



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, 2007 and
Statements of Bond Expenditures from Inception through June 30, 2007

(With Independent Auditors' Reports Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Independent Accountants' 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, 2007. 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 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 expenditures charged to Object Code #6000 in the general ledger (IFS) for the year ended June 30, 2007, we selected 5 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 tested the selected sample invoices 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 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).

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

1.2 Procedure

For the items selected in procedure 1.1 above, we determined whether the following requirements of GO Bond construction project payments procedures had been met:

- a) The invoice, along with a District-approved Encumbrance/Payment Request form, including evidence of approval by an LAUSD employee, was 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 supporting documents. The OAR then transmits the original Owner Assessment Summary to the Facilities Contract Invoice Unit (FCIU), with copies to Facilities Construction Contract Unit.
- 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

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

1.3 Procedure

We tested the 5 invoices from each GO Bond Fund selected in procedure 1.1, 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

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, 2007, 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 obtained the expenditures selected along with corresponding time sheets and personnel files (when applicable) and determined whether the items selected for bond funds Measure K, Measure R, and Measure Y 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).

Results

For each item selected, we identified the related employee name and obtained the employee time record supporting the expenditures. We then identified the class code as indicated in the employee time record to obtain an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the job description from the Human Resources Department to determine whether the bond proceeds were expended for “administrator” or “teacher” salaries.

We noted the following exceptions:

- A payment to an employee for \$2,868.64 was made from Measure K funds. The employee’s title is Office Management Assistant and job description states the following:
Performs a variety of staff duties to relieve an administrator of details relative to clerical procedures and methods, office management or other areas of the business operations such as budget preparation and control.
- A payment to an employee for \$2,101.20 was made from Measure K funds. The employee’s title is Sr. Office Technician and job description states the following:
Under general supervision, performs a variety of moderately to highly complex clerical duties requiring a working knowledge of specialized subject matter and specialized clerical functions and exercises more independent judgment and initiative as compared to an Office Technician.
- A payment to an employee for \$5,030.76 was made from Measure Y funds. The employee’s title is Human Resource Specialist III and job description states the following:
Performs technical human resources duties related to position classification, compensation, recruitment, selection, staff development, employee relations, and/or formulation, development, and analysis of human resources policies, rules, and legislation.

We consider the above costs to be associated with the “regular, on-going, day-to-day costs associated with maintaining and operating a school” and not within the costs defined by the administrative oversight. As such, we note these items as exceptions.

2.2 We obtained the expenditures selected with corresponding time sheet and personnel file in order to determine 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 obtained the employee time record supporting the expenditures. We then identified the class code as indicated in the employee time record to obtain an understanding of the duties of the position to which the employee was assigned for the payroll period reported. We reviewed the job description from the Human Resources Department to determine whether the bond proceeds were not expended for “administrator” salaries.

We noted the following exceptions:

- A payment to an employee for \$477.79 was made from BB fund. The employee’s title is Administrative Aide and job description states the following:

Assists an administrator by carrying out complex, but well-defined projects and performing low-level administrative work in coordinating procedures, gathering and synthesizing information, composing and editing departmental and school publications, and providing work direction and participating in other activities.

We consider this expenditure to be consistent with an administrative function, and as such, we note this as an exception.

Management's Response

The job description excerpts above are generic roles used across the District and Divisions. cursory review of these job descriptions are not adequate for evaluating compliance with this procedure. The positions must be evaluated by their functions in support of the Measures K, R, and Y Bond programs. The test of expenditures on "administrator salaries" and "teacher salaries" as applied in the ballot language and specified in Proposition 39 must be understood in context. The State Attorney General's opinion clarifies that costs for "administrative oversight" are allowable bond costs "as long as such costs are not associated with "the regular, ongoing, day-to-day costs associated with maintaining and operating a school."

The Senior Office Technician is employed in New Construction in the (Bond) Construction department. The Administrative Aide is employed in Existing Facilities, Region 8 Project Management Unit. The Office Management Assistant is employed in Instructional Media Services performing the function of subject matter expert in libraries setup and procurement for the Bond Libraries program furnishing newly constructed school libraries. The Human Resource Officer II is employed in the Personnel Commission solely supporting specialized staffing and recruitment for the Facilities Bond program.

