



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
CARL P. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710  
LOS ANGELES, CA 90010  
(213) 736-6664 TELEPHONE  
(213) 736-6692 FAX  
www.simpsonandsimpsoncpas.com

## 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, 2009 and have issued our report thereon dated February 19, 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, 2009. 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 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, 2009, in conformity with U.S. generally accepted accounting principles.

April 13, 2010

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

Statement of Bond Expenditures

Period from November 5, 2002 (Inception) through June 30, 2009

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 5, 2002 (Inception) through June 30, 2008	Expenditure Year Ended June 30, 2009	Total Expenditure through June 30, 2009	
New Construction:					
Phase One:					
New Construction	\$ 1,493,285,152	\$ 1,351,738,672	\$ 39,718,702	\$ 1,391,457,374	\$ 101,827,778
Additions	68,387,143	68,387,143	(2,455,420)	65,931,723	2,455,420
Playground Expansion	16,573,373	16,573,373	(737,370)	15,836,003	737,370
Support Costs	7,249,179	7,249,179	-	7,249,179	-
Labor Costs	14,505,153	14,505,153	-	14,505,153	-
Total Phase One	1,600,000,000	1,458,453,520	36,525,912	1,494,979,432	105,020,568
Phase Two:					
New Construction	908,602,391	592,175,058	114,142,992	706,318,050	202,284,341
Additions	8,663,285	7,753,285	902,489	8,655,774	7,511
Playground Expansion	4,800	4,800	-	4,800	-
Support Costs	34,640,430	34,480,430	154,686	34,635,116	5,314
Labor Costs	21,534,979	20,478,280	927,283	21,405,563	129,416
Labor Legal Support	124,157	124,157	-	124,157	-
Office of the Inspector General Audit	7,500,001	6,816,738	631,153	7,447,891	52,110
Board Member Priority	200,000	-	191,109	191,109	8,891
Total Phase Two	981,270,043	661,832,748	116,949,712	778,782,460	202,487,583
Total New Construction	2,581,270,043	2,120,286,268	153,475,624	2,273,761,892	307,508,151
Existing Facilities:					
Lead and Asbestos Removal	11,389,058	10,694,041	12,519	10,706,560	682,498
Repairs	381,725,620	208,938,261	50,258,546	259,196,807	122,528,813
Repair Support Costs	133,857,810	82,803,020	11,450,614	94,253,634	39,604,176
Labor Legal Support	466,314	298,887	118,434	417,321	48,993
Office of the Inspector General Audit	3,750,000	3,519,666	4,543	3,524,209	225,791
Total Existing Facilities	531,188,802	306,253,875	61,844,656	368,098,531	163,090,271
Early Childhood Education:					
Renovation/Repair	12,641,754	7,861,848	854,422	8,716,270	3,925,484
Expansion	15,320,000	12,337,296	849,545	13,186,841	2,133,159
Education Center	39,000,000	8,244,170	2,753,978	10,998,148	28,001,852
Support Costs	311,791	311,791	-	311,791	-
Labor Costs	1,726,455	1,416,605	187,517	1,604,122	122,333
Total Early Childhood Education	69,000,000	30,171,710	4,645,462	34,817,172	34,182,828

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Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 5, 2002 (Inception) through June 30, 2008	Expenditure Year Ended June 30, 2009	Total Expenditure through June 30, 2009	
Information Technology Division (ITD):					
Indirect Support - ITD:					
Support Costs	433,085	61,761	-	61,761	371,324
Labor Costs	2,219,039	1,056,021	(218,437)	837,584	1,381,455
Non-Labor	1,878,774	1,878,774	-	1,878,774	-
Technical Support	9,839,155	9,227,276	(1,424,879)	7,802,397	2,036,758
Technology and Communication Infrastructure	77,629,950	72,860,157	4,000,682	76,860,839	769,111
Upgrading and Stocking Library	37,999,997	26,160,067	1,726,338	27,886,405	10,113,592
Total Information Technology Division	130,000,000	111,244,056	4,083,704	115,327,760	14,672,240
Charters	50,000,000	11,284,904	7,711,414	18,996,318	31,003,682
Joint Use	10,000,000	5,362,882	195,893	5,558,775	4,441,225
Others:					
Employee Benefits	5,494,237	3,271,408	222,829	3,494,237	2,000,000
Accruals	-	37,662,437	(8,687,410)	28,975,027	(28,975,027)
Interest Expended	107,713,369	83,178,063	5,294,168	88,472,231	19,241,138
Interfund Transfer from Measure K to Other Funds	77,022,596	55,244,549	21,455,045	76,699,594	323,002
Prior Year Adjustments- Expenditures Transfer	205,685,964	173,707,760	31,226,124	204,933,884	752,080
Unimplemented Budget Adjustment	(350,197,859)	-	-	-	(350,197,859)
Arbitrage Rebate	810,179	810,179	-	810,179	-
Bond Premium	5,482,312	5,482,312	-	5,482,312	-
Total Others	52,010,798	359,356,708	49,510,756	408,867,464	(356,856,666)
Total Measure K Bond Expenditures	\$ 3,423,469,643	\$ 2,943,960,403	\$ 281,467,509	\$ 3,225,427,912	\$ 198,041,731

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, 2009

**(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 billion has since been issued between February 2003 and June 2009. 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, 2008 and FY 2008-09 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

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, 2009

**(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, 2009. The negative bond expenditures for the year ended June 30, 2009 represent expenditures initially funded by Measure K in previous years, but subsequently funded through other financing sources in the current year.

**(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, 2009 column.

**(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2009 (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, 2009:

**Actual:**

Bonds Issued from Inception through June 30, 2008	2,750,000,000
Bonds Issued - FY 2008-09	250,000,000
Interest - Actual from Inception through June 30, 2008	119,124,246
Interest - Actual FY 2008-09	3,589,124
Interfund Transfer-Other Fund Sources FY 2006-08	243,481,189
Interfund Transfer-Other Fund Sources FY 2008-09	52,904,396
Other Financing Sources-Bond Premium	<u>5,482,312</u>
Total Bonds Issued and Interest/OFS as of June 30, 2009	3,424,581,267
Less: Expenditures from Inception through June 30, 2009	(3,225,427,912)
Less: Cost of Issuance/Underwriter's Discount FY09	<u>(1,111,624)</u>
<b>Available Fund Balance as of June 30, 2009</b>	<b><u>198,041,731</u></b>