,640	796,742,514	28,370,203
Existing facilities:					
Repairs/school contracts/health and safety					
Air conditioning	220,814,949	214,406,390	1,117,719	215,524,109	5,290,840
Bleachers	14,840,769	13,850,230	444,624	14,294,854	545,915
Safety and technology	317,163,608	283,164,264	12,629,299	295,793,563	21,370,045
Lockers	5,816,612	5,334,728	482	5,335,210	481,402
Lunch shelters	16,943,354	16,299,292	97,599	16,396,891	546,463
Security grills	26,157,561	23,755,259	138,119	23,893,378	2,264,183
Ventilation replacement	11,341,426	10,815,451	—	10,815,451	525,975
Auditorium renovations	7,388,404	6,812,476	122,658	6,935,134	453,270
Lighting	5,828,048	5,499,298	—	5,499,298	328,750
Paving	131,939,524	125,512,286	674,443	126,186,729	5,752,795
Electrical	14,619,303	9,697,912	180,743	9,878,655	4,740,648
Paint	47,167,258	45,805,817	7,186	45,813,003	1,354,255
Wall systems	14,003,581	13,418,047	17,359	13,435,406	568,175
Floor covering	33,594,038	31,461,227	259,824	31,721,051	1,872,987
Locks	789,396	785,712	—	785,712	3,684
Plumbing	67,354,799	64,587,564	340,465	64,928,029	2,426,770
Roofing	6,637,399	6,169,976	—	6,169,976	467,423
Gutters, etc.	27,474,801	25,526,899	90,977	25,617,876	1,856,925
Total repairs and contracts/health and safety	969,874,830	902,902,828	16,121,497	919,024,325	50,850,505
Modernization:					
Nonreimbursable cost	66,209	66,209	—	66,209	—
Construction	54,462,624	41,348,099	2,558,964	43,907,063	10,555,561
Test	634,609	534,707	—	534,707	99,902
Inspections	1,891,042	1,889,802	—	1,889,802	1,240
Plans	3,895,467	3,523,589	—	3,523,589	371,878
Total modernization	60,949,951	47,362,406	2,558,964	49,921,370	11,028,581
Class size reduction:					
Portables	20,824,396	20,017,224	46,732	20,063,956	760,440
Portables -- growth	53,239,479	37,357,933	1,044,456	38,402,389	14,837,090
Renovation (A & I)	1,500,000	540,367	—	540,367	959,633
Opening of closed schools	7,347,781	7,331,654	103	7,331,757	16,024
Total class size reduction	82,911,656	65,247,178	1,091,291	66,338,469	16,573,187

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2007

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			Unexpended balance (Unaudited)
		April 8, 1997 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	
Other costs:					
School determined needs	\$ 8,636,161	7,389,016	174,821	7,563,837	1,072,324
Board area match program	14,132,216	10,176,496	1,372,287	11,548,783	2,583,433
Program/project manager's fees	331,406,252	288,659,496	13,762,079	302,421,575	28,984,677
Hazard mitigation	2,078,862	1,996,696	—	1,996,696	82,166
Cost of issuance	1,136,865	1,136,865	—	1,136,865	—
Reprographic and other costs	4,055,054	3,511,520	175,903	3,687,423	367,631
Bonds bundling effort	5,692,941	3,135,903	1,064,747	4,200,650	1,492,291
Project-related salaries	20,699,702	19,334,306	725,369	20,059,675	640,027
Office of Inspector General contractors audit	3,759,052	1,594,799	1,415,369	3,010,168	748,884
Asbestos/lead consultants	5,002,078	4,947,134	—	4,947,134	54,944
Prepay 1996 Certificates of Participation	15,344,829	15,344,829	—	15,344,829	—
Cost of insurance	43,098,112	42,573,778	69,471	42,643,249	454,863
Contingency	3,963,994	—	—	—	3,963,994
Total other costs	459,006,118	399,800,838	18,760,046	418,560,884	40,445,234
Total existing facilities	1,572,742,555	1,415,313,250	38,531,798	1,453,845,048	118,897,507
Others:					
Accruals	—	9,639,431	(2,172,240)	7,467,191	(7,467,191)
Employee benefits	2,282,051	3,123,574	(7,182)	3,116,392	(834,341)
Interest/local income expended	166,245,160	147,098,683	19,146,477	166,245,160	—
Prior year accumulated expenditures transfer	(3,146,250)	(4,290,384)	2,174,878	(2,115,506)	(1,030,744)
Interfund transfer from BB to BLDG Fund	8,925	—	8,925	8,925	—
Arbitrage rebate	—	—	1,311,418	1,311,418	(1,311,418)
Total others	165,389,886	155,571,304	20,462,276	176,033,580	(10,643,694)
Total proposition BB bond expenditures	\$ 2,563,245,158	2,330,599,428	96,021,714	2,426,621,142	* 136,624,016