All four positions comply with Proposition 39 in that they support administrative oversight of the bond program and they are not teachers or school administrators nor do they support school administrative functions.

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, 2007:

- 3.1 We selected a sample of 10 expenditures for all GO Bond Funds combined (Prop BB, Measure K, Measure R, and Measure Y), and 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).

Results

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

4. Procedure

From a population of all expenses charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2007:

- 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.
- We obtained a copy of the contract for each program management/construction firm selected.

- We selected one invoice payment for each program management/construction firm selected and reviewed the corresponding invoices for consistency with contract terms.

Results

We obtained a list of program 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 provision 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 as a guide in reviewing the invoices to determine whether the information provided in the billing was consistent with the contract.

We noted the following exceptions:

- An expenditure of \$56,500.47 had the following exception:
- A supervisor-approved timesheets before last day of work. The Guidelines state that signatures of the consultant and approving officer should be dated as of the last day of work shown in the timesheet or later but not earlier to ensure that claimed work days are actual work days and not projected work days.

Management's Response

Approval by Supervisors of weekly timecards prior to the last day worked is a violation. To eliminate this violation, the official timekeeping system was enhanced to limit access for approval by Supervisors of online weekly timecards to the last of the work week (Friday).

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, 2007, we selected a sample of 10 expenditures from the samples selected in 3) and 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 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.

Article XIII A, Section 1(b)(3) of the Constitution of the State of California 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 District Bond Charging Procedures and noted that no written policies and procedures were issued specifically for Measures R and Y. According to a representative of the Facilities Services Division, 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. 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, 2007 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 read the selected change orders to determine compliance with the District's Change Order procedures and 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 read the significant provisions stated therein. We then obtained a list of Change Orders approved for fiscal year 2006-2007 from the District. From the list of change orders provided, we selected 20 sample items 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 whether they included all documentation to support additions, deletions, or revisions in the work including the following:
 - Pricing, breakdowns, and costs required to validate a proposed adjustment in the contract amount.
 - Detailed schedule analysis demonstrating the impact on the project critical path to substantiate requests for contract time extension (if applicable).
 - Revised or marked-up drawings, specifications, and sketches (if applicable).

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

- b. We requested each Change Order Package, which are required to have the following: (a) Change Order Checklist, (b) Justification of Change, (c) Change Order Proposal, (d) Record of Negotiation, (e) Independent Estimate or Analysis, if required. Nine (9) change orders were missing the Change Order Checklist, and one (1) Change Order Proposal was not approved.

Management's Response to b

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. Change order checklists are also not included in the Board approved change order packet forwarded to Division of State Architect.

The Regional Project Management Director and the Sr. Project Manager will be formally notified that change order proposal must be properly completed and signed by those individuals as titled at the bottom section of the documents.

- c. We compared the sampled items to the “Not to Exceed Limits” to determine compliance with the following procedures. According to the Change Order Procedures, individual change orders for New Construction 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.
- d. We inspected the samples Change Order Forms to determine whether the prescribed signatures were obtained prior to processing the Change Order. According to the Change Order Procedure, signatures of Contractors, Architects, or Engineers (for 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 (FSD), such a list is not maintained. As the list of authorized contractor signatories was not provided, we were unable to complete 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. According to the Change Order Procedures, an architect’s signature is required for Division of State Architect (DSA) approved projects, therefore, not all samples would have architect approval. A listing of authorized architect signatories for change orders was not provided to us. The samples we tested that were DSA-approved projects (15 out of the 20) all bore signatures. For the Change Orders bearing architect signatures, we were unable to verify the validity of the signatories as no list of authorized architects was provided.

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 OAR who is aware of the architect of record.

- e. We attempted to obtain the list of OARs to compare approvals on the sampled Change Order Forms but the District was not able to provide us with the OAR list. The Change Orders tested all bore signatures. We were unable to verify the validity of the signatories as no list of authorized OARs was provided.

