

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, 2010 and Statements of Bond Expenditures
from Inception through June 30, 2010
(With Independent Auditor's Reports Thereon)





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Independent Accountant's Report on Applying Agreed-Upon Procedures and Management's Responses to Exceptions

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) which were agreed to by the Los Angeles Unified School District's (the District or LAUSD) officials and bond oversight committee, solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs for the year ended June 30, 2010. District management is responsible for the administration of the Bond Programs. 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 procedures 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. Procedure

From a population of all expenditures charged to Object Code #6000 in the general ledger (IFS) for the year ended June 30, 2010, we selected 10 expenditures for each of the GO Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y). We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 1.1** We tested the 10 invoices from each GO Bond Fund selected in Procedure 1 to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters.

Results

We read the ballot measures to understand 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 determine whether amounts expended were consistent with the work scope of each bond measure. As required by Section 3 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 Measure 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).

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





- 1.2 We tested the 10 invoices from each GO Bond Fund selected in Procedure 1, to determine whether the corresponding projects were included in the related Strategic Execution Plan (SEP) including approved amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

Results

We noted 2 invoices that have projects that we were not able to trace to the 2009 SEP. For one invoice, three (3) of the five (5) projects we tested were not stated in the 2009 SEP. For the other invoice, two (2) out of the five (5) projects we tested were not stated in the 2009 SEP. However, we were able to trace these projects to prior year SEPs. No exceptions were noted as a result of performing this procedure.

- 1.3 For the items selected in Procedure 1 above that represent construction payments, we determined whether the following requirements of GO Bond construction project payments procedures had been met:

- a) There are signatures on the required lines where an Owner Authorized Representative (OAR) validates that the contractor has certified the Application for Payment, and that the OAR has signed it.
- b) Payment package includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

Results

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

- 1.4 For the items selected in Procedure 1 above, we determined whether the payment package was appropriately approved and reviewed for payment.

- a) The invoice was appropriately approved by a Los Angeles Unified School District employee on the Encumbrance/Payment Request form.
- b) For each invoice, 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

Five (5) out of the 40 samples selected were not processed by FCIU, therefore, no Encumbrance/Payment Request Form were attached to the invoice packages. Three (3) of these were from the Information Technology Department, one (1) was from the Office of Environmental Health and Safety, and another one (1) was from the Transportation Division. All of these were processed directly by the District's Accounts Payable Department and did not undergo FCIU's payment verification procedures. However, upon testing the invoices, we noted that the invoices were reviewed and approved by properly authorized District approvers. No exceptions were noted as a result of performing this procedure.

2. Procedure

From the population of all expenses charged to Object Code #1000 and #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, 2010, we selected 10 total expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y), to perform the following procedures:

- 2.1 We determined whether the items selected were spent on “administrator salaries as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A) and the California Attorney General.

Results

None of the ten (10) expenditures we sampled were spent on “administration salaries as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39. However, it came to our attention that one (1) out of the ten (10) samples we selected was the salary of an Administrative Analyst assigned at the Facilities Services Department for one day. Upon interviewing the employee, we found out that she did not report to the said position or perform functions for the bond programs during that one day we tested and was just temporarily assigned to that position by the District’s Personnel Commission (PC) until she moved to her next position in another division. In order to comply with the District policy, a permanent position, in this case a bond funded position, was charged during the month tested. An adjustment was made in the subsequent month that moved the charges to the employee’s next position except for that one day.

Another expenditure we sampled was the salary of an Office Technician who performed administrative functions for both bond-funded and non-bond-funded positions. We found that his salary was fully funded by the bond funds.

Management’s response

Management concurs that the first observation is an issue. This issue occurred as a result of the District PC rules, position budgeting and time reporting procedures. When the employee was assigned by PC, without Facilities input, to the Facilities Administrative Analyst bond-funded position, time was reported against bond funds. The employee’s time was incorrectly charged for 96 hours against the bond funds and subsequently adjusted, net of eight hours, due to the confusion regarding time reporting responsibilities and the appropriate home cost center. Facilities will engage the PC and the Office of General Counsel to modify the PC rules and procedures that resulted in charges against the bond program for a transitional assignment, in order to prevent future occurrence. A journal voucher will be processed within a week from the date of this report to transfer expenditures from the bond program.

