



# Los Angeles Unified School District

Proposition BB, Measure K, Measure R, and Measure Y  
School Bond Construction Programs

Agreed-Upon Procedures Report for the Year Ended June 30, 2006 and  
Statements of Bond Expenditures from Inception through June 30, 2006

(With Independent Auditors' Reports Thereon)



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## **Independent Accountants' Report on Applying Agreed-Upon Procedures**

The Honorable Board of Education  
Los Angeles Unified School District:

We have performed the procedures enumerated below for the Proposition BB, Measure K, Measure R and Measure Y School Bond Construction Programs (Bond Programs) administered by the Los Angeles Unified School District (the District or LAUSD). The tasks we undertook were agreed to by the District's officials and were performed solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs funding for the year ended June 30, 2006. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our areas of inquiry and the corresponding findings are as follows. The samples selected below were for Proposition BB, Measure K, Measure R and Measure Y expenditures, unless otherwise noted.

### **1.1 Procedure**

From a population of all expenses charged to Object Code 6000 in the general ledger (IFS) for the year ended June 30, 2006, select five warrants from each GO Bond Fund (Proposition BB, Measure K, Measure R and Measure Y), then select a sample of one invoice per warrant, pertaining to a particular IFS project number, test the selected sample of expenditures, and verify that they are consistent with the work scope of each of the respective Bond measures as presented to the voters.

### **Results**

We reviewed the full text of the ballot measures to identify the work scope and list of specific projects proposed to be financed with the proceeds of the GO Bonds. We then inspected the invoices supporting the samples tested to verify that they are consistent with the work scope of each Bond measure and noted no exception. As required by Section Three of Proposition 39, a list of specific projects is to be presented to the voter in each ballot. As such, we identified the projects to which the above expenditures were incurred and traced these projects to the Bond Project List presented in the Full Text of Ballot Measures K, R, and Y (Proposition BB was issued under the traditional authority and not under Proposition 39, therefore, references to specific school facilities projects were not required). The following projects were not specifically named on the Bond Project List in the respective Ballot Measures:

- East Los Angeles Skills Center and the Maxine Waters Employment Preparation Center – These projects related to adult education sites that were not specifically listed in the Bond Project List in Measure R. Measure R does, however, include a general reference to providing, furnishing, and equipping new facilities, converting existing facilities, and reopening closed

facilities to provide for adult-education programs by means of acquisition, purchase, lease, construction, and reconstruction.

- Los Angeles School Police Department Emergency – This project was not specifically listed in the Bond Project List in Measure R. Measure R does, however, include a general reference to safety, emergency, fire-prevention and security projects including communications upgrades classrooms to give them immediate access to emergency response (911) system as well as emergency communications system upgrades, including purchase and modernization of a central computer dispatch system and communications workstations for the central 911 system.
- East Los Angeles High School No. 2 and Central Regional Middle School No. 7 – These projects related to expanding seats at the schools but were not specifically listed in the Bond Project List in Measure K. Measure K does, however, include general references to projects to expand seating in schools.

In addition, one of the samples selected pertained to an invoice of a construction management firm with various consultants working on multiple projects. For purposes of tracing the related projects for which these consultants were assigned to the specific Bond Project List, we selected all billing amounts in excess of \$20,000 for each project resulting in 17 items tested. The following were not included on the Bond Project List in the respective Ballot Measures:

- Full Day K – School Planning RFDK4 – This “project” was not specifically listed in the Bond Project List in Measure R. Based on discussions with District management, we were informed that the billing tested related to a program management account that was allocated to Measure R and not a school construction project. Although not specifically identified in Measure R, a general reference to providing additional classrooms and seats is referenced in Measure R to enable the District to offer full-day kindergarten where and when possible.
- Los Angeles New Elementary School No. 1 – This project was not specifically listed in the Bond Project List in Measure K. Based on discussions with District management, we were informed that this project was originally called Los Angeles Primary Center No. 1 but was redesigned into an elementary school subsequent to the issuance of Measure K and renamed Los Angeles New Elementary School No. 1.
- Valley Region Hesby Span K-8 – This project was not specifically listed in the Bond Project List in Measure K. The Valley Region Hesby Span K-8 project represents the reopening of a closed school. Measure K does, however, include general references to plans to reopen closed schools.

### ***Management's Response***

KPMG has identified items in their sample that are not listed as specific-named projects in the Bond Project List for the respective Bond Measures used for funding. For each of these items in the finding for this agreed-upon procedure, KPMG has referenced bond ballot language describing the general scope of work which includes the projects identified in KPMG's findings. Our response below further clarifies the ballot authorization enabling the use of bond funds for these items.

The voter approved bond measures include a list of projects, project types, and other scope of work that may be funded with the proceeds from the bond measure. This scope of work is contained in the respective “Bond Project List” of each bond measure. The Bond Project List includes both projects specifically identified by an existing or proposed campus, as well as contemplated scope of work



projects that are not specifically identified by an existing or proposed campus. This contemplated scope of work (defined in this response as Pending Project Definitions) is expressed as an approximate number of school seats to be built in each Local District or as a generalized listing of scope of work projects that are to occur at any of the schools or within any of the Local Districts identified in the Bond Project List. The Bond Project List further discloses to voters that all bond-financed projects will be undertaken pursuant to approval by the Board of strategic execution plans that set forth the scope of work to be undertaken. The Bond Project List is created based on the best available information at the time the bond measure is placed on the ballot. As discussed below and as disclosed in each ballot measure, after the bond measure is passed by voters, all scope of work projects identified in a given bond measure are delivered through projects specifically approved by the Board.

Procedures in place at the LAUSD since 2003 require that prior to expenditure of funds on any bond-financed project, any scope of work projects associated with Pending Project Definitions, as identified in a bond measure, must be defined into Board-approved projects through the Strategic Execution Plan (SEP) process that is referenced in the respective bond measures. Specifically, this SEP process requires that all scope of work projects associated with Pending Project Definitions be undertaken only after the Bond Oversight Committee considers such projects within the scope of the projects authorized by each bond measure and recommends that such projects be approved by the Board of Education.

Given that (i) the language in the Bond Project List of Measure K discloses that the District intends to use bond moneys for site acquisition and creation of school facilities in Local District C and Local District H, (ii) the Attorney General permits program management costs to be paid from bond moneys and the language in the Bond Project List of Measure R authorizes expansion of full-day kindergarten, and (iii) all scope of work projects undertaken by the District are done so only after conclusion of the SEP process, each project in the sample taken is authorized by the respective bond measure and, therefore, "...is consistent with the work scope of each of the respective bond measures as presented to the voters."