Management's Response to e

For the New Construction Branch, with several hundred projects, the list of OARs assigned to the projects were 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 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 signatures have been affixed to the change order.

- f. We obtained the list of District staff authorized to approve the change orders selected above from the District. We compared the dollar amount of each individual change order sampled and the cumulative change order total as a percentage of the original contract amount. We then inspected the documented approval to determine if it complied with the Matrix of Change Order Signatory Requirement found in the Change Order Procedures. No exceptions were noted as a result of performing this procedure.
- g. According to the Change Order Procedures, changes or alterations to the plans and specifications previously approved by the Division of the State Architect (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 the 15 projects identified as requiring DSA approval, 3 projects were not approved by DSA prior to commencement of the work. As such, this is noted as an exception.

Management's Response to g

For change order T-667 (\$2,304), the construction teams can be authorized to proceed with change order work prior to DSA Change Order approval by obtaining a Field Change Document (FCD) approval by DSA prior to commencement of 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).

For change order T-561 (\$232,700), per the Architect of Record (AOR) (1) the plan check for the Request for Proposal (RFP) was submitted to DSA on 3/6/06. (2) DSA responded with comments on 6/11/06. (3) AOR completed/answered all of DSA comments and resubmitted the RFP to DSA on 9/13/06. (4) AOR and OAR expectation of early approval from DSA did not happen.

Letters were sent to DSA requesting prompt review and approval of the RFP in question. All DSA comments were answered and responded to. The change order work met all the DSA requirements based on the 6/11/06 review, and the work completed passed the required inspection. Change order T561 finally was approved by the DSA on 12/27/07, as stamped on the change order.

In this instance, waiting for DSA approval would have resulted in an unacceptable project delay of 18 months. Eventual DSA approval is conclusive evidence that all necessary due diligence steps were taken by the District and assured safe and conforming design and construction on this project.

For the change order T-672 (\$5,619), per the OAR of this project, due to the work load that DSA was experiencing at that time, the change order review process was indeed taking longer in getting the DSA approval. Completion of work had to be met per schedule. The DSA Field Inspector reviewed the construction documents for Code compliance prior to the start of the work. Also, the Architect of Record (AOR) on a regular basis provided direction to assure the proper means and methods of Construction as described on the Change Order scope of work.

- h. 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 one change order exceeded the thresholds noted above. We noted that Board approval was obtained for the change.

7. Procedure

We determined whether the total expenditures reported in the year-end "summary statements of project cost" for each GO Bond Fund measure agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2007.

We obtained a "Summary of Project Costs" for each of the GO Bond funds and agreed the CAFR bond fund expenditures. The statement of project costs 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 January 2006 New Construction Strategic Execution Plan (SEP) and performed the following procedures:

- 8.1 We compared the SEP project budget for each project in the sample to the January 2007 SEP budget.
- 8.2 If the January 2007 SEP project budget is greater than 105% of the January 2006 SEP project budget, we reviewed documentation of the budget increase being reported to the Bond Citizens Oversight Committee (BCOC).

Results

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

9. Procedure

We selected 10 samples of GO Bond project types from the June 2006 Existing Facilities SEP data and performed the following procedures:

- 9.1. We compared the June 2006 SEP Current Cost of Completion (FCAC) for all project types selected (such as classroom lighting, exterior paving, and roofing) to the May 2007 SEP Current Budget Cost (CBC);

- 9.2. If the May 2007 SEP CBC was greater than 105% of the June 2006 SEP FCAC, we determined whether the increase was reported in the September 2007 Monthly Program Status Report.
- 9.3. For each of the 10 project types selected, we selected one specific project from the May 2007 SEP budget that has a completion date that is 12 months or later than the June 2006 SEP budget and determined whether the delay was reported in the September 2007 Monthly Program Status Report.

Results

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

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 United States had been performed in accordance with the provision of Measure Y.