Management concurs with the second observation. The Facilities Division regularly reviews each position in order to align function to appropriate funding. The manager at the time submitted information that the function of the employee in the second exception was appropriate for 100% bond funding. The position’s function is general office support, such as preparing project files, scanning and maintaining office supplies. The rationale for 100% bond funding was to support the volume and the urgency of small bond projects. Upon consideration of the actual bond work supported by the employee at the end of the fiscal year, we have concluded that the actual bond support was 80%. A journal voucher will be processed within a week from the date of this report to transfer expenditures from the bond program.



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- 2.2 For each expenditure selected in Procedure 2 for Proposition BB, we determined that no bond funds were spent on “administrator salaries” as noted in the ballot measure.

Results

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

3. Procedure

From a population of all expenditures charged to Object Code #4000 and #5000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2010, we selected a sample of 10 expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y). We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 3.1 We reviewed the invoices to determine whether bond funds were used for "other day-to-day school operating expenses" as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b)(3)(A). We also determined whether the expenditures complied with the additional guidance provided by the California Attorney General.

Results

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

4. Procedure

From a population of all expenditures charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2010, we selected a sample of 10 individual program management/construction management firms from a listing of all such firms utilized by the GO Bond Funds provided by the District and performed the following procedures:

- 4.1 We obtained a copy of the contract for each program management/construction management firm selected and we reviewed each invoice for consistency with contract terms.

Results

We obtained a list of programs or construction management firms utilized by the District from the Facilities Construction Contract Unit. We obtained a copy of the contract, including approved amendments, for each of the 10 selected program and construction management firms. We read the contract provisions specifically covering charges and payments.

In addition to the contract, we utilized the Bill Submission by Construction Management (CM) Firm Guidelines (Guidelines) designed by the Facilities Services Division - New Construction Branch and the Protocol for Submitting CM Labor Request Payments for Existing Facilities as a guide, if applicable, in reviewing invoices to determine whether the information provided in the billing was consistent with the contract.

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

5. Procedure

From a population of all expenses charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2010, we selected all expenditures from the samples



selected in Procedure 3 and Procedure 4 above and obtained corresponding invoices. We tested the sample of invoices to determine compliance with District Bond Charging Procedures.

Results

In conjunction with the issuance of GO Bonds, the District drafted Bond Charging Procedures for Measures K, R and Y and Proposition BB to provide procedures relating to the distribution and assignment of costs. Based on the bond charging procedures, bond proceeds shall not be applied to any purposes other than those for which the bonds were issued. In addition, there are other general guidelines such as the intent of the voters as reflected in the Bond Project List, Strategic Execution Plan and the California School Accounting Manual. These are guidelines being referred to in the Bond Charging Procedures.

Six (6) out of 20 samples we tested cannot be directly traced to a project in SEP. However, we noted that the SEP for New Construction and Existing Facilities cover expenses such as 1) Program Management that includes costs for program control personnel, division-wide policies and procedures and program support services, and 2) Mandated Non-Project Costs that include program legal costs, Facilities Support Services, Facilities Contract Services and office rent. The above mentioned six (6) samples fall under these type of expenses. No exceptions were noted as a result of performing this procedure.

6. Procedure

From a listing of change orders approved during the fiscal year ended June 30, 2010 generated from the Project Information Control (PIC) system, we selected 20 change orders from all GO Bond Funds. We obtained the District Change Order Procedures and performed the following review to determine compliance with the District's Change Order procedures.

- 6.1 We compared the "Not to exceed Limits" to determine the compliance with the following procedures. According to the Change Order Procedures, individual change orders for New Construction work may not exceed 10% of the original contract price before securing additional bids. For demolition, reconstruction or rehabilitation work of existing structures, individual change orders may exceed ten percent (10%) according to the Public Contract Code, but must not exceed twenty-five percent (25%) of the original contract price.

Results

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

- 6.2 We determined whether the change order package was submitted with the required documents in accordance with the Change Order checklist from the change order preparation requirements.

Results

Three (3) out of the 20 change orders we tested had a contract time change but did not have a supporting Schedule Fragnet, as required by the change order checklist.