## **1.2 Procedure**

Test the items selected in procedure 1.1 above to verify that the following requirements of GO Bond construction project payments procedures have been met:

- a) The invoice, along with a District approved Encumbrance/Payment Request form, including evidence of approval by an appropriate LAUSD employee, were to be submitted in order to process the payment.
- b) For the invoices that represent construction expenditures, ensure an Owner Authorized Representative (OAR) validates that the Contractor has certified the Application for Payment, and that the OAR has signed it. The OAR assembles the payment package that includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents. The OAR then transmits the original Owner Assessment Summary to Facilities Contract Invoice Unit (FCIU) with copies to Facilities Construction Contract and others.
- c) For each invoice, verify that the related encumbrance/payment request was signed by the District FCIU Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments.

## ***Results***

- a) No exceptions were noted as a result of performing this procedure.
- b) Based on the Contractor Payment policy, the OAR must assemble payment package consisting of the following documents: (a) Contractor Payment Checklist, (b) Application for Payment (signed), (c) Owner Assessment Summary – this will support the withholds or releases on the progress payment, (d) List of Subcontractors (Payment Summary), (e) Allowance Disbursements Form (if applicable), and (f) Certificate of Substantial Completion (if applicable). We reviewed completeness of the payment package and verified if the application for payment was properly supported and the amounts agreed. We noted no exceptions as a result of this procedure.

We could not verify whether the OAR signatures found in the Application for Payment or Section 2 of the Payment Request Form for the nine (9) Existing Facilities projects are valid. We, however, were able to obtain a listing of the authorized OAR for the eleven (11) New Construction projects and noted no exceptions.

The invoices for construction expenditures are required to be certified by the Contractor that all items, units, quantities, and prices for work shown in the payment requests are correct. We were not able to verify whether the contractors' representatives who certified the invoices were authorized.

### ***Management's Response to b)***

The District procedure for OARs does require the OAR to certify the Application for Payment. The procedure does not, though, require maintenance of a list of authorized OARs by project. Verification of the validity and authority of the OAR to sign the "Applications for Payment" is the responsibility of District management personnel who approve and sign the "Requests for Payment". They work closely with the OARs assigned to the projects in their areas on a daily basis.

There is neither a contractual obligation for the contractor to provide a "list of authorized signatories" nor a District procedure requiring such a list. However, the signature of an authorized representative of the contractor on the "Applications for Payment" is a contractual requirement. The verification of value of work completed and due for the progress billing is done by agreement of OAR, District Inspection and the contractor representative. The invoices are reviewed by the OAR and District management employees who are aware of the contractor's organization. We believe these controls provides adequate assurance that correct signatory approvals are provided and that the payment request amount for work completed by the contractors is correct.

- c) No exceptions were noted as a result of performing this procedure.

## **1.3 Procedure**

Using the five invoices from each GO Bond Fund from the sample selection made at procedure 1.1, verify that the corresponding projects are included in the applicable Strategic Execution Plan (SEP) including approved amendments.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **2. Procedure**

From a population of all expenses charged to Object Codes 1000 & 2000 in IFS to the Proposition BB, Measure K, Measure R, and Measure Y bond funds, collectively referred to as the GO Bond Funds, for the fiscal year ended June 30, 2006, select 10 total charges for all GO Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y), to perform the following procedures:

- 2.1 Review the charges selected along with corresponding time sheets and personnel files and verify that no Bond funds in Measure K, Measure R, or Measure Y were spent on “administrator salaries” as noted in the ballot measures, or “teacher salaries” as noted in the State Proposition 39 as codified in the State Constitution, Article XIII A, Section 1(b) (3) (A).
- 2.2 Compare the charges selected with corresponding time sheet and personnel file and verify that no Bond funds in BB Bond were spent on “administrator salaries” as noted in the ballot measures.

### ***Results***

For each item selected, we identified the related employee name and requested the employee time record supporting the charges. We then identified the class code as indicated in the employee time record to get an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the class code description from the Human Resource Department to ensure that bond proceeds were not expended for “administrator” or “teacher” salaries. No exceptions were noted as a result of performing this procedure.

## **3. Procedure**

From a population of all expenses charged to Object Codes 4000 and 5000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2006, select a sample of 10 total charges for all GO Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y), and review the invoices to ensure that no Bond funds were used for “other day-to-day school operating expenses” as noted in the State Proposition 39 as codified in the State Constitution, Article XIII A, Section 1(b) (3) (A).

### ***Results***

We noted one item totaling \$15,598 that appeared to be used for “other day-to-day operating expenses”. The expense is related to the additional cost on the annual maintenance of Maximo – an application which supports the Maintenance and Operation (M&O) Department.

### ***Management's Response***

We do not concur with this finding.

Maximo is a software application commonly referred to as an Asset Work Management System. Maximo supports Maintenance and Operations activities and scope of work associated with the capital improvement program that is funded by General Obligation (GO) bonds and other capital funding sources. Current procedures allocate Maximo expenditures between GO Bond funds and other funds sources based on estimated proportions of the scopes of work supported by this system.

The individual invoice in this sample that was paid exclusively with GO Bond funds does not reflect the entire cost, or the entire allocation of cost, of the Maximo maintenance agreement. Other invoices related to the Maximo maintenance agreement were paid out of non-bond funds such that the overall contract is costed to appropriate funding sources.

Reviewed in larger context of the entire system maintenance agreement contract, including prior invoice allocations, the subject invoice is appropriately chargeable to bond funding. Facilities Division staff continuously review and adjust the charges associated with the Maximo maintenance agreement to ensure appropriate distribution of cost.

#### **4. Procedure**

From a population of all expenses charged to Object Codes 4000, 5000, and 6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2006, select a sample of 10 individual program management/construction management firms from all GO Bond Funds, proportionately by the dollars spent in each GO Bond Fund, and perform the following:

- 4.1 Test if an authorized representative of the project management or construction management firm has "certified" their own invoices.
- 4.2 Obtain a copy of one contract for each program or construction management firm and review the corresponding invoices for compliance with contract terms.

#### ***Results***

We obtained a list of program or construction management firms utilized by the District from the Facilities Construction Contract. We obtained a copy of the contract, including approved amendments, for each of the 10 selected program and construction management firms. We reviewed the contract provision specifically covering Charges and Payments.

In addition to the contract, we utilized the Bill Submission Guidelines for Construction Management (CM) Firm developed by the Facilities Services Division – New Construction Branch as a guide in reviewing the invoices to ensure that the documents are complete and the information provided in the billing was accurate and consistent with the contract.



