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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 Measure R School Bond Construction Program of the District for the period from March 2, 2004 (inception) to 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 the 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 Measure R School Bond Construction Program of the Los Angeles Unified School District for the period from March 2, 2004 (inception) to June 30, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures

Period from March 2, 2004 (inception) through June 30, 2007

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			Unexpended balance (unaudited)
		March 2, 2004 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	
New construction:					
New schools most impact campuses	\$ 486,350,704	61,716,612	103,604,138	165,320,750	321,029,954
Full-day kindergarten	47,426,895	12,546,087	12,345,113	24,891,200	22,535,695
Furnitures, equipment, fixtures	45,725,473	12,744,079	8,952,171	21,696,250	24,029,223
Interest expended	38,616,033	73,144	2,985,897	3,059,041	35,556,992
Environment safety	85,800	—	—	—	85,800
Total new construction	618,204,905	87,079,922	127,887,319	214,967,241	403,237,664
Existing facilities:					
A/C heating	180,080,816	51,328,875	40,736,298	92,065,173	88,015,643
Asbestos hazardous removal	44,237,796	9,536,191	4,711,034	14,247,225	29,990,571
Basic repairs	108,389,312	52,823,961	23,631,551	76,455,512	31,933,800
New major repairs	108,800,592	4,822,528	7,461,930	12,284,458	96,516,134
Previous plan projects	219,678,592	88,256,758	50,458,099	138,714,857	80,963,735
Repair upgrade	266,916,776	136,535,419	6,945,994	143,481,413	123,435,363
Safety and technology upgrade	276,603,520	139,803,379	31,390,550	171,193,929	105,409,591
Upgrade school buildings	20,410,259	4,414,261	2,645,704	7,059,965	13,350,294
Support costs – existing	180,518,408	—	69,729,946	69,729,946	110,788,462
Small schools (upgrade redesign campuses)	11,953,972	686,929	6,499,548	7,186,477	4,767,495
Total existing facilities	1,417,590,043	488,208,301	244,210,654	732,418,955	685,171,088
Adult education	25,000,000	3,402,344	11,021,381	14,423,725	10,576,275
Early childhood education	50,000,990	7,899,427	1,882,374	9,781,801	40,219,189
Information technology division	140,630,253	2,686,873	12,480,846	15,167,719	125,462,534
Charters	20,000,000	1,241,188	5,481,473	6,722,661	13,277,339
Joint use	20,000,000	—	13,507	13,507	19,986,493
Others:					
Accruals	—	31,570,694	(5,934,049)	25,636,645	(25,636,645)
Election costs	2,719,535	2,719,535	—	2,719,535	—
Refinance Certificates of Participation	150,000,000	149,994,712	—	149,994,712	5,288
Employee benefits	1,500,964	837,119	647,861	1,484,980	15,984
Cost of issuance	8,389,764	6,152,333	2,237,431	8,389,764	—
Prior year accumulated expenditure transfer	995,871	—	14,843,694	14,843,694	(13,847,823)
Internal fund transfer from Measure R to other funds	3,039,168	—	3,039,168	3,039,168	—
Unimplemented budget adjustment	(899,331,804)	—	—	—	(899,331,804)
Total others	(732,686,502)	191,274,393	14,834,105	206,108,498	(938,795,000)
Total measure R bond expenditures	\$ 1,558,739,689	781,792,448	417,811,659	1,199,604,107	359,135,582

See accompanying notes to statement of bond expenditures.



**LOS ANGELES UNIFIED SCHOOL DISTRICT  
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from March 2, 2004 (inception) to June 30, 2007

**(1) Measure R School Bond Construction Program Background**

The Measure R School Bond Construction Program (Program) or “the Safe and Healthy Neighborhood Schools Improvement Act of 2004” is intended to provide the Los Angeles Unified School District (District) funding for continued improvement to schools and to provide an additional 163,233 new seats for children and to build approximately 50 new neighborhood schools.

The Board of Education has established a School Construction Bond Citizens’ Oversight Committee to ensure that the proceeds of the Measure R School Bond issues are used for the purposes stated in the resolution, which placed Measure R on the 2004 ballot. The Measure R School Bond initiative authorized the issuance of \$3.87 billion in bonds. \$1.5 Billion has since been issued between March 2004 and June 2007. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. 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 or 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 March 2, 2004 (inception) through June 30, 2006 and FY 2006-07 budget authority requested from the Board of Education for the 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 costs incurred column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the Los Angeles Unified School District for the period from March 2, 2004 (inception) through June 30, 2007.

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from March 2, 2004 (inception) to June 30, 2007

**(c) Unexpended Balance (Unaudited)**

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

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

The following is a summary of the sources of funds and uses of funds for the Program from March 2, 2004 (inception) through June 30, 2007:

Actual:

Bond issued – FY 2004-06	\$ 1,108,845,146
Bond issued – FY 2006-07	<u>400,000,000</u>
Total bonds issued as of June 30, 2007	1,508,845,146
Interest issued – earned FY 2004-06	15,414,340
Interest issued – earned FY 2006-07	<u>23,201,692</u>
Total interest earned as of June 30, 2007	38,616,032
Local income – FY 2006-07	6,420,198
Interfund transfer – other fund sources FY 2004-05	58,720
Interfund transfer – other fund sources FY 2006-07	2,562,162
Other financing sources – bond premium	<u>2,237,431</u>
Total other fund sources as of June 30, 2007	11,278,511
Total sources of funds as of June 30, 2007	1,558,739,689
Less bond expenditures from inception through June 30, 2007	<u>(1,199,604,107)</u>
Fund balance as of June 30, 2007	<u><u>\$ 359,135,582</u></u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from March 2, 2004 (inception) to 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 September 1, 2004 (inception) through June 30, 2007:

Bond issued – FY 2004-05	\$ 204,124,117
Bond issued – FY 2005-06	904,721,029
Bond issued – FY 2006-07	400,000,000
Interfund transfer in from CS-COPS trust – FY 2004-05	58,720
Interest issued – actual FY 2004-05	17,510
Interest issued – actual FY 2005-06	15,396,830
Interest issued – actual FY 2006-07	23,201,692
Income – actual FY 2006-07	6,420,198
IFT – other fund sources FY 2006-07	2,562,162
Other financing sources – bond premium	<u>2,237,431</u>
Total bonds issued + interest and income/IFT as of June 30, 2007	1,558,739,689
Less expenditures/project costs from inception to June 30, 2007	<u>(1,199,604,107)</u>
Available fund balance as of June 30, 2007	<u>\$ 359,135,582</u>