Results

According to the provisions of Measure Y, managers of the Facilities Services Division (Division) shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector. Measure Y also requires the Board to no less than biennially, cause 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 in both the public and private sector be conducted, and the Board shall make a finding that the managers of the District's Division are being compensated accordingly.

KPMG 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 location across United States has been performed in accordance with the provision for Measure Y and noted that a survey was not performed in fiscal year ended June 30, 2007. The performance of the required compensation survey was completed subsequent to the period under audit. We noted that there was no certification made as to whether managers of the Division are compensated accordingly.

Management's Response

There were no milestones or completion dates specified in the ballot language for this procedure that were within the July 1, 2006 through June 30, 2007 period of the KPMG audit due to the biennial nature of the Measure Y compensation survey requirement.

Progress has been made to date on the management compensation survey. The survey was initially commissioned to an outside firm and the report was received one month after the due date for completion. Upon review, the Bond Oversight Committee, Superintendent, and Personnel Commission all agreed that the report was inadequate for the intended purpose of the survey. A new survey was authorized to be performed internally by the Personnel Commission and was completed in April of 2008.

Additionally, different language was imposed regarding this compensation survey requirement in the subsequent Measure Q Facilities bond fund ballot measure approved by the voters under Proposition 39 in November 2008.

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 express no opinion on it.

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.

KPMG LLP

May 15, 2009



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' 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, 2007 and have issued our report thereon dated December 5, 2008. 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 April 8, 1997 (inception) through June 30, 2007. 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.

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 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 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, 2007 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' 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, 2007 and have issued our report thereon dated December 5, 2008. 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 November 5, 2002 (inception) to June 30, 2007. 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.

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 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 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, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009