We noted the following exceptions:

- a) An expenditure of \$74,455.45 was paid and recorded under Measure R for Existing Facilities. The funding source should have been the State Matching Effort (SME) and Proposition BB.

*Management's Response to a)*

We do not concur that the funding source of the holding account should have been state funds or BB Bond. There is no need to fund a holding account from a specific fund source, or sources that are inclusive of all scope of work in each invoice.

In accordance with current practices, the expense was recorded to a Measure R temporary holding account to enable timely processing of contractor payments. A holding account may be funded with any acceptable capital funding source, as the expenditures reside in that account temporarily prior to being transferred from the holding account to the appropriate project(s) (and associated project funding source(s)) as reported in the invoice.

Additionally, projects that are funded with state matching funds also include funding from local, GO Bonds. Current funds management practice enables projects with multiple fund sources to appropriately charge expenditures to any available fund source allocated to the project.

- b) Certain contractor rates charged in one Existing Facilities contract were not specified in the contract.

*Management's Response to b)*

We do not concur.

The questioned contractor is a Program Manager (Director of Facilities Programs) and that position and billing rate can be found in Option year 1 of the original contract (July 1, 2005 – June 30, 2006).

The contract in question, in paragraph 2 of Exhibit A, states, in part:

“The supporting staff of the DCFE is expected to consist of a Senior Project Manager and two Project Managers. In addition the following support staff may be required on an as needed basis: Program Manager, Project Controls Specialist, Scheduler, Schedule Manager, Estimator, Graphic Specialist, other support staff as required by the District.”

The “other support staff”, which are not called out in the contract or its amendments, are added by staffing order that defines a position title and a billing rate defined at the time of the staffing order. Note that there may be position titles that are the same, but with different skill sets/responsibilities/ requirements; thus, a differential in the billing rate for the “same” position title.

**5. Procedure**

From a population of all expenses charged to Object Codes 4000, 5000, and 6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2006, select a sample of 10 charges from the samples in procedures 3 and 4 and obtain corresponding invoices. Test the sample of invoices to verify compliance with District Bond Charging Procedures.



## **Results**

In conjunction with the issuance of the GO Bonds, the District drafted Bond Charging Procedures for Measure K and Proposition BB to provide procedures relating to the distribution and assignment of costs. Based on this bond charging procedure, bond proceeds shall not be applied to any purposes other than those for which the bonds were issued.

The controlling authority for using the bond proceeds was *Article XIII A, Section 1(b)(3) of the Constitution of the State of California*, which states that the “proceeds of bonded indebtedness may only be used to pay for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities”. In addition, there are other general guidelines such as the intent of the voters as reflected in the Bond Project List, Strategic Execution Plans, and the California School Accounting Manual. These are the guidelines being referred to in the Bond Charging Procedure.

We obtained a copy of the Bond Charging Procedures and noted that no written policies and procedures were issued specifically for Measures R and Y. According to the representative of Facilities Services Division (FSD), the Division is currently following the guidelines set forth in Measure K for Measures R and Y. As a result, we utilized the Measure K Bond Charging Procedure to test samples from Measures R and Y. We noted the following exceptions:

- a) Payment to one of the contractors amounting to \$43,715.26 pertains to the acquisition of computer equipment for the Existing Facilities – Program Controls Department. According to the District Bond Charging Procedures, indirect costs at the division level incurred for the overall benefit of the Facilities Division are not chargeable to the bond proceeds. Existing Facilities – Program Controls Department provides support to Existing Facilities programs and projects and not just for projects funded by the Bond Funds. As a result, this expenditure does not appear to be in compliance with the District Bond Charging Procedures.

### ***Management's Response to a)***

We partially concur. The Program Controls Department is not at the Division level. The Department is under the Existing Facilities Branch, within the Facilities Services Division, with a focus on the GO Bond and other programs as part of the larger Capital Improvement Program. Similar to the approach discussed in the Management Response to AUP 3, Program Controls also supports non-bond projects and distributes cost to benefiting programs per FSD policy.

Individual invoices in of themselves do not adequately represent the overall distribution of cost to various Bond and other benefiting programs. Reviewed in context and in support of the GO Bond program, this individual invoice is appropriately chargeable to bond funds.

- b) Payment to one of the contractors amounting to \$15,597.93 pertains to the cost of the annual maintenance agreement for an add-on application into Maximo/Asset Work Management System. Maximo supports both Maintenance and Operation Trouble Calls and Bond Projects. This cost is an indirect expense incurred for the overall benefit of the Existing Facilities and not just specific to the bond program itself. As a result, this expenditure does not appear to be in compliance with the Bond Charging Procedures.

*Management's Response to b)*

This finding was addressed in procedure 3 above. Please see Management Response in that Section.

**6. Procedure**

From a complete listing of change orders approved during the fiscal year ended June 30, 2006 generated from Project Information Control (PIC) system, select 20 change orders from all GO Bond Funds. Obtain the District Change Order procedures and review the selected change orders to verify compliance with the District's Change Order procedures to determine if appropriate approvals were secured.

**Results**

We obtained a copy of the Change Order Procedure from the Director of Policies, Facilities Services Division and reviewed the significant provisions stated therein. We then obtained a list of change orders approved for fiscal year 2005-2006. From the list of change orders provided, we selected 20 samples and performed the following:

- a) Using the Change Order Procedure obtained above, we inspected the Change Order Proposal (COP) for the samples selected to determine that they include all documentation to support any addition, deletion, or revision in the work including the following:
  - i. Pricing, breakdowns, and costs required to validate a proposed adjustment in the contract amount.
  - ii. Detailed schedule analysis demonstrating the impact on the project critical path to substantiate requests for contract time extension (if applicable).
  - iii. Revised or marked-up drawings, specifications and sketches (if applicable).

No exceptions were noted as a result of performing this procedure.

- b) We obtained a copy of Record of Negotiation Summary for each of the change order selected to verify that key discussion points of the negotiation were recorded. No exceptions were noted as a result of performing this procedure.
- c) We inspected completeness of the Change Order Package which, at the minimum, must include the following: (1) Change Order Checklist, (2) Justification of Change, (3) Change Order Proposal, (4) Record of Negotiation, and (5) Independent Estimate or Analysis, if required. All change orders had a complete change order package except for four items where Change Order Checklists were missing.

*Management's Response to c)*

We do not concur. A checklist is not required to be submitted to Accounts Payable (AP) as part of the payment package. The Construction Management Procedures do call for an "in house" checklist. This is to provide an "at a glance" review of the completeness of the Change Order Package, which can be several inches thick, to those processing it. The checklist is not required for payment and the Change Order Processing Unit (COPU) does not necessarily provide AP (where KPMG obtained their sample) with a copy.