Management Response

Management concurs. However, due to size of projects and the nature of the work, certain projects do not require a critical path method schedule as part of the contract specifications. It is not cost effective to require schedules for these types of projects. The three change order samples missing fragnet schedules noted on the report are relatively smaller



demolition and repair and modernization projects. Requiring costly schedules as part of the contract specifications is typically not a good value to the District. The District will clarify this issue in the Change Order procedures revision.

6.3 For End User-initiated change orders, we verified whether the related scope changes did not commence nor the Owner Authorized Representative (OAR) did not process the Change Order until the following has been completed:

- End User-initiated Scope Change Request Form completed by OAR
- Review and approval by Local District Project Manager (LDPM)/ Senior Project Manager and Deputy Chief Facilities Executive or designee
- Request For Proposal (RFP) issued to Contractor

Results

Two (2) out of the 20 samples we tested were initiated by end users. We did not find any proof of RFP in the change order package provided for these samples. However, a Construction Directive was properly issued in each of these change orders, in lieu of the RFP. No exceptions were noted as a result of performing this procedure.

6.4 We verified compliance with the signatory requirements on the Change Order form.

Results

One (1) out of the 20 samples we tested was not properly signed by the Contractor.

From the eight (8) existing facilities samples we tested, eight (8) signatories in five (5) samples were signed by other than the required signatories, specifically, the next level positions. Six (6) required signatories in four (4) samples did not sign the change orders. However, upon verification, all these exceptions were approved, in a separate memo, by the Deputy Chief Executive – Existing Facilities/New Construction (higher level of authority) and Director – Facilities Contracts.

From the twelve (12) new construction samples we tested, two (2) samples were not signed by the Director of Project Support, four (4) samples requiring the Regional Director's signature were signed by the Director of Project Support and six (6) signatories in five (5) samples were signed by other than the required signatories, specifically, the next level positions. However, upon verification, all these exceptions were approved, in a separate memo, by the Deputy Chief Executive – New Construction (higher level of authority) and Director – Facilities Contracts.

Management's Response

Management concurs. During the fiscal year audited, the District consolidated, streamlined, and reduced organizational overhead. The signatory authority matrix and change order forms were updated to reflect the changes. However, the Change Order Procedures still need to be modified to align with the new organizational structure. As mentioned in the report, all change orders were approved with appropriate signatory authorities.

The Contractor reserved the right to file future claims without time restrictions and refused to sign the selected change order sample. The District disagrees with the contractor's rationale since the Change Order form includes provision for disputed portions of the Change Order Proposal. The District ensured that work would continue by inserting the clause on the Change



Order form: "Should the Contractor fail to sign and return as required, Owner reserves the right to process document without Contractor Signature."

7. Procedure

We determined whether the total expenditures reported in the year-end "Statements of Bond Expenditures" for each GO Bond Fund measure agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2010.

Results

We obtained a "Statement of Bond Expenditures" for each of the GO Bond funds and agreed the CAFR bond fund expenditures for the year ended June 30, 2010. The statements of bond expenditures present 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

We selected a sample of 10 GO Bond projects from the 2009 New Construction Strategic Execution Plan (SEP) and verified the sample projects for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for New Construction projects:

- 8.1** For each of the 10 projects, we compared the SEP project budgets from the 2009 New Construction Strategic Execution Plan to the 2010 SEP. For each project with a 2010 SEP project budget that is greater than 105% of the 2009 SEP project budget, we determined if the budget increase was reported to the BOC.

Results

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

- 8.2** For each of the 10 projects, we compared the project's scheduled school occupancy date from the 2009 SEP to the 2010 SEP. For each project with a 2010 SEP occupancy date that is later than the 2009 SEP occupancy date, we determined if the project's schedule change in readiness for use as a school or campus element was reported to the BOC.

Results

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

- 8.3** For each of the 10 projects, we compared the project's scope from the 2009 SEP to the 2010 SEP. For each project with a 2010 SEP scope that differs significantly from the 2009 SEP scope, we determined if the project's scope change was reported to the BOC.



Results

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

9. Procedure

We attempted to select 10 samples of GO Bond project types (such as classroom lighting, exterior paving and roofing) from the 2009 Existing Facilities SEP to verify compliance of sampled projects with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for Existing Facilities Projects.

