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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, 2009 and have issued our report thereon dated February 19, 2010. 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 July 1, 2007 to June 30, 2009. 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 March 2, 2004 (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 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, 2009, in conformity with U.S. generally accepted accounting principles.

April 13, 2010

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from March 2, 2004 (Inception) through June 30, 2009

COST CATEGORY	Adjusted Budget (Unaudited)	Actual Expenditures Incurred		Total Expenditure through June 30, 2009	Unexpended Balance (Unaudited)
		March 2, 2004 (Inception) through June 30, 2008	Expenditure Year Ended June 30, 2009		
New Construction:					
New Schools Most Impact Campuses	\$ 1,609,527,213	\$ 519,596,715	\$ 322,676,183	\$ 842,272,898	\$ 767,254,315
Full- Day Kindergarten	33,976,642	29,025,789	665,564	29,691,353	4,285,289
Furnitures, Equipment, Fixtures	46,999,173	27,675,066	5,507,413	33,182,479	13,816,694
Interest Expended	85,202,981	6,182,208	4,515,746	10,697,954	74,505,027
Environment Safety	12,580,041	2,823,327	2,299,827	5,123,154	7,456,887
Total New Construction	1,788,286,050	585,303,105	335,664,733	920,967,838	867,318,212
Existing Facilities:					
Airconditioning & Heating	143,655,122	119,205,273	(4,505,409)	114,699,864	28,955,258
Asbestos Hazardous Removal	41,674,500	22,346,172	1,719,068	24,065,240	17,609,260
Basic Repairs	89,578,697	82,246,943	(200,169)	82,046,774	7,531,923
New Major Repairs	294,488,652	60,330,640	95,564,861	155,895,501	138,593,151
Previous Plan Projects	188,287,030	159,510,823	7,414,124	166,924,947	21,362,083
Repair Upgrade	291,178,941	154,909,297	18,247,077	173,156,374	118,022,567
Safety & Technology Upgrade	189,013,902	176,966,602	(36,977,261)	139,989,341	49,024,561
Upgrade School Buildings	20,457,059	10,089,122	315,551	10,404,673	10,052,386
Support Costs	230,337,058	128,241,173	50,745,982	178,987,155	51,349,903
Small Schools (Upgrade/redesign campuses)	74,329,041	13,194,143	20,364,057	33,558,200	40,770,841
Total Existing Facilities	1,563,000,002	927,040,188	152,687,881	1,079,728,069	483,271,933
Adult Education	25,000,000	17,751,052	(3,191,375)	14,559,677	10,440,323
Early Childhood Education	50,000,000	12,910,568	16,929,356	29,839,924	20,160,076
Information Technology Division	179,855,870	37,225,616	12,235,579	49,461,195	130,394,675
Charters	20,000,000	9,498,726	1,608,370	11,107,096	8,892,904
Joint Use	20,000,000	3,146,441	2,205,848	5,352,289	14,647,711
Others:					
Accruals	-	37,367,935	(1,007,152)	36,360,783	(36,360,783)
Election Costs	2,719,535	2,719,535	-	2,719,535	-
Refinance COPS	150,000,000	149,994,712	-	149,994,712	5,288
Employee Benefits	2,765,211	2,105,658	659,553	2,765,211	-
Cost of Issuance	8,389,764	8,389,764	-	8,389,764	-
Prior Year Adjustment Expenditure Transfer	79,914,848	(9,181,659)	87,616,973	78,435,314	1,479,534
Interfund Transfer from Measure R to Other Funds	132,601,979	56,549,052	4,895,594	61,444,646	71,157,333
Unimplemented Budget Adjustment	(1,217,373,668)	-	-	-	(1,217,373,668)
Audit	6,780,000	1,903,921	3,045,016	4,948,937	1,831,063
Library Books	14,500,000	-	2,596,952	2,596,952	11,903,048
Total Others	(819,702,331)	249,848,918	97,806,936	347,655,854	(1,167,358,185)
Total Measure R Bond Expenditures	\$ 2,826,439,591	\$ 1,842,724,614	\$ 615,947,328	\$ 2,458,671,942	\$ 367,767,649

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, 2009

(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 Program's bond issuances 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. \$2.6 Billion has since been issued between March 2004 and June 2009. 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, 2008 and FY 2008-09 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.

**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, 2009

(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, 2009.

(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, 2009 column.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2009 (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, 2009:

Actual:

Bond Issued from Inception through June 30, 2008	2,050,000,000
Bond Issued - FY 2008-09	550,000,000
Interest Issued - Actual from Inception through June 30, 2008	67,765,216
Interest Issued - Actual FY 2008-09	7,379,346
Income - Actual from Inception through June 30, 2008	10,058,418
Interfund Transfer-Other Fund Sources FY 2005-07	2,620,882
Interfund Transfer-Other Fund Sources FY 2007-08	36,734,638
Interfund Transfer-Other Fund Sources FY 2008-09	93,246,459
Other Financing Sources - Bond Premium FY 2006-09	<u>11,082,578</u>
Total Bonds Issued, Interest and Income/IFT as of June 30, 2009	2,828,887,537
Less: Expenditures from Inception through June 30, 2009	(2,458,671,942)
Less: Cost of Issuance/Underwriter's Discount FY09	<u>(2,447,946)</u>
Available Fund Balance as of June 30, 2009	<u><u>367,767,649</u></u>