- d) We verified if the samples were in compliance with the "Not to Exceed Limits". According to the Change Order Procedures, individual change orders for New Construction works may not exceed ten percent (10%) of the original contract price before securing additional bids. For Existing Facilities works, individual change orders that exceeded ten percent (10%), but do not exceed twenty-five percent (25%) of the original price may be performed by the Contractor without any need to secure additional bids, so long as the change is necessary and integral part of the work under the contract and the taking of bids would delay the completion of the project. No exceptions were noted as a result of performing this procedure.
- e) We inspected the Change Order Form to verify if the appropriate signatures were obtained prior to processing the Change Order. According to the Change Order Procedure, signatures of Contractors, Architects or Engineers (for Department of State Architect (DSA) – approved projects), OAR, and Senior Management are required for authorization of the Change Order.
  - i. We attempted to obtain a list of authorized contractor signatories to verify Contractor sign-off on the Change Order Form. According to the Facilities Services Division, such a list is not maintained because the District cannot force the contractor to accept the change order. However, the District can issue a Contract Directive that would require the contractor to undertake the work and process the change order without the Contractor's signature. If the Contractor refuses to execute the change order, he can file a written claim but shall proceed to with the work as set forth in the change order. Since the list of authorized contractor signatories cannot be provided, we were unable to test this procedure.

*Management's Response to i.*

There is no contractual obligation for the contractor to provide a list of "authorized" signatories. The verification of scope change and value of necessary change work is a joint effort of the OAR, District management personnel and the contractor representative. The Change Orders are reviewed by the OAR and District management personnel who are aware of the contractor's organization and who, by signing the change orders, confirm that the signatory of the contracts is authorized.

- ii. We obtained the names of architects who are required to approve the change orders selected. An architect's signature is required only for DSA-approved projects, therefore, not all samples would have DSA approval. We obtained a list of architects from both New Construction and Existing Facilities. A listing of authorized architect signatories for change orders under the New Construction Branch was not provided to us. According to New Construction, an architect signature is not mandatory for processing the change orders. Architects are not responsible for change order reconciliation or review of the change order amount. However, the Change Order Procedures indicate that architect signatures for DSA-approved projects are one of the requirements for authorization of change order prior to submittal of the Change Order Form for processing. The samples we tested all bore architect signatures except for change order T-543 (Jefferson New ES #1) where the architect refused to sign the change order. For the change order bearing architect signatures, we were unable to verify the validity of the signatories as no list of authorized architects was provided as mentioned above.

*Management's Response to ii.*

There is no contractual obligation for the architect to provide a list of "authorized" signatures. The Change Orders are reviewed by the OAR who is aware of the architect of record.

- iii. We tried to obtain the list of OARs to review approval of the Change Order Form but the District could not provide us with the OAR list because of the rapid turnover of the OARs assigned to the projects. Management believes that the review and approval of the District employee is sufficient evidence. Since no list could be provided, we were not able to test this attribute.

*Management's Response to iii.*

For the New Construction Branch, with several hundred projects, the list of OARs assigned to the projects was provided to KPMG. These are the same OARs who are required to review the Change Orders for their projects.

For the Existing Facilities Branch, with approximately 17,000 projects, as a practical matter, no list of OAR assignments is maintained. Regional project management personnel are required to approve all payments and change orders. They are aware of the assigned OARs for the projects in their regions. By approving the change orders, the regional Project management personnel are certifying, among other things, that the appropriate OAR review has taken place and the appropriate OAR signatures have been affixed to the Change Orders.

- iv. We obtained the list of District staff authorized to approve the change orders selected above. We reviewed the dollar amount of individual change order selected and the cumulative change order total as a percentage of the original contract amount. We then inspected approval made to determine if it complied with the Matrix of Change Order Signatory Requirement. No exceptions were noted as a result of performing this procedure.
- According to the Change Order Procedures, changes or alterations to the plans and specifications previously approved by the DSA require approval from the DSA prior to the commencement of the change work. Thus, this attribute is applicable only to DSA-approved projects. Using the DSA Application No. indicated in the Change Order Form, we identified which of the samples selected required DSA approval. For projects identified as requiring DSA approval, we were informed that no such approval had been received.

*Management's Response*

We concur, but as a practical matter, it is sometimes not possible to obtain DSA approval of change orders before commencement of the change order work and still complete the projects and place them into operation when needed by the students.

The District is working closely and continuously with the Division of the State Architect (DSA) to assure that necessary design and drawings for change orders are in DSA hands and that all inspections required by DSA certified inspectors are



performed. DSA is working on an initiative to improve turnaround times for their design review and approval.

The construction teams can be authorized to proceed with change work prior to DSA Change Order approval by obtaining a Preliminary Change Order (PCO), now changed to Field Change Document (FCD) approval by DSA prior to commencement of the work (California Building Standards Administrative Code, Part I, Title 24, Group 1, Safety of Construction of Public Schools, Section 4-338 (d) Preliminary Change Orders).

- According to the Change Order Procedures, an approved Changed Order Memo is to be submitted to the Board of Education for ratification. Single change orders exceeding 15% of the original contract amount, or cumulative percent of change orders on the original contract exceeding 10% for New Construction and 25% for Existing Facilities, must be approved by the District's Board. For the samples we selected, we recalculated the percentage changes, both on an individual and cumulative basis, and noted that none of the change orders exceeded the thresholds noted above and, therefore, none of the change orders selected required Board ratification.

## **7. Procedure**

Verify that the total expenditures reported in the year-end "summary statements of project cost" for the GO Bond measures and propositions agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures.

### ***Results***

We obtained a "Summary of Statement of Project Costs" for each of the GO Bond funds and agreed the expenditures to the CAFR bond fund expenditures. The Statement of Project Costs presents the expenditures on a program level while the CAFR expenditures were presented using the natural expenditure classification. As a result, the expenditures between the two reports could be agreed only on an aggregate rather than on a line-by-line basis. No exceptions were noted as a result of performing this procedure.

## **8. Procedure**

Select a sample of 20 GO Bond projects from the January 2005 New Construction Strategic Execution Plan (SEP) and the June 2005 Existing Facilities SEP. Utilizing this sample selection, perform the following procedures:

- 8.1 Compare the SEP project budget for each project in the sample to the subsequent published SEP project budget (January 2006 for NC and June 2006 for EF).
- 8.2 If the subsequent year SEP project budget is greater than 105% of the prior year SEP project budget, verify whether the budget increase was reported to the Augmented Facilities Committee and the Bond Oversight Committee (BOC).