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

Statement of Bond Expenditures

Period from November 5, 2005 – 2002 (inception) through June 30, 2007

Cost category	Adjusted budget (Unaudited)	Actual expenditures incurred			Unexpended balance (Unaudited)
		November 5, 2005 – 2002 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	
New construction:					
Phase one:					
New construction	\$ 1,480,078,896	993,924,031	265,173,002	1,259,097,033	220,981,863
Additions	71,495,243	63,092,090	3,277,378	66,369,468	5,125,775
Playground expansion	17,632,533	14,955,941	1,463,276	16,419,217	1,213,316
Support costs	7,153,739	6,404,053	749,686	7,153,739	—
Labor costs	21,817,603	12,773,432	1,731,721	14,505,153	7,312,450
Total phase one	<u>1,598,178,014</u>	<u>1,091,149,547</u>	<u>272,395,063</u>	<u>1,363,544,610</u>	<u>234,633,404</u>
Phase two:					
New construction	787,829,863	300,929,119	156,337,134	457,266,253	330,563,610
Land acquisition	8,865,395	8,864,395	(8,864,395)	—	8,865,395
Additions	13,688,653	6,805,981	2,022,619	8,828,600	4,860,053
Playground expansion	168,499	4,800	—	4,800	163,699
Support costs	50,975,449	23,035,242	10,208,678	33,243,920	17,731,529
Labor costs	33,831,306	18,864,265	3,795,666	22,659,931	11,171,375
Labor legal support	124,157	124,157	—	124,157	—
Office of the inspector general audit	7,509,054	3,175,433	2,497,179	5,672,612	1,836,442
Total phase two	<u>902,992,376</u>	<u>361,803,392</u>	<u>165,996,881</u>	<u>527,800,273</u>	<u>375,192,103</u>
Total new construction	<u>2,501,170,390</u>	<u>1,452,952,939</u>	<u>438,391,944</u>	<u>1,891,344,883</u>	<u>609,825,507</u>
Existing facilities:					
Lead and asbestos removal	11,826,725	8,417,646	916,371	9,334,017	2,492,708
Repairs	411,084,079	103,174,213	60,231,687	163,405,900	247,678,179
Repair support costs	99,149,385	30,458,785	26,212,629	56,671,414	42,477,971
Labor legal support	189,811	80,427	59,328	139,755	50,056
Office of the inspector general audit	3,750,000	1,589,948	1,303,072	2,893,020	856,980
Total existing facilities	<u>526,000,000</u>	<u>143,721,019</u>	<u>88,723,087</u>	<u>232,444,106</u>	<u>293,555,894</u>
Early childhood education:					
Renovation/repair	13,616,909	5,133,020	1,448,128	6,581,148	7,035,761
Expansion	14,400,000	7,690,254	2,791,827	10,482,081	3,917,919
Education center	39,600,000	1,062,949	1,056,705	2,119,654	37,480,346
Support costs	311,791	311,791	—	311,791	—
Labor costs	1,071,300	703,999	367,301	1,071,300	—
Total early childhood education	<u>69,000,000</u>	<u>14,902,013</u>	<u>5,663,961</u>	<u>20,565,974</u>	<u>48,434,026</u>
Information technology division:					
Indirect support – ITD:					
Support costs	1,885,200	61,165	—	61,165	1,824,035
Labor costs	1,891,982	1,306,384	—	1,306,384	585,598
Nonlabor	2,244,297	1,780,271	99,496	1,879,767	364,530
Technical support	10,000,003	5,854,204	2,439,570	8,293,774	1,706,229
Tech and communication infrastructure	77,587,170	62,442,917	4,564,529	67,007,446	10,579,724
Upgrading and stocking library	36,391,348	15,981,011	4,385,199	20,366,210	16,025,138
Total information technology division	<u>130,000,000</u>	<u>87,425,952</u>	<u>11,488,794</u>	<u>98,914,746</u>	<u>31,085,254</u>
Charters	50,000,000	2,651,065	1,698,587	4,349,652	45,650,348
Joint use	10,000,000	—	924,871	924,871	9,075,129
Others:					
Employee benefits	2,976,078	2,451,780	524,298	2,976,078	—
Accruals	—	48,973,897	(2,308,455)	46,665,442	(46,665,442)
Interest expended	87,468,683	61,072,994	(2,756,337)	58,316,657	29,152,026
IFT from MK to other funds	34,330,833	—	34,330,833	34,330,833	—
PYA expenditures transfer	79,362,167	—	104,815,929	104,815,929	(25,453,762)
Unimplemented budget adjustment	(647,249,999)	—	—	—	(647,249,999)
Arbitrage rebate	—	—	873,131	873,131	(873,131)
Cost of issuance	5,482,312	—	5,482,312	5,482,312	—
Total others	<u>(437,629,926)</u>	<u>112,498,671</u>	<u>140,961,711</u>	<u>253,460,382</u>	<u>(691,090,308)</u>
Total measure K bond expenditures	<u>\$ 2,848,540,464</u>	<u>1,814,151,659</u>	<u>687,852,955</u>	<u>2,502,004,614</u>	<u>346,535,850</u>

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, 2007

(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 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. \$2.6 billion has since been issued between March 2003 and June 2007. 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, 2005 (inception) through June 30, 2006 and FY 2006-07 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, 2007. The negative bond expenditures for the year ended June 30, 2007 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, 2007

(c) 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, 2007 column.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (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, 2007:

Actual:

Bonds issued – November 5, 2002 (inception) through June 30, 2006	\$ 2,100,000,000
Bonds issued – FY 2006-07	<u>500,000,000</u>
Total bonds issued as of June 30, 2007	2,600,000,000
Interest – earned FY 2002-06	87,047,511
Interest – earned FY 2006-07	<u>15,421,172</u>
Total interest earned as of June 30, 2007	102,468,683
Interfund transfer – other fund sources FY 2006-07	140,589,469
Other financing sources – bond premium	<u>5,482,312</u>
Total other fund sources as of June 30, 2007	<u>146,071,781</u>
Total sources of funds as of June 30, 2007	2,848,540,464
Less bond expenditures from inception through June 30, 2007	<u>(2,502,004,614)</u>
Fund balance as of June 30, 2007	<u><u>\$ 346,535,850</u></u>

**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, 2007

(4) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from November 5, 2002 (inception) through June 30, 2007:

Actual:

