SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

Independent Auditor's 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, 2010 and have issued our report thereon dated December 14, 2010. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the **Measure K School Bond Construction Program** of the District for the period from July 1, 2007 to June 30, 2010. 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. The expenditures incurred included in the statement of bond expenditures from November 5, 2002 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

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 the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure K School Bond Construction Program of the Los Angeles Unified School District for the period from November 5, 2002 (inception) to June 30, 2010, in conformity with U.S. generally accepted accounting principles.

Simpson & Simpson

March 10, 2011

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from November 5, 2002 (Inception) through June 30, 2010

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred: November 5, 2002 (Inception) through June 30, 2009	Actual Expenditures Incurred: Expenditures Year Ended June 30, 2010	Actual Expenditures Incurred: Total Expenditures through June 30, 2010	Unexpended Balance (Unaudited)
New Construction	$2,562,810,419	$2,266,314,002	$ 116,088,089	$2,382,402,091	$ 180,408,328
School Modernization / Repairs	628,713,251	453,856,732	50,862,916	504,719,648	123,993,603
Early Childhood Education	70,577,124	34,817,172	24,356,090	59,173,262	11,403,862
Information Technology Division	90,422,875	87,441,355	2,918,996	90,360,351	62,524
Library Services	38,000,000	27,886,405	758,353	28,644,758	9,355,242
Charters	50,000,000	18,996,318	4,919,651	23,915,969	26,084,031
Joint Use	10,000,000	5,558,775	2,015,614	7,574,389	2,425,611
Office of Inspector General	11,250,000	10,972,099	217,672	11,189,771	60,229
Others:					
Employee Benefits	3,648,226	3,494,237	153,989	3,648,226	-
Prior Year Adjustments	324,551,897	310,608,505	13,943,392	324,551,897	-
Cost of Issuance	5,658,218	5,482,312	175,906	5,658,218	-
Total Others	333,858,341	319,585,054	14,273,287	333,858,341	-
Total Measure K Expenditures	**$3,795,632,010**	**$3,225,427,912**	**$ 216,410,668**	**$3,441,838,580**	**$ 353,793,430**

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Statement of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2010

(1) Measure K School Bond Construction Program Background

The Measure K School Bond Construction Program (Program) is intended to provide the Los Angeles Unified School District (District) funding for continued improvements to schools and to build new neighborhood schools that will provide an additional 112,000 new seats for children. Additionally, the Program has set funds aside for improving the neighboring communities by enhancing recreational activities and providing after-school space by constructing new schools new parks and libraries.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure K on the 2002 ballot. The Measure K School Bond initiative authorized the issuance of $3.35 billion in bonds. $3.35 billion has since been issued between February 2003 and June 2010. The proceeds from the Measure K School Bonds are to be used for projects such as repairing leaky roofs, connecting classrooms to intranets and the internet, equipping libraries at new schools with the initial stock of new books, and construction of new schools and early education centers. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries, or for operating expenses.

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 November 5, 2002 (inception) through June 30, 2009 and FY 2009-10 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 column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 5, 2002 (inception) through June 30, 2010.

c) ***Actual Expenditures Incurred***

The amounts included within the actual expenditures incurred column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 5, 2002 (inception) through June 30, 2010.

d) ***Unexpended Balances (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, 2010 column.

e) ***Cost Category***

The major cost categories in the statement of bond expenditures for Measure K represent bond programs funded by the bond. The cost category "Others" refer to all expenditures that have been recorded without adequate indicators to allow their proper classifications into the three major cost categories.

Employee benefits, as an example, are pension benefits incurred by the District and proportionally allocated to the bond fund for the portion incurred by the bond fund based on the number of employees assigned to the bond fund. There is no cost-effective basis to allocate these expenses at the program level.

f) ***Prior Year Adjustments***

The District's Capital Improvement Program is financed with 15 capital fund sources. The accompanying statement of bond expenditures for Measure K represents expenditures for a single source of funds within the Program's overall funding strategy. Due to the timing of revenue streams for the various funding sources, project expenditures may be financed with eligible funding sources with adequate cash balances, such as Measure K, until the revenues for the project's other fund sources are realized. Upon recognition of the project's full funding strategy, expenditures are subsequently transferred to appropriate funding sources for cost accounting requirements. For expenditures recorded in prior fiscal years, expenditure transfers between funds are converted to prior year adjustments and interfund transfers in compliance with financial accounting requirements.

Accruals are included in prior year adjustments. Accruals represent expenditures incurred but have not been paid at the end of the fiscal year; therefore, have not been classified into the categories they belong under. In the following fiscal year when they are paid, the actual expenditures are recorded in the appropriate cost category while the transaction to reverse the corresponding accrual amount as well as the clearing of accruals at the end of the fiscal year are recorded in the prior year adjustments cost category.

a) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2010 presentation.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2010 (Unaudited)

The following is a summary of the sources of funds and uses of funds for the Program from November 5, 2002 (inception) through June 30, 2010:

Actual:	
Bonds Issued - FY 2002-03 through FY 2008-09	$ 3,000,000,000
Bonds Issued - FY 2009-10 (final issuance)	350,000,000
Interest Income - FY 2002-03 through FY 2008-09	122,713,369
Interest Income - FY 2009-10	4,635,423
Interfund Transfer In - Other Financing Sources FY 2006-07 through FY 2008-09	296,385,585
Interfund Transfer In - Other Financing Sources FY 2009-10	17,526,945
Audit Adjustments - Bond Premium, net of Cost of Issuance FY 2006-07	5,482,312
Total Bonds Issued, Interest and OFS as of June 30, 2010	$ 3,796,743,634
Less: Adjustment - Cost of Issuance/Underwriter's Discount FY 2008-09	(1,111,624)
Total Sources of Funds as of June 30, 2010	3,795,632,010
Less: Uses of Funds (Expenditures) from Inception through June 30, 2010	(3,441,838,580)
Available Fund Balance as of June 30, 2010	**$ 353,793,430**