### ***Results***

Out of the 20 samples selected, 6 projects for the New Construction Branch and 3 projects for the Existing Facilities Branch had a 2006 SEP project budget greater than 105% of the prior year's budget.

KPMG obtained evidence that the Augmented Facilities Committee and BOC were notified with the above budget increases for New Construction Branch projects. However, for Existing Facilities projects, no such notification was made.

### ***Management's Response***

The BOC is being provided with appropriate and relevant information on increases in Existing Facilities project class costs. A draft of a revised Memorandum of Understanding prepared by the BOC and containing the features for EF exception reporting that they deem necessary, is under review and nearing completion.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Proposition BB, Measure K, Measure R, and Measure Y School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education, management, and members of the Citizen's Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the members of the Citizen's Oversight Committee and the staff of the Los Angeles Unified School District for their assistance and cooperation in performing our review. We shall be happy to meet and discuss our findings at your convenience.

**KPMG LLP**

January 26, 2007



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## Independent Auditors' Report

The Honorable Board of Education  
Los Angeles Unified School District:

We have audited the actual expenditures incurred included in the accompanying statement of bond expenditures of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from April 8, 1997 (inception) through June 30, 2006. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the actual costs 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 actual costs 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 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 actual expenditures incurred of the Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the period from April 8, 1997 (inception) through June 30, 2006, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

January 26, 2007

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

**Statement of Bond Expenditures**

Period from April 8, 1997 (inception) through June 30, 2006

	Adjusted budget (unaudited)	Actual expenditures incurred			Unspent balance (unaudited)
		April 8, 1997 (Inception) through June 30, 2005	Bond expenditures year ended June 30, 2006	Total bond expenditures through June 30, 2006	
<b>New facilities:</b>					
New construction:					
Construction	\$ 275,136,562	197,230,000	25,138,066	222,368,066	52,768,496
Tests	2,538,623	2,561,707	(23,084)	2,538,623	—
Inspection	4,082,530	3,559,949	522,581	4,082,530	—
Sites	418,374,527	419,494,206	(1,119,679)	418,374,527	—
Plans	80,077,113	72,486,648	7,571,515	80,058,163	18,950
Nonreimbursable cost	852,784	852,784	—	852,784	—
Project related salaries - new facilities	1,840,612	1,827,850	12,762	1,840,612	—
Total new construction	782,902,751	698,013,144	32,102,161	730,115,305	52,787,446
Class size reduction:					
Portables	973,597	240,176	17,422	257,598	715,999
Portables - growth	17,840,773	11,948,422	1,925,059	13,873,481	3,967,292
New schools/centers	19,971,845	14,152,344	1,316,147	15,468,491	4,503,354
Total class size reduction	38,786,215	26,340,942	3,258,628	29,599,570	9,186,645
Total new facilities	821,688,966	724,354,086	35,360,789	759,714,875	61,974,091
<b>Existing facilities:</b>					
Repairs/school contracts/health and safety:					
Air conditioning	219,750,731	238,860,984	(24,454,594)	214,406,390	5,344,341
Bleachers	14,664,236	12,635,875	1,214,355	13,850,230	814,006
Safety & technology	311,614,042	282,917,103	247,161	283,164,264	28,449,778
Lockers	5,572,352	5,078,526	256,202	5,334,728	237,624
Lunch shelters	16,843,776	15,794,679	504,613	16,299,292	544,484
Security grills	25,290,310	23,479,228	276,031	23,755,259	1,535,051
Ventilation replacement	10,890,013	10,885,239	(69,788)	10,815,451	74,562
Auditorium renovations	7,444,050	6,266,999	545,477	6,812,476	631,574
Lighting	5,786,522	5,499,298	—	5,499,298	287,224
Paving	130,953,261	122,726,593	2,785,692	125,512,285	5,440,976
Electrical	18,140,047	9,334,314	363,599	9,697,913	8,442,134
Paint	46,660,035	45,762,959	42,858	45,805,817	854,218
Wall systems	13,800,855	13,283,970	134,077	13,418,047	382,808
Floor covering	33,346,763	30,709,399	751,829	31,461,228	1,885,535
Locks	785,712	785,712	—	785,712	—
Plumbing	68,012,008	63,169,627	1,417,936	64,587,563	3,424,445
Roofing	6,175,602	6,169,976	—	6,169,976	5,626
Gutters, etc.	27,220,605	25,356,699	170,200	25,526,899	1,693,706
Total repairs and contracts/health and safety	962,950,920	918,717,180	(15,814,352)	902,902,828	60,048,092
Modernization:					
Nonreimbursable cost	66,209	66,209	—	66,209	—
Construction	45,031,611	40,242,657	1,105,443	41,348,100	3,683,511
Test	534,707	534,707	—	534,707	—
Inspections	1,889,801	1,888,723	1,078	1,889,801	—
Plans	3,523,589	3,473,459	50,130	3,523,589	—
Total modernization	51,045,917	46,205,755	1,156,651	47,362,406	3,683,511
Class size reduction:					
Portables	22,698,111	19,928,059	89,165	20,017,224	2,680,887
Portables - growth	53,889,055	37,157,049	200,884	37,357,933	16,531,122
Renovation	540,367	540,367	—	540,367	—
Opening of closed schools	7,440,129	7,331,654	—	7,331,654	108,475
Total class size reduction	84,567,662	64,957,129	290,049	65,247,178	19,320,484
<b>Other costs:</b>					
School determined needs	8,122,324	6,903,267	485,749	7,389,016	733,308
Board area match program	14,645,346	8,773,922	1,402,574	10,176,496	4,468,850
Program/project managers fees	334,895,079	279,891,323	8,768,173	288,659,496	46,235,583
Hazard mitigation	1,996,696	1,996,696	—	1,996,696	—
Cost of issuance	1,237,067	1,131,845	5,020	1,136,865	100,202
Reprographic & other costs	3,981,104	3,248,285	263,235	3,511,520	469,584
Bonds bundling effort	6,601,176	3,319,860	(183,956)	3,135,904	3,465,272
Project-related salaries	19,334,306	13,750,865	5,583,441	19,334,306	—
Office of Inspector General (OIG) contractors audit	3,936,913	1,160,627	434,173	1,594,800	2,342,113
Asbestos/lead consultants	4,994,476	4,947,134	—	4,947,134	47,342
Prepay 1996 COPs	15,344,829	15,344,829	—	15,344,829	—



