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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			
		November 5, 2005 – 2002 (inception) through June 30, 2006	Expenditure year ended June 30, 2007	Total expenditure through June 30, 2007	Unexpended balance (Unaudited)
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.