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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, 2011 and have issued our report thereon dated December 14, 2011. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures of the **Measure R School Bond Construction Program** of the District for the period from July 1, 2007 to June 30, 2011. Such statement of bond expenditures is the responsibility of the District's management. Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from March 2, 2004 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

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

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure R School Bond Construction Program of the Los Angeles Unified School District for the period from March 2, 2004 (inception) to June 30, 2011, in conformity with U.S. generally accepted accounting principles.

January 12, 2012



LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from March 2, 2004 (Inception) through June 30, 2011

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred		Total Expenditure through June 30, 2011	Unexpended Balance (Unaudited)
		March 2, 2004 (Inception) through June 30, 2010	Expenditure Year Ended June 30, 2011		
New Construction	\$ 1,707,191,462	\$ 1,289,071,529	\$ 66,587,178	\$ 1,355,658,707	\$ 351,532,755
School Modernization / Repairs	1,558,750,000	1,215,212,654	60,153,960	1,275,366,614	283,383,386
Adult Education	25,000,000	14,599,763	3,396,971	17,996,734	7,003,266
Early Childhood Education	58,445,000	39,022,534	5,282,739	44,305,273	14,139,727
Information Technology Division *	142,000,000	72,420,121	-	72,420,121	69,579,879
Library Services	32,000,000	5,908,055	8,055,537	13,963,592	18,036,408
Charter	20,000,000	14,062,124	2,304,657	16,366,781	3,633,219
Joint Use	20,000,000	10,816,217	5,488,967	16,305,184	3,694,816
Office of Inspector General	10,000,000	8,002,396	731,661	8,734,057	1,265,943
Others:					
Employee Benefits	3,669,781	3,316,732	353,049	3,669,781	-
Prior Year Adjustments *	313,544,132	189,764,477	123,779,655	313,544,132	-
COPs Defeasance	150,000,000	149,994,712	-	149,994,712	5,288
Cost of Issuance	11,620,953	11,620,953	-	11,620,953	-
Total Others	478,834,866	354,696,874	124,132,704	478,829,578	5,288
Total Measure R Bond Expenditures	\$ 4,052,221,328	\$ 3,023,812,267	\$ 276,134,374	\$ 3,299,946,641	\$ 752,274,687

See accompanying notes to statement of bond expenditures

* Actual expenditures from inception to June 30, 2010 were restated to reflect discounts received from vendors in FY 10-11 that pertain to expenditures in the prior fiscal years.

**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, 2011

(1) Measure R School Bond Construction Program Background

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

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure R on the 2004 ballot. The Measure R School Bond initiative authorized the issuance of \$3.87 billion in bonds. \$3.63 billion has since been issued between March 2004 and June 2011. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

(2) Basis of Presentation

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

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2010 and FY 2010-11 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 March 2, 2004 (inception) through June 30, 2011.

**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, 2011

(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, 2011 column.

(d) Cost Category

The major cost categories in the statement of bond expenditures for Measure R represent bond programs funded by the bond. The cost category "Others" refer to all expenditures that have been recorded without adequate indicators to allow their proper classifications into the major cost categories.

Employee benefits, as an example, are pension benefits incurred by the District and proportionally allocated to the bond fund for the portion incurred by the bond fund based on the number of employees assigned to the bond fund. There is no cost-effective basis to allocate these expenses at the program level.

(e) Prior Year Adjustments

The District's Capital Improvement Program is financed with 15 capital fund sources. The accompanying statement of bond expenditures for Measure R represents expenditures for a single source of funds within the Program's overall funding strategy. Due to the timing of revenue streams for the various funding sources, project expenditures may be financed with eligible funding sources with adequate cash balances, such as Measure R, until the revenues for the project's other fund sources are realized. Upon recognition of the project's full