Bonds issued – Previous inception through June 30, 2006	\$ 2,100,000,000
Bonds issued – FY 2006-07	500,000,000
Interest – actual FY 2002-03	5,069,730
Interest – actual FY 2003-04	32,440,483
Interest – actual FY 2004-05	25,954,620
Interest – actual FY 2005-06	23,582,678
Interest – actual FY 2006-07	15,421,172
Interfund transfer – other fund sources FY 2006-07	140,589,469
Other Financing Sources – bond premium	<u>5,482,312</u>
Total bonds issued + interest/OFS as of FY 07	2,848,540,464
Less expenditures/project costs from inception through the year ended June 30, 2007	<u>(2,502,004,614)</u>
Available fund balance as of June 30, 2007	<u>\$ 346,535,850</u>



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' 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, 2007 and have issued our report thereon dated December 5, 2008. 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 March 2, 2004 (inception) to June 30, 2007. 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.

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 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 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, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009

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

Statement of Bond Expenditures

Period from March 2, 2004 (inception) through June 30, 2007

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			Unexpended balance (unaudited)
		March 2, 2004 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	
New construction:					
New schools most impact campuses	\$ 486,350,704	61,716,612	103,604,138	165,320,750	321,029,954
Full-day kindergarten	47,426,895	12,546,087	12,345,113	24,891,200	22,535,695
Furnitures, equipment, fixtures	45,725,473	12,744,079	8,952,171	21,696,250	24,029,223
Interest expended	38,616,033	73,144	2,985,897	3,059,041	35,556,992
Environment safety	85,800	—	—	—	85,800
Total new construction	618,204,905	87,079,922	127,887,319	214,967,241	403,237,664
Existing facilities:					
A/C heating	180,080,816	51,328,875	40,736,298	92,065,173	88,015,643
Asbestos hazardous removal	44,237,796	9,536,191	4,711,034	14,247,225	29,990,571
Basic repairs	108,389,312	52,823,961	23,631,551	76,455,512	31,933,800
New major repairs	108,800,592	4,822,528	7,461,930	12,284,458	96,516,134
Previous plan projects	219,678,592	88,256,758	50,458,099	138,714,857	80,963,735
Repair upgrade	266,916,776	136,535,419	6,945,994	143,481,413	123,435,363
Safety and technology upgrade	276,603,520	139,803,379	31,390,550	171,193,929	105,409,591
Upgrade school buildings	20,410,259	4,414,261	2,645,704	7,059,965	13,350,294
Support costs – existing	180,518,408	—	69,729,946	69,729,946	110,788,462
Small schools (upgrade redesign campuses)	11,953,972	686,929	6,499,548	7,186,477	4,767,495
Total existing facilities	1,417,590,043	488,208,301	244,210,654	732,418,955	685,171,088
Adult education	25,000,000	3,402,344	11,021,381	14,423,725	10,576,275
Early childhood education	50,000,990	7,899,427	1,882,374	9,781,801	40,219,189
Information technology division	140,630,253	2,686,873	12,480,846	15,167,719	125,462,534
Charters	20,000,000	1,241,188	5,481,473	6,722,661	13,277,339
Joint use	20,000,000	—	13,507	13,507	19,986,493
Others:					
Accruals	—	31,570,694	(5,934,049)	25,636,645	(25,636,645)
Election costs	2,719,535	2,719,535	—	2,719,535	—
Refinance Certificates of Participation	150,000,000	149,994,712	—	149,994,712	5,288
Employee benefits	1,500,964	837,119	647,861	1,484,980	15,984
Cost of issuance	8,389,764	6,152,333	2,237,431	8,389,764	—
Prior year accumulated expenditure transfer	995,871	—	14,843,694	14,843,694	(13,847,823)
Internal fund transfer from Measure R to other funds	3,039,168	—	3,039,168	3,039,168	—
Unimplemented budget adjustment	(899,331,804)	—	—	—	(899,331,804)
Total others	(732,686,502)	191,274,393	14,834,105	206,108,498	(938,795,000)
Total measure R bond expenditures	\$ 1,558,739,689	781,792,448	417,811,659	1,199,604,107	359,135,582

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, 2007

(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 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. \$1.5 Billion has since been issued between March 2004 and June 2007. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

All projects are managed by District-approved project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District’s master schedule and the master project budget.