**LOS ANGELES UNIFIED SCHOOL DISTRICT  
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2006

	Adjusted budget (unaudited)	Actual expenditures incurred			Unspent balance (unaudited)
		April 8, 1997 (inception) through June 30, 2005	Bond expenditures year ended June 30, 2006	Total bond expenditures through June 30, 2006	
Cost of insurance	\$ 43,032,244	37,605,478	4,968,300	42,573,778	458,466
Contingency	1,542,084	—	—	—	1,542,084
PERS savings recapture – BB Other	40,768	32,970	7,798	40,768	—
PERS recapture	3,074,624	2,882,115	192,509	3,074,624	—
Total other costs	462,779,036	380,989,216	21,927,016	402,916,232	59,862,804
Total existing facilities	1,561,343,535	1,410,869,280	7,559,364	1,418,428,644	142,914,891
Others:					
Interest/local income	147,098,683	136,446,866	10,651,817	147,098,683	—
Suspense account (program 1914)	—	—	8,182	8,182	(8,182)
Unallocated year-end accrued expenditures	9,639,431	—	9,639,431	9,639,431	—
Unallocated year-end prior year accrued expenditures	—	9,616	(4,300,000)	(4,290,384)	4,290,384
Total others	156,738,114	136,456,482	15,999,430	152,455,912	4,282,202
Total Proposition BB bond expenditures	\$ 2,539,770,615	2,271,679,848	58,919,583	2,330,599,431	209,171,184

See accompanying notes to statement of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from April 8, 1997 (inception)  
through June 30, 2006

**(1) Proposition BB School Bond Construction Program Background**

Proposition BB Initiative (Proposition BB) authorized the Los Angeles Unified School District (the District) to issue \$2.4 billion in general obligation bonds. Bond proceeds are to be utilized for projects such as the repair of safety hazards, asbestos removal, installation of air-conditioning, making classrooms accessible to the disabled, upgrading security, and the construction of new classrooms. Proposition BB specifically states that no bond proceeds are to be used for administrator salaries.

The Proposition BB School Bond Construction Program (Program) is intended to provide needed health and safety improvements to more than 800 deteriorating schools and 15,000 buildings and to match state funds for new construction and modernization projects. The District Board of Education has established a Citizen's Oversight Committee to ensure that the proceeds of the Proposition BB School Bond Construction Program issues are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

All projects are managed by LAUSD-approved Program Managers. The District Board of Education must approve all project contracts. Each Program Manager is responsible for managing all program-related activities, including the maintenance of master construction schedules and the master program budgets.

**(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 and current 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 Costs**

The amounts included within the actual expenditures incurred columns in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from April 1, 1997 (inception) through June 30, 2006. The negative bond expenditures for the year ended June 30, 2006 represent expenditures initially funded by Proposition BB in previous years, but subsequently funded through other financing sources in the current year.

**(c) Unspent Balance (Unaudited)**

The amounts included within the unspent 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, 2006 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures

Period from April 8, 1997 (inception)  
through June 30, 2006

**(3) Budget Balances from Inception to Fiscal Year Ended June 30, 2006 (Unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2006:

Bonds issued	\$ 2,400,000,000
Interest – actual from 1997 (inception) to 2005	136,353,809
Interest – actual fiscal year 2006	10,651,817
Local income	<u>93,057</u>
Total bonds issued plus interest and other income as of June 30, 2006	2,547,098,683
Prepaid Owner-Controlled Insurance Program	(4,328,068)
Relocation Revolving Fund	<u>(3,000,000)</u>
Total budget as of June 30, 2006	2,539,770,615
Less expenditures from inception to June 30, 2006	<u>(2,330,599,431)</u>
Available budget balance as of June 30, 2006	\$ <u><u>209,171,184</u></u>



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## Independent Auditors' Report

The Honorable Board of Education  
Los Angeles Unified School District:

We have audited the actual expenditures incurred included accompanying statement of bond expenditures of the Measure K School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from November 5, 2002 (inception) to June 30, 2006. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the actual costs 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 actual costs 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 actual expenditures incurred of 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, 2006, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

January 26, 2007



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

Statement of Bond Expenditures

Period from November 5, 2002 (inception) to June 30, 2006

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			Unspent balance (unaudited)
		November 5 2002 (inception) to June 30, 2005	Bond expenditures year ended June 30, 2006	Total bond expenditures through June 30, 2006	
<b>New construction:</b>					
Phase one:					
New construction	\$ 1,341,509,591	777,059,957	216,864,074	993,924,031	347,585,560
Additions	80,409,241	44,124,524	18,967,566	63,092,090	17,317,151
Playground expansion	20,634,996	12,717,181	2,238,760	14,955,941	5,679,055
Support costs	6,404,053	3,965,086	2,438,967	6,404,053	—
Labor costs	19,422,340	10,714,680	2,058,752	12,773,432	6,648,908
Total phase one	1,468,380,221	848,581,428	242,568,119	1,091,149,547	377,230,674
Phase two:					
New construction	537,163,628	40,426,617	260,502,500	300,929,117	236,234,511
Land acquisition, three new facilities	8,865,395	8,864,395	—	8,864,395	1,000
Additions	13,642,699	2,367,367	4,438,614	6,805,981	6,836,718
Playground expansion	4,800	4,800	—	4,800	—
Support costs	49,762,160	14,550,682	8,484,560	23,035,242	26,726,918
Labor costs	31,366,265	11,638,699	7,225,567	18,864,266	12,501,999
Labor legal support	1,103,727	—	124,157	124,157	979,570
Office of the Inspector General Audit	7,500,001	2,328,074	847,359	3,175,433	4,324,568
Total phase two	649,408,675	80,180,634	281,622,757	361,803,391	287,605,284
Total new construction	2,117,788,896	928,762,062	524,190,876	1,452,952,938	664,835,958
<b>Existing facilities:</b>					
Lead and asbestos removal	12,000,001	5,225,694	3,191,952	8,417,646	3,582,355
Repairs	324,305,184	34,455,974	68,718,239	103,174,213	221,130,971
Repair support costs	130,320,513	15,613,474	16,435,259	32,048,733	98,271,780
Labor legal support	130,012	53,307	27,120	80,427	49,585
Total existing facilities	466,755,710	55,348,449	88,372,570	143,721,019	323,034,691
<b>Early childhood education:</b>					
Renovation/repair	9,800,000	2,141,889	2,991,131	5,133,020	4,666,980
Expansion	11,470,536	9,335,405	(1,645,151)	7,690,254	3,780,282
Education center	28,379,146	299,066	763,883	1,062,949	27,316,197
Support costs	300,000	284,229	27,562	311,791	(11,791)
Labor costs	716,752	387,645	316,354	703,999	12,753
Total early childhood education	50,666,434	12,448,234	2,453,779	14,902,013	35,764,421
<b>Information &amp; technology department (ITD):</b>					
Indirect support – ITD:					
Support costs	1,885,200	61,165	—	61,165	1,824,035
Labor costs	1,891,982	1,160,784	145,600	1,306,384	585,598
Nonlabor	2,296,696	1,135,961	644,310	1,780,271	516,425
Technical support	10,000,002	2,109,126	3,745,078	5,854,204	4,145,798
Tech and communication infrastructure:					
Supplies	77,416,513	47,572,389	14,870,528	62,442,917	14,973,596
Upgrading and stocking library	36,512,608	7,992,443	7,988,568	15,981,011	20,531,597
Total information & technology department (ITD)	130,003,001	60,031,868	27,394,084	87,425,952	42,577,049
<b>Charter schools:</b>					
Expansion	36,567,166	1,423,706	1,227,359	2,651,065	33,916,101
Total charter schools	36,567,166	1,423,706	1,227,359	2,651,065	33,916,101
<b>Joint use:</b>					
Project costs	5,741,178	—	—	—	5,741,178
Employee fringe benefits	2,451,780	1,015,651	1,436,129	2,451,780	—
Measure K Accruals – FY '05-06	48,973,897	—	48,973,897	48,973,897	—
Interest	72,047,511	63,464,833	(2,391,839)	61,072,994	10,974,517
Total Measure K project expenditure	\$ 2,930,995,573	1,122,494,803	691,656,855	1,814,151,658	1,116,843,915