Results

We requested the list of bond project types from the 2010 Existing Facilities SEP data but according to Facilities Services Division, such data was not prepared for June 30, 2010. Consequently, no report was presented to the Bond Oversight Committee.

Due to the limitation mentioned above, we were not able to identify if there are project types with 2010 SEP current budgets that were greater than 105% of the 2009 SEP current budgets, project types with 2010 SEP completion dates that were later than the 2009 SEP completion dates or project types in 2009 SEP that were eliminated in 2010 SEP. Had the list of bond project types been prepared and made available for our review, we might have identified information that was required by the Memorandum of Understanding for Existing Facilities Projects to be reported to the BOC.

Management's Response

Management concurs. The District did not produce a 2010 Repair and Modernization SEP; therefore was not able to produce a BOC report on annual changes in schedule and budget. The BOC was informed and accepted that since FSD was merging New Construction and Existing Facilities, there would be a consolidated SEP issued at the end of 2010. However, due to several significant Board actions occurring in January and February 2011 (2011 Bond Program Funding Strategy defining \$531 million of new scope and the Jordan HS Redevelopment Board action that cancelled 187 existing facilities projects), the publication of the consolidated SEP was delayed. Currently that is anticipated to be completed by May 2011.

10. Procedure

We inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States had been performed in accordance with the provision of Measure Y.

10.1 We determined whether Facilities Services Division management compensation survey was performed and presented to the Board of Education.

10.2 We determined whether the District declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.



Results

According to the provisions of Measure Y, managers of the Facilities Services Division shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector. To ensure that the District employs managers of the Division who are so qualified, the Board shall no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private sectors, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

We inquired of District management and verified that there was a survey performed by the District's Personnel Commission in November 2009 that was aimed at addressing the provisions of Measure Y above. We also verified that the results of the survey were presented to the District's Board of Education. However, no finding has been made to confirm that managers of the Facilities Services Division are being compensated accordingly. Therefore, the District is not fully in compliance with the requirements of Measure Y.

Management's Response

A survey of management was conducted by District staff and presented to the Superintendent and the Board and made available to the public. Staff believes that the requirements of Measure Y were met in that regard. The District agrees that its Board has not made a finding regarding the compensation of managers of the Facilities Services Division.

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.

The District's written response to the exceptions identified in the report has not been subjected to auditing procedures and accordingly, we do not express an opinion on it.

The report is intended only for the information and use of the Board of Education, management, and members of the Citizens' 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

March 10, 2011



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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, 2010 and have issued our report thereon dated December 14, 2010. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the **Proposition BB School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2010. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from April 8, 1997 (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 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 Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the period from April 8, 1997 (inception) through June 30, 2010 in conformity with U.S. generally accepted accounting principles.

March 10, 2011

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

Statement of Bond Expenditures
Period from April 8, 1997 (Inception) through June 30, 2010

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		April 8, 1997 (Inception) through June 30, 2009	Expenditures Year Ended June 30, 2010	Total Expenditures through June 30, 2010	
New Construction	\$ 825,112,719	\$ 823,665,494	\$ 230,486	\$ 823,895,980	\$ 1,216,739
School Modernization / Repairs	1,725,319,426	1,651,561,357	43,120,802	1,694,682,159	30,637,267
Office of Inspector General	3,750,000	3,567,789	169,614	3,737,403	12,597
Others:					
Employee Benefits	3,171,067	3,139,674	31,393	3,171,067	-
Prior Year Adjustments	125,883,997	105,123,842	20,760,155	125,883,997	-
COPs Defeasance	15,344,829	15,344,829	-	15,344,829	-
Cost of Issuance	1,136,865	1,136,865	-	1,136,865	-
Total Others	145,536,758	124,745,210	20,791,548	145,536,758	-
Total Proposition BB Expenditures	\$ 2,699,718,903	\$ 2,603,539,850	\$ 64,312,450	\$ 2,667,852,300	\$ 31,866,603

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, 2010

(1) Proposition BB School Bond Construction Program Background

Proposition BB Initiative (Proposition BB) authorized the Los Angeles Unified School District (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 bond issuances are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

(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 April 8, 1997 (inception) through June 30, 2009 and FY 2009-10 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 Expenditures Incurred

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 8, 1997 (inception) through June 30, 2010.