See accompanying notes to statement of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2007

(1) Proposition BB School Bond Construction Program Background

Proposition BB Initiative (Proposition BB) authorized the Los Angeles Unified School District (District) to issue \$2.4 billion in general obligation bonds. Bond proceeds are to be utilized for projects such as the repair of safety hazards, asbestos removal, installation of air-conditioning, making classrooms accessible to the disabled, upgrading security, and the construction of new classrooms. Proposition BB specifically states that no bond proceeds are to be used for administrator salaries.

The Proposition BB School Bond Construction Program (Program) is intended to provide needed health and safety improvements to more than 800 deteriorating schools and 15,000 buildings and to match state funds for new construction and modernization projects. The District Board of Education has established a Citizen's Oversight Committee to ensure that the proceeds of the Proposition BB School Bond Construction Program issues are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

All projects are managed by District-approved project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District's master schedule and the master project budget.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from April 8, 1997 (inception) through June 30, 2006 and FY 2006-07 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

(b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from April 8, 1997 (inception) through June 30, 2007. The negative bond expenditures for the year ended June 30, 2007 represent expenditures initially funded by Proposition BB in previous years, but subsequently funded through other financing sources in the current year.

(c) Unexpended Balance (Unaudited)

The amounts included within the unexpended balances (unaudited) column in the accompanying statement of bond expenditures represent the difference between the adjusted budget (unaudited) column and the total bond expenditures through June 30, 2007 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2007

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2007:

Actual:

Bonds issued – April 8, 1997 (inception) through June 30, 2007	\$ 2,400,000,000
Total bonds issued as of June 30, 2007	2,400,000,000
Interest – earned FY 1997-06	147,005,626
Interest – earned FY 2006-07	<u>17,993,418</u>
Total interest earned as of June 30, 2007	164,999,044
Local income FY 2001-02	93,057
Interfund transfer – other fund sources FY 2006-07	<u>1,153,059</u>
Total other fund sources as of June 30, 2007	<u>1,246,116</u>
Total sources of funds as of June 30, 2007	2,566,245,160
Less bond expenditures from inception through June 30, 2007	<u>(2,426,621,144)</u>
Fund balance before reserves as of June 30, 2007	139,624,016
Less reserves – Relocation Revolving Fund	<u>(3,000,000)</u>
Fund balance as of June 30, 2007	\$ <u><u>136,624,016</u></u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2007

(4) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2007:

Actual:

Bonds issued	\$ 2,400,000,000
Interest – actual from 1997 (inception) to 2005	136,353,809
Interest – actual FY 2005-06	10,651,817
Interest – actual FY 2006-07	17,993,418
Local Income FY 2001-02	93,057
Interfund transfer – other fund sources FY 2006-07	<u>1,153,057</u>
Total bonds issued + interests/Loc Inc OFS as of FY 07	2,566,245,158
Less expenditures/project costs from inception through the year ended June 30, 2007	<u>(2,426,621,142)</u>
Available fund balance before reserves as of June 30, 2007	139,624,016
Less reserves – OCIP	<u>(3,000,000)</u>
Available fund balance as of June 30, 2007	\$ <u><u>136,624,016</u></u>