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, 2006

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

The Measure K School Bond Construction Program (Program) is intended to provide funding for continued improvements to schools and to provide an additional 112,000 new seats for children and to build new neighborhood schools. 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 near parks and libraries.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Measure K School Bond issues 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, after which \$2.1 billion was issued in March 2003. 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 Board of Education-approved Strategic Execution Plans, which detail the scope of work to be done for each project. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program-related costs. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

All projects are managed by approved District Project Managers. Project Managers are responsible for managing all project-related activities, including the maintenance of the District's master schedule and the master program 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 project costs reflects the flow of current financial resources measurement focus and is presented on the modified-accrual basis of accounting.

**(a) Adjusted Budget (Unaudited)**

Of the \$3.35 billion in bonds, the amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures and current 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 Costs 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 District for the period from November 1, 2002 (inception of the program) to June 30, 2006. The negative bond expenditures for the year ended June 30, 2006 represent expenditures initially funded by Measure K in previous years, but subsequently funded through other financing sources in the current year.

**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, 2006

**(c) Unspent Balances (Unaudited)**

The amounts included within the unspent 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, 2006 column.

**(3) Budget Balances from Inception to Fiscal Year-Ended June 30, 2006 (Unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Measure K School Bond Construction Program from November 5, 2002 (inception) through June 30, 2006:

Actual:

Bonds issued (fiscal year 2002/2003)	\$ 2,100,000,000
Interest (fiscal year 2002/2003)	5,069,730
Interest (fiscal year 2003/2004)	32,440,483
Interest (fiscal year 2004/2005)	25,954,620
Interest (for fiscal year 2005/2006)	<u>23,582,678</u>
Total bonds issued and interest as of June 30, 2006	2,187,047,511
Total unissued bonds	<u>743,948,062</u>
Total budget as of June 30, 2006	2,930,995,573
Less expenditures from inception to June 30, 2006	<u>(1,814,151,658)</u>
Available budget balance as of June 30, 2006	<u><u>\$ 1,116,843,915</u></u>



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## Independent Auditors' Report

The Honorable Board of Education  
Los Angeles Unified School District:

We have audited the actual expenditures incurred included in the accompanying statement of bond expenditures of the Measure R School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from March 2, 2004 (inception) to June 30, 2006. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the actual costs 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 actual costs 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 actual 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, 2006, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

January 26, 2007



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

Statement of Bond Expenditures

Period from March 2, 2004 (inception) to June 30, 2006

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			Unspent balance (unaudited)
		March 2004 (inception) through June 30, 2005	Bond expenditures year ended June 30, 2006	Project expenditures through June 30, 2006	
New construction:					
New Schools Most Impact Campuses	\$ 76,286,979	4,262,239	57,454,373	61,716,612	14,570,367
Full-Day kindergarten	17,027,234	4,773,497	7,772,590	12,546,087	4,481,147
Furnitures equipment fixtures	20,515,574	2,571,200	10,172,879	12,744,079	7,771,495
Interest	15,414,340	—	73,144	73,144	15,341,196
Total new construction	129,244,127	11,606,936	75,472,986	87,079,922	42,164,205
Existing facilities:					
A/C heating	126,200,000	13,790,713	37,538,162	51,328,875	74,871,125
Asbestos hazardous removal	44,227,464	1,517,639	8,018,552	9,536,191	34,691,273
Basic repairs	100,000,000	17,239,500	35,584,461	52,823,961	47,176,039
New major repairs	34,795,756	297,069	4,525,459	4,822,528	29,973,228
Previous plan projects	147,000,000	40,770,979	47,485,779	88,256,758	58,743,242
Repair upgrade	300,895,308	55,037,975	81,497,444	136,535,419	164,359,889
Safety and technology upgrade	305,424,382	80,400,223	59,403,156	139,803,379	165,621,003
Upgrade redesign campuses	5,000,000	—	686,929	686,929	4,313,071
Upgrade school buildings	20,332,095	1,847,416	2,566,845	4,414,261	15,917,834
Total existing facilities	1,083,875,005	210,901,514	277,306,787	488,208,301	595,666,704
Others:					
Accruals	31,570,694	—	31,570,694	31,570,694	—
Adult education	20,028,757	28,757	3,373,587	3,402,344	16,626,413
Charter	5,000,000	—	1,241,188	1,241,188	3,758,812
Early education	34,072,321	2,072,321	5,827,106	7,899,427	26,172,894
Election costs	2,719,535	2,719,535	—	2,719,535	—
ITD	42,000,000	—	2,686,873	2,686,873	39,313,127
Refinance COPS	149,994,712	149,994,712	—	149,994,712	—
Benefits					
Employee health, medical and group life insurance	2,400,000	—	—	—	2,400,000
Medicare	225,306	—	—	—	225,306
Unemployment insurance	100,999	—	—	—	100,999
Workers compensation self-insurance	674,365	—	—	—	674,365
OASDI	963,379	—	—	—	963,379
PERS	2,358,849	259,526	577,593	837,119	1,521,730
Cost of issuance	6,152,333	1,431,304	4,721,029	6,152,333	—
Total others	298,261,250	156,506,155	49,998,070	206,504,225	91,757,025
Total Measure R bond expenditures	\$ 1,511,380,382	379,014,605	402,777,843	781,792,448	729,587,934

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, 2006

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

The Measure R or "the Safe and Healthy Neighborhood Schools Improvement Act of 2004" is intended to provide 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. 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 Measure R School Bond Construction Program must be included in the Board of Education approved Strategic Execution Plans, which detail the scope of work to be done for each project. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Measure R School Bond Construction Program related costs. Such guidelines specifically state that no funds will be spent for administrator salaries.