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, 2010 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, 2010

d) Cost Category

The major cost categories in the statement of bond expenditures for Proposition BB 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 three 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 Proposition BB 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 Proposition BB, 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.

f) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2010 presentation.

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, 2010

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2010 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2010:

Actual:

Bonds Issued - FY 1997-98 through FY 2002-03	\$ 2,400,000,000
Interest Income - FY 1997-98 through FY 2008-09	174,703,172
Interest Income - FY 2009-10	1,074,308
Local Income - FY 2001-02	93,057
Interfund Transfer In - Other Financing Sources FY 2006-07 through FY 2008-09	104,967,430
Interfund Transfer In - Other Financing Sources FY 2009-10	21,880,936
Total Bonds issued, Interest /Local Income/OFS as of June 30, 2010	<u>\$ 2,702,718,903</u>
Less: Reserves- Relocation Revolving Fund	<u>(3,000,000)</u>
Total Sources of Funds less reserves as of June 30, 2010	\$ 2,699,718,903
Less: Uses of Funds (Expenditures) from Inception through June 30, 2010	<u>(2,667,852,300)</u>
Available Fund Balance as of June 30, 2010	<u><u>\$ 31,866,603</u></u>



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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, 2010 and have issued our report thereon dated December 14, 2010. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the **Measure K School Bond Construction Program** of the District for the period from July 1, 2007 to June 30, 2010. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from November 5, 2002 (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 K School Bond Construction Program of the Los Angeles Unified School District for the period from November 5, 2002 (inception) to June 30, 2010, in conformity with U.S. generally accepted accounting principles.

March 10, 2011

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from November 5, 2002 (Inception) through June 30, 2010

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 5, 2002 (Inception) through June 30, 2009	Expenditures Year Ended June 30, 2010	Total Expenditures through June 30, 2010	
New Construction	\$2,562,810,419	\$2,266,314,002	\$ 116,088,089	\$2,382,402,091	\$ 180,408,328
School Modernization / Repairs	628,713,251	453,856,732	50,862,916	504,719,648	123,993,603
Early Childhood Education	70,577,124	34,817,172	24,356,090	59,173,262	11,403,862
Information Technology Division	90,422,875	87,441,355	2,918,996	90,360,351	62,524
Library Services	38,000,000	27,886,405	758,353	28,644,758	9,355,242
Charters	50,000,000	18,996,318	4,919,651	23,915,969	26,084,031
Joint Use	10,000,000	5,558,775	2,015,614	7,574,389	2,425,611
Office of Inspector General	11,250,000	10,972,099	217,672	11,189,771	60,229
Others:					
Employee Benefits	3,648,226	3,494,237	153,989	3,648,226	-
Prior Year Adjustments	324,551,897	310,608,505	13,943,392	324,551,897	-
Cost of Issuance	5,658,218	5,482,312	175,906	5,658,218	-
Total Others	333,858,341	319,585,054	14,273,287	333,858,341	-
Total Measure K Expenditures	\$3,795,632,010	\$3,225,427,912	\$ 216,410,668	\$3,441,838,580	\$ 353,793,430

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, 2010

(1) Measure K School Bond Construction Program Background

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

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 K on the 2002 ballot. The Measure K School Bond initiative authorized the issuance of \$3.35 billion in bonds. \$3.35 billion has since been issued between February 2003 and June 2010. 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 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 project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District's master schedule and the master project budget.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from November 5, 2002 (inception) through June 30, 2009 and FY 2009-10 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 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 5, 2002 (inception) through June 30, 2010.

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, 2010

c) 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 5, 2002 (inception) through June 30, 2010.

d) Unexpended Balances (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, 2010 column.

e) Cost Category

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

f) Prior Year Adjustments

The District's Capital Improvement Program is financed with 15 capital fund sources. The accompanying statement of bond expenditures for Measure K 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 K, 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 K SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2010

a) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2010 presentation.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2010 (Unaudited)

The following is a summary of the sources of funds and uses of funds for the Program from November 5, 2002 (inception) through June 30, 2010:

Actual:

Bonds Issued - FY 2002-03 through FY 2008-09	\$ 3,000,000,000
Bonds Issued - FY 2009-10 (final issuance)	350,000,000
Interest Income - FY 2002-03 through FY 2008-09	122,713,369
Interest Income - FY 2009-10	4,635,423
Interfund Transfer In - Other Financing Sources FY 2006-07 through FY 2008-09	296,385,585
Interfund Transfer In - Other Financing Sources FY 2009-10	17,526,945
Audit Adjustments - Bond Premium, net of Cost of Issuance FY 2006-07	5,482,312
Total Bonds Issued, Interest and OFS as of June 30, 2010	\$ 3,796,743,634
Less: Adjustment - Cost of Issuance/Underwriter's Discount FY 2008-09	(1,111,624)
Total Sources of Funds as of June 30, 2010	3,795,632,010
Less: Uses of Funds (Expenditures) from Inception through June 30, 2010	(3,441,838,580)
Available Fund Balance as of June 30, 2010	<u>\$ 353,793,430</u>



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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, 2010 and have issued our report thereon dated December 14, 2010. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the **Measure R School Bond Construction Program** of the District for the period from July 1, 2007 to June 30, 2010. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from March 2, 2004 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of bond expenditures, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by 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, 2010, in conformity with U.S. generally accepted accounting principles.

March 10, 2011

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from March 2, 2004 (Inception) through June 30, 2010

COST CATEGORY	Adjusted Budget (Unaudited)	Actual Expenditures Incurred		Unexpended Balance (Unaudited)	
		March 2, 2004 (Inception) through June 30, 2009	Expenditures Year Ended June 30, 2010		Total Expenditures through June 30, 2010
New Construction	\$1,754,570,092	\$ 920,967,838	\$ 368,103,691	\$1,289,071,529	\$ 465,498,563
School Modernization / Repairs	1,510,801,628	1,079,728,069	135,484,585	1,215,212,654	295,588,974
Adult Education	25,000,000	14,559,677	40,086	14,599,763	10,400,237
Early Childhood Education	50,000,000	29,839,924	9,182,610	39,022,534	10,977,466
Information Technology Division	142,000,000	49,461,195	24,732,228	74,193,423	67,806,577
Library Services	18,897,520	2,596,952	3,311,103	5,908,055	12,989,465
Charters	20,000,000	11,107,096	2,955,028	14,062,124	5,937,876
Joint Use	20,000,000	5,352,289	5,463,928	10,816,217	9,183,783
Office of Inspector General	10,000,000	4,948,937	3,053,459	8,002,396	1,997,604
Others:					
Employee Benefits	3,316,732	2,765,211	551,521	3,316,732	-
Prior Year Adjustments	219,018,454	176,240,743	42,777,711	219,018,454	-
COPs Defeasance	150,000,000	149,994,712	-	149,994,712	5,288
Cost of Issuance	11,620,953	11,109,299	511,654	11,620,953	-
Total Others	383,956,139	340,109,965	43,840,886	383,950,851	5,288
Total Measure R Expenditures	\$ 3,935,225,379	\$ 2,458,671,942	\$ 596,167,604	\$ 3,054,839,546	\$ 880,385,833

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, 2010

(1) Measure R School Bond Construction Program Background

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

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure R on the 2004 ballot. The Measure R School Bond initiative authorized the issuance of \$3.87 billion in bonds. \$3.63 billion has since been issued between March 2004 and June 2010. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2009 and FY 2009-10 budget authority requested from the Board of Education for the costs that are expected to be expended and/or obligated to complete the various projects.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2010

(b) *Actual Expenditures Incurred*

The amounts included within the actual costs incurred column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the Los Angeles Unified School District for the period from March 2, 2004 (inception) through June 30, 2010.

(c) *Unexpended Balance (Unaudited)*

The amounts included within the unexpended balances (unaudited) column in the accompanying statement of bond expenditures costs represent the difference between the adjusted budget (unaudited) column and the total bond project expenditures through June 30, 2010 column.

