



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2011 and have issued our report thereon dated December 14, 2011. 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, 2011. 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, 2011 in conformity with U.S. generally accepted accounting principles.

January 12, 2012

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM  
Statement of Bond Expenditures  
Period from November 8, 2005 (inception) to June 30, 2011**

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 8, 2005 (Inception) through June 30, 2010	Expenditure Year Ended June 30, 2011	Total Expenditure through June 30, 2011	
New Construction	\$ 2,222,487,618	\$ 638,602,050	\$ 322,945,571	\$ 961,547,621	\$ 1,260,939,997
School Modernization / Repairs	718,796,488	380,113,254	70,403,874	450,517,128	268,279,360
Achievement Gap	10,000,000	6,805,048	1,905,089	8,710,137	1,289,863
Adult Education	50,000,000	15,253,889	6,772,199	22,026,088	27,973,912
Early Childhood Education	60,000,000	25,306,579	11,988,275	37,294,854	22,705,146
Information Technology Division	125,000,000	10,468,671	16,498,090	26,966,761	98,033,239
Joint Use and Innovation	90,000,000	29,465,123	13,854,908	43,320,031	46,679,969
Charter	50,000,000	16,161,680	6,176,438	22,338,118	27,661,882
Transportation (Buses)	25,000,000	20,850,095	-	20,850,095	4,149,905
Office of Inspector General	10,000,000	-	2,098,139	2,098,139	7,901,861
Others:					
Employee Benefits	1,459,050	1,192,509	266,541	1,459,050	-
Prior Year Adjustments *	316,329,967	42,353,844	273,976,123	316,329,967	-
COPs Defeasance	190,849,074	188,402,775	2,446,299	190,849,074	-
Cost of Issuance	8,182,550	8,182,550	-	8,182,550	-
Total Others	516,820,641	240,131,678	276,688,963	516,820,641	-
<b>Total Measure Y Bond Expenditures</b>	<b>\$ 3,878,104,747</b>	<b>\$ 1,383,158,067</b>	<b>\$ 729,331,546</b>	<b>\$ 2,112,489,613</b>	<b>\$ 1,765,615,134</b>

See accompanying notes to statement of bond expenditures.

\* Actual expenditures from inception to June 30, 2010 were restated to reflect discounts received from vendors in FY 10-11 that pertain to expenditures in the prior fiscal years.

**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, 2011

**(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. \$3.54 billion has since been issued between November 2005 and June 2011. 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.

**(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 8, 2005 (inception) through June 30, 2010 and FY 2010-11 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 Y SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures  
Period from November 8, 2005 (inception) to June 30, 2011

***(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, 2011.

***(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, 2011 column.

***(d) Cost Category***

The major cost categories in the statement of bond expenditures for Measure Y 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 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.

***(e) Prior Year Adjustments***

The District's Capital Improvement Program is financed with 15 capital fund sources. The accompanying statement of bond expenditures for Measure Y 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 Y, 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.

**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, 2011

*f) Reclassifications*

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2011 presentation.

**(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2011 (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, 2011:

Actual:

Bonds Issued - FY 2005-06 through FY 2009-10	\$ 3,542,235,000
Adjustments - Premium, net of Cost of Issuance FY 2005-06	6,614,884
Interest Income - FY 2005-06 through FY 2009-10	50,341,997
Interest Income - FY 2010-11	25,783,624
Local Income - FY 2007-08 through FY 2009-10	2,146,176
Local Income - FY 2010-11	549,604
Interfund Transfer In - Other Financing Sources (OFS) FY 2005-06 through FY 2009-10	11,061,476
Interfund Transfer In - Other Financing Sources (OFS) FY 2010-11	240,039,481
Total Bonds Issued, Interest and OFS as of June 30, 2011	<u>\$ 3,878,772,242</u>
Less: Adjustment - Cost of Issuance/Underwriter's Discount FY 2008-09	(667,495)
Total Sources of Funds as of June 30, 2011	<u>\$ 3,878,104,747</u>
Less: Uses of Funds (Expenditures) from Inception through June 30, 2011	<u>(2,112,489,613)</u>
Available Fund Balance as of June 30, 2011	<u><u>\$1,765,615,134</u></u>