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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, 2012 and have issued our report thereon dated December 14, 2012. 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, 2012. 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, 2012 in conformity with U.S. generally accepted accounting principles.

January 17, 2013

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

Statement of Bond Expenditures

Period from April 8, 1997 (Inception) through June 30, 2012

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		April 8, 1997 (Inception) through June 30, 2011	Expenditures Year Ended June 30, 2012	Total Expenditures through June 30, 2012	
New Construction	\$ 825,112,719	\$ 823,827,950	\$ 1,123,857	\$ 824,951,807	\$ 160,912
School Modernization / Repairs	1,726,371,215	1,706,724,463	1,651,153	1,708,375,616	17,995,599
Office of Inspector General	3,750,000	3,750,000	-	3,750,000	-
Others:					
Employee Benefits	3,171,595	3,171,329	266	3,171,595	-
Prior Year Adjustments	166,739,358	142,454,523	24,284,835	166,739,358	-
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	186,392,647	162,107,546	24,285,101	186,392,647	-
Total Proposition BB Bond Expenditures	\$ 2,741,626,581	\$ 2,696,409,959	\$ 27,060,111	\$ 2,723,470,070	\$ 18,156,511

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, 2012

(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, 2011 and FY 2011-12 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, 2012.

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, 2012 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, 2012

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.

The aggregate of interfund transfers in, for all four bonds combined, which amounts to about \$1.7 billion generally represent the use of bond funds and subsequent reimbursements from state grant revenues. The District has been able to leverage the four local bonds to obtain approximately \$5.1 billion in grant apportionments from the state lease purchase and school facility programs. The state programs require the commitment of local funds prior to release of grant revenues.

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
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from April 8, 1997 (inception) through June 30, 2012

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2012 (Unaudited)

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2012:

Actual:

Bonds Issued - FY 1997-98 through FY 2002-03 (final issuance)	\$ 2,400,000,000
Interest Income - FY 1997-98 through FY 2010-11	176,323,746
Interest Income - FY 2011-12	370,617
Local Income - FY 2001-02	93,057
Interfund Transfer In - OFS FY 2006-07 through FY 2010-11	143,470,614
Interfund Transfer In - OFS FY 2011-12	<u>24,368,547</u>
Total Bonds issued, Interest /Local Income/OFS as of June 30, 2012	\$ 2,744,626,581
Less: Reserves- Relocation Revolving Fund	<u>(3,000,000)</u>
Total Sources of Funds (net of Reserves), June 30, 2012	\$ 2,741,626,581
Less: Uses of Funds (Expenditures) from Inception through June 30, 2012	<u>(2,723,470,070)</u>
Fund Balances, June 30, 2012	<u>\$ 18,156,511</u>