(d) *Cost Category*

The major cost categories in the statement of bond expenditures for Measure R 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 three 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 R 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 R, 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 R SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2010

f) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2010 presentation.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2010 (Unaudited)

The following is a summary of the sources of funds and uses of funds for the Program from March 2, 2004 (inception) through June 30, 2010:

Actual:

Bonds Issued - FY 2004-05 through FY 2008-09	\$ 2,600,000,000
Bonds Issued - FY 2009-10	1,034,795,000
Adjustment - Premium, net of Cost of Issuance FY 2004-05 through FY 2006-07	11,082,578
Interest Income - FY 2005-06 through FY 2008-09	85,202,980
Interest Income - FY 2009-10	9,000,562
Interfund Transfer In - Other Financing Sources FY 2005-06 through FY 2008-09	132,601,979
Interfund Transfer In - Other Financing Sources FY 2009-10	64,990,226
Total Bonds Issued, Interest and Income/OFS as of June 30, 2010	\$ 3,937,673,325
Less: Adjustment - Cost of Issuance/Underwriter's Discount FY 2008-09	(2,447,946)
Total Sources of Funds as of June 30, 2010	\$ 3,935,225,379
Less: Uses of Funds (Expenditures) from Inception through June 30, 2010	(3,054,839,546)
Available Fund Balance as of June 30, 2010	<u>\$ 880,385,833</u>



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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, 2010 and have issued our report thereon dated December 14, 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, 2010. 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, 2010 in conformity with U.S. generally accepted accounting principles.

March 10, 2011

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

Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2010

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 8, 2005 (Inception) through June 30, 2009	Expenditures Year Ended June 30, 2010	Total Expenditures through June 30, 2010	
New Construction	\$2,361,318,497	\$ 212,537,021	\$ 426,065,029	\$ 638,602,050	\$1,722,716,447
School Modernization / Repairs	585,265,223	306,230,653	73,882,601	380,113,254	205,151,969
Achievement Gap	10,000,000	5,201,245	1,603,803	6,805,048	3,194,952
Adult Education	50,000,000	9,598,911	5,654,978	15,253,889	34,746,111
Early Childhood Education	60,000,000	13,632,529	11,674,050	25,306,579	34,693,421
Information Technology Division	125,000,000	3,584,727	6,883,944	10,468,671	114,531,329
Library Services	-	-	-	-	-
Joint Use and Innovation	90,000,000	18,624,560	10,840,563	29,465,123	60,534,877
Charter	50,000,000	276,266	15,885,414	16,161,680	33,838,320
Transportation (Buses)	25,000,000	4,723,623	16,126,472	20,850,095	4,149,905
Office of Inspector General	10,000,000	-	-	-	10,000,000
Others:					
Employee Benefits	1,192,509	582,813	609,696	1,192,509	-
Prior Year Adjustments	57,155,680	43,713,737	13,441,943	57,155,680	-
COPs Defeasance	178,617,579	178,617,579	-	178,617,579	-
Cost of Issuance	8,182,550	6,671,876	1,510,674	8,182,550	-
Total Others	245,148,318	229,586,005	15,562,313	245,148,318	-
Total Measure Y Expenditures	\$3,611,732,038	\$ 803,995,540	\$ 584,179,167	\$1,388,174,707	\$2,223,557,331

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, 2010

(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 2010. 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 March 2, 2004 (inception) through June 30, 2009 and FY 2009-10 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, 2010

(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, 2010.

(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, 2010 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 three 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, 2010

f) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2010 presentation.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2010 (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, 2010:

Actual:

Bonds Issued - FY 2005-06 through FY 2008-09	\$ 844,385,000
Bonds Issued - FY 2009-10	2,697,850,000
Adjustment to Bond Proceeds - Premium, net of Cost of Issuance FY 2005-06	6,614,884
Interest Income - FY 2005-06 through FY 2008-09	34,196,946
Interest Income - FY 2009-10	16,145,051
Local Income - FY 2007-08 through FY 2008-09	1,222,270
Local Income - FY 2009-10	923,906
Interfund Transfer In - Other Financing Sources FY 2005-06 through FY 2008-09	9,293,841
Interfund Transfer In - Other Financing Sources FY 2009-10	1,767,635
Total Bonds Issued and Interest/OFS as of June 30, 2010	\$ 3,612,399,533
Less: Adjustment - Cost of Issuance/Underwriter's Discount FY 2008-09	(667,495)
Total Sources of Funds as of June 30, 2010	\$ 3,611,732,038
Less: Uses of Funds (Expenditures) from Inception through June 30, 2010	(1,388,174,707)
Available Fund Balance as of June 30, 2010	<u>\$ 2,223,557,331</u>