All projects are managed by approved District Project Managers. Project Managers are 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)**

Of the total \$3.87 billion in bonds, the amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures and current 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 of the program) to June 30, 2006.

**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, 2006

**(c) Unallocated costs – Accrual**

Unallocated costs included in the accompanying statement of bond expenditures represent year end accrued expenditures incurred for fiscal year 2005-2006 but not yet allocated to a specific cost category.

**(d) Unspent Balance (Unaudited)**

The amounts included within the unspent balances (unaudited) column in the accompanying statement of bond expenditures costs represent the difference between the adjusted budget (unaudited) column and the total bond expenditures through June 30, 2006 column.

**(3) Budget Balances from Inception to Fiscal Year Ended June 30, 2006 (Unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Measure R School Bond Construction Program from March 2, 2004 (inception) through June 30, 2006:

Bonds issued – actual from 2004-2005	\$ 204,124,117
Bonds issued – actual fiscal year 2006	904,721,029
Interest – actual from 2004 (inception) to 2005	17,510
Interest – actual fiscal year 2006	15,396,830
Interfund transfer in from CS-COPS trst	<u>58,720</u>
Total bonds issued and interest as of June 30, 2006	1,124,318,206
Unissued bonds	<u>387,062,176</u>
Total budget as of June 30, 2006	1,511,380,382
Less expenditures/bond expenditures from inception to June 30, 2006	<u>(781,792,448)</u>
Available budget balance as of June 30, 2006	<u>\$ 729,587,934</u>

Total bond expenditures from inception to June 30, 2006 include \$149,994,712 of funds used to refund IFT-CSF-02B and IFT-CSF-00B certificates of participation.



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## Independent Auditors' Report

The Honorable Board of Education  
Los Angeles Unified School District:

We have audited the actual expenditures incurred included in the accompanying statement of bond expenditures of the Measure Y School Bond Construction Program of the Los Angeles Unified School District (the District) for the period from November 8, 2005 (inception) to June 30, 2006. Such statement of project expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the actual 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 actual 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 actual 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, 2006, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

January 26, 2007



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

Statement of Bond Expenditures

Period from November 8, 2005 (inception) through June 30, 2006

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred		Unspent balance (unaudited)
		Bond expenditures year ended June 30, 2006	Total bond expenditures through June 30, 2006	
New construction:				
School construction	\$ 25,000,000	6,649	6,649	24,993,351
Total new construction	25,000,000	6,649	6,649	24,993,351
Existing facilities:				
Major repairs	1,655,205	105,923	105,923	1,549,282
Bungalow repair and removal	5,000,000	—	—	5,000,000
Basic repairs	60,000,000	—	—	60,000,000
Install and upgrade fire alarm systems	62,757,082	—	—	62,757,082
Program support	34,297,611	20,358,834	20,358,834	13,938,777
Interfund transfer to general fund for deferred maintenance (note 3)	30,000,000	30,000,000	30,000,000	—
Total existing facilities	193,709,898	50,464,757	50,464,757	143,245,141
Others:				
Cost of issuance	6,671,876	6,671,876	6,671,876	—
Interfund transfer to capital service fund for debt service (note 3)	178,617,579	178,617,579	178,617,579	—
PERS savings recapture	2,017	2,017	2,017	—
Total others	185,291,472	185,291,472	185,291,472	—
Total Measure Y bond expenditures	\$ 404,001,370	235,762,878	235,762,878	168,238,492

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, 2006

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

The Measure Y School Bond or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2005" is intended to provide the funds to continue to repair and modernize 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 Measure Y School Bond issues 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. 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 nonair-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 Measure Y School Bond Construction Program must be included in the Board of Education approved Strategic Execution Plans, which detail the scope of work to be done for each project. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Measure Y School Bond Construction Program related costs. Such guidelines specifically state that no funds will be spent for administrators' salaries.

All projects are managed by approved District Project Managers. Project Managers are 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 project expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

**(a) Adjusted Budget (Unaudited)**

Of the total \$3.985 billion in bonds, the amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures and current 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, 2006

**(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 Los Angeles Unified School District for the period from November 8, 2005 (inception of the program) to June 30, 2006.

**(c) *Unspent Balance (Unaudited)***

The amounts included within the unspent 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, 2006 column.

**(3) Interfund Transfers**

- (a) In prior years, the Deferred Maintenance Program was a General Fund supported program, via the Restricted Maintenance Account. With the voter approved passage of Measure Y, the District may fund the required match through Measure Y bond funding for a period up to five years and/or \$150,000,000.

The District plans to fund up to \$30,000,000 a year for five years from Measure Y to provide the District Contribution to match State grant funds for identified projects. The initial \$30,000,000 funding was approved by the Board on March 14, 2006.

- (b) The Facilities Services Division transferred \$178,617,579 into the Capital Service Fund out of the proceeds of the Measure Y Series A, B, and D Bonds to prepay certain base rental payments in connection with the outstanding Certificates of Participation (COPs) of the District. These COPs were used to fund the cost of various components of the projects and to pay costs of issuance in connection with the sale of Measure Y bonds.

**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, 2006

**(4) Budget Balances from Inception to Fiscal Year Ended June 30, 2006 (Unaudited)**

The following is a summary of the budgeted revenues and expenditures for the Measure Y School Bond Construction Program from November 8, 2005 (inception) through June 30, 2006:

Current modified budget, fiscal year 2005-2006	\$ 244,449,528
Additional bonds issued	<u>156,550,356</u>
Total bonds issued as of June 30, 2006	400,999,884
Interest (actual for fiscal year 2005-2006)	<u>3,001,486</u>
Total budget as of June 30, 2006	404,001,370
Less expenditures from inception to June 30, 2006 *	<u>(235,762,878)</u>
Available budget balance as of June 30, 2006	<u>\$ 168,238,492</u>

- \* Total expenditures include \$30,000,000 and \$178,617,579 of interfund transfers to the General Fund and the Capital Service Fund, respectively, and these amounts are reported as interfund transfers in the District's June 30, 2006 comprehensive annual financial report.