(2) Basis of Presentation

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

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2006 and FY 2006-07 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) through June 30, 2007.

**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, 2007

(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, 2007 column.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (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, 2007:

Actual:

Bond issued – FY 2004-06	\$ 1,108,845,146
Bond issued – FY 2006-07	<u>400,000,000</u>
Total bonds issued as of June 30, 2007	1,508,845,146
Interest issued – earned FY 2004-06	15,414,340
Interest issued – earned FY 2006-07	<u>23,201,692</u>
Total interest earned as of June 30, 2007	38,616,032
Local income – FY 2006-07	6,420,198
Interfund transfer – other fund sources FY 2004-05	58,720
Interfund transfer – other fund sources FY 2006-07	2,562,162
Other financing sources – bond premium	<u>2,237,431</u>
Total other fund sources as of June 30, 2007	<u>11,278,511</u>
Total sources of funds as of June 30, 2007	1,558,739,689
Less bond expenditures from inception through June 30, 2007	<u>(1,199,604,107)</u>
Fund balance as of June 30, 2007	<u><u>\$ 359,135,582</u></u>

**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, 2007

(4) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from September 1, 2004 (inception) through June 30, 2007:

Bond issued – FY 2004-05	\$ 204,124,117
Bond issued – FY 2005-06	904,721,029
Bond issued – FY 2006-07	400,000,000
Interfund transfer in from CS-COPS trust – FY 2004-05	58,720
Interest issued – actual FY 2004-05	17,510
Interest issued – actual FY 2005-06	15,396,830
Interest issued – actual FY 2006-07	23,201,692
Income – actual FY 2006-07	6,420,198
IFT – other fund sources FY 2006-07	2,562,162
Other financing sources – bond premium	<u>2,237,431</u>
Total bonds issued + interest and income/IFT as of June 30, 2007	1,558,739,689
Less expenditures/project costs from inception to June 30, 2007	<u>(1,199,604,107)</u>
Available fund balance as of June 30, 2007	<u><u>\$ 359,135,582</u></u>



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' 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, 2007 and have issued our report thereon dated December 5, 2008. 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 November 8, 2005 (inception) to June 30, 2007. 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.

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 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 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, 2007 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 15, 2009

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

Statement of Bond Expenditures

Period from November 8, 2005 (inception) through June 30, 2007

Cost category	Adjusted budget (unaudited)	Actual expenditures incurred			
		November 8, 2005 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	Unexpended balance (unaudited)
New construction:					
School construction	\$ 38,259,775	6,649	(539,951)	(533,302)	38,793,077
Total new construction	<u>38,259,775</u>	<u>6,649</u>	<u>(539,951)</u>	<u>(533,302)</u>	<u>38,793,077</u>
Existing facilities:					
Major repairs	26,107,206	105,923	1,022,461	1,128,384	24,978,822
Bungalow repair and removal	4,000,000	—	—	—	4,000,000
Basic repairs	16,911,000	—	816,093	816,093	16,094,907
Install and upgrade fire alarm systems	30,105,965	—	545,894	545,894	29,560,071
Program support	73,199,054	20,358,834	17,170,633	37,529,467	35,669,587
A/C heating	500,000	—	—	—	500,000
Upgrade deficient school buildings	150,000	—	54,061	54,061	95,939
Asbestos hazard removal	52,101,468	—	77,215	77,215	52,024,253
Alterations and improvement	14,926,480	—	232,648	232,648	14,693,832
Small learning community	4,000,000	—	11,152	11,152	3,988,848
Total existing facilities	<u>222,001,173</u>	<u>20,464,757</u>	<u>19,930,157</u>	<u>40,394,914</u>	<u>181,606,259</u>
Achievement gap	10,000,000	—	448,647	448,647	9,551,353
Adult education	8,876,095	—	8,876,095	8,876,095	—
Information technology division	40,001,961	—	1,320,266	1,320,266	38,681,695
Innovation	15,109,106	—	2,224,995	2,224,995	12,884,111
Others:					
Accruals	35,523,806	—	752,813	752,813	34,770,993
Employee benefits	20,156	2,017	18,139	20,156	—
Interest – new construction	10,983,742	—	—	—	10,983,742
Prior year accumulated expenditures transfer	—	—	(5,034,665)	(5,034,665)	5,034,665
Interfund transfer to general fund for deferred maintenance	60,000,000	30,000,000	30,000,000	60,000,000	—
Cost of issuance	6,671,876	6,671,876	—	6,671,876	—
Interfund transfer to capital service fund (071)	178,617,579	178,617,579	—	178,617,579	—
Interfund transfer from Measure Y to other funds	14,576,071	—	10,768,287	10,768,287	3,807,784
Unimplemented budget adjustment	(228,330,000)	—	—	—	(228,330,000)
Total others	<u>78,063,230</u>	<u>215,291,472</u>	<u>36,504,574</u>	<u>251,796,046</u>	<u>(173,732,816)</u>
Total measure Y bond expenditures	\$ <u>412,311,340</u>	<u>235,762,878</u>	<u>68,764,783</u>	<u>304,527,661</u>	<u>107,783,679</u>

