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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 Y School Bond Construction Program** of the District for the period from July 1, 2007 to June 30, 2009. Such statement of project 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 8, 2005 (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 Y School Bond Construction Program of the Los Angeles Unified School District for the period from November 8, 2005 (inception) to June 30, 2009 in conformity with U.S. generally accepted accounting principles.

April 13, 2010

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from November 8, 2005 (Inception) through June 30, 2009

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred		Total Expenditure through June 30, 2009	Unexpended Balance (Unaudited)
		November 8, 2005 (Inception) through June 30, 2008	Expenditure Year Ended June 30, 2009		
New Construction:					
School Construction	\$ 253,255,119	\$ 11,088,616	\$ 201,448,405	\$ 212,537,021	\$ 40,718,098
Labor Compliance Penalties	600,000	-	-	-	600,000
Total New Construction	253,855,119	11,088,616	201,448,405	212,537,021	41,318,098
Existing Facilities:					
Major Repairs	51,480,800	5,462,660	7,619,531	13,082,191	38,398,609
Basic Repairs	4,747,178	1,594,069	(40,264)	1,553,805	3,193,373
Install And Upgrade Fire Alarm Systems	47,974,999	4,644,923	12,211,706	16,856,629	31,118,370
Program Support	120,109,800	71,698,040	22,785,939	94,483,979	25,625,821
Airconditioning & Heating	37,482,154	-	-	-	37,482,154
Upgrade Deficient School Buildings	42,951,199	1,429,089	13,692,510	15,121,599	27,829,600
Asbestos Hazard Removal	55,620,001	6,943,797	9,811,969	16,755,766	38,864,235
Alterations And Improvement	52,479,999	3,686,756	7,581,390	11,268,146	41,211,853
Bond Support Costs	26,200,000	1,716,033	6,009,115	7,725,148	18,474,852
Small Learning Community	43,399,111	625,493	8,757,896	9,383,389	34,015,722
Labor Compliance Penalties	800,000	-	-	-	800,000
Total Existing Facilities	483,245,241	97,800,860	88,429,792	186,230,652	297,014,589
Achievement Gap	10,000,000	3,223,233	1,978,012	5,201,245	4,798,755
Adult Education	50,000,000	506,874	9,092,036	9,598,910	40,401,090
Early Childhood Education	60,000,000	325,988	13,306,541	13,632,529	46,367,471
Information Technology Division	125,000,000	2,386,446	1,198,282	3,584,728	121,415,272
Innovation	34,000,000	12,184,967	4,218,414	16,403,381	17,596,619
Joint Use	25,000,000	-	2,221,179	2,221,179	22,778,821
Charter	6,000,000	-	276,266	276,266	5,723,734
Others:					
Accruals	-	15,128,697	12,234,681	27,363,378	(27,363,378)
Employee Benefits	582,813	124,207	458,606	582,813	-
Interest - New Construction	35,419,216	-	-	-	35,419,216
Prior Year Adjustments- Expenditures Transfer	(4,305,343)	963,282	(5,268,625)	(4,305,343)	-
Interfund Transfer to General Fund for Deferred Maintenance	120,000,000	90,000,000	30,000,000	120,000,000	-
Cost of Issuance	6,617,878	6,671,876	-	6,671,876	(53,998)
Interfund Transfer to Capital Service Fund (071)	178,617,579	178,617,579	-	178,617,579	-
Interfund Transfer from Measure Y to Other Funds	20,775,362	13,097,536	7,558,167	20,655,703	119,659
Unimplemented Budget Adjustment	(509,762,420)	-	4,723,623	4,723,623	(514,486,043)
Total Others	(152,054,915)	304,603,177	49,706,452	354,309,629	(506,364,544)
Total Measure Y Bond Expenditures	\$ 895,045,445	\$ 432,120,161	\$ 371,875,379	\$ 803,995,540	\$ 91,049,905

See accompanying notes to statement of bond expenditures.

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

Notes to Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2009

(1) Measure Y School Bond Construction Program Background

The Measure Y School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2005" is intended to provide the Los Angeles Unified School District (District) funding to continue the repair and modernization of existing schools, replace bungalows with permanent classrooms, abate asbestos hazards, upgrade fire and safety systems, expand early education facilities, and provide sufficient core facilities at hundreds of 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 Y on the 2005 ballot. The Measure Y School Bond initiative authorized the issuance of \$3.985 billion in bonds. \$0.844 billion has since been issued between November 2005 and June 2009. The proceeds from the Measure Y School Bonds are to be used for projects such as the following: build neighborhood schools; bungalow repair and removal; upgrade and redesign campuses to create smaller schools; install and upgrade fire alarm systems; undertake complete asbestos hazard removal program; air condition remaining non-air-conditioned buildings; perform school alterations and improvements; upgrade and reinforce computer networks, school information systems, and technology capability; upgrade emergency radio systems; build new and repair existing early education centers in neediest areas; promote alternative education models like joint use and small learning communities; build, plan, and equip charter schools; replace all special education buses; give low performing schools added resources to improve results; audit and oversight of bond projects; and open new schools with sufficient number of library books. 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 District 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.

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

Notes to Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2009

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year budgeted expenditures from November 8, 2005 (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.

(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 8, 2005 (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 represent the difference between the adjusted budget (unaudited) column and the total bond 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 November 8, 2005 (inception) to June 30, 2009:

Actual:

Bonds Issued from Inception through June 30, 2008	\$ 694,385,000
Bonds Issued - FY 2008-09	150,000,000
OFS All Other Sources-Actual FY 2005-09	6,614,884
Interest - Actual from Inception through June 30, 2008	27,512,310
Interest - Actual FY 2008-09	6,684,636
Interfund Transfer-Other Fund Sources FY 2005-07	1,457
Interfund Transfer-Other Fund Sources FY 2007-08	8,908,714
Interfund Transfer-Other Fund Sources FY 2008-09	383,670
Local Income-Actual FY 2006-07	326,257
Local Income-Actual FY 2007-08	369,445
Local Income-Actual FY 2008-09	526,568
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Total Bonds Issued and Interest/OFS as of June 30, 2009	\$ 895,712,941
Less: Expenditures from Inception through June 30, 2009	(803,995,540)
Less: Cost of Issuance/Underwriter's Discount FY09	(667,496)
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Available Fund Balance as of June 30, 2009	<u>\$ 91,049,905</u>