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, 2007

(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 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. \$0.35 billion has since been issued between November 2005 and June 2007. The proceeds from the Measure Y School Bonds are to be used for projects such as the following: build neighborhood schools; bungalow repair and removal; upgrade and redesign campuses to create smaller schools; install and upgrade fire alarm systems; undertake complete asbestos hazard removal program; air condition remaining non-air-conditioned buildings; perform school alterations and improvements; upgrade and reinforce computer networks, school information systems, and technology capability; upgrade emergency radio systems; build new and repair existing early education centers in neediest areas; promote alternative education models like joint use and small learning communities; build, plan, and equip charter schools; replace all special education buses; give low performing schools added resources to improve results; audit and oversight of bond projects; and open new schools with sufficient number of library books. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher, administrator salaries or for operating expenses.

All projects are managed by District-approved District project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District’s master schedule and the master project budget.

(2) Basis of Presentation

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

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from November 8, 2005 (inception) through June 30, 2006 and FY 2006-07 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, 2007

(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, 2007.

(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, 2007 column.

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the sources of funds and uses of funds for the Program from November 8, 2005 (inception) through June 30, 2007:

Actual:

Bonds issued – November 8, 2005 (inception) through June 30, 2006	\$ <u>351,685,000</u>
Total bonds issued as of June 30, 2007	351,685,000
Interest – earned FY 2005-06	3,000,029
Interest – earned FY 2006-07	<u>7,983,713</u>
Total interest issued as of June 30, 2007	10,983,742
Local Income – FY 2006-07	326,257
Interfund – other fund sources FY 2005-06	1,457
OFS All Other Sources – FY 2005-06	<u>49,314,884</u>
Total other fund sources as of June 30, 2007	<u>49,642,598</u>
Total sources of funds as of June 30, 2007	412,311,340
Less bond expenditures from inception through June 30, 2007	<u>(304,567,661)</u>
Fund balance as of June 30, 2007	<u>\$ <u>107,743,679</u></u>

**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, 2007

(4) Fund Balances from Inception to Fiscal Year Ended June 30, 2007 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from November 8, 2005 (inception) through June 30, 2007:

Bonds issued – previous inception through June 30, 2006	\$ 351,685,000
OFS all other sources – actual FY 2005-06	49,314,884
Interest – actual FY 2005-06	3,000,029
Interest – actual FY 2006-07	7,983,713
IFT in other authorized transfer in – FY 2005-06	1,457
Local income – actual FY 2006-07	<u>326,257</u>
Total bonds issued + interest/OFS as of FY 07	412,311,340
Less expenditures/project costs from inception through the year ended June 30, 2007	<u>(304,567,661)</u>
Available fund balance as of June 30, 2007	\$ <u><u>107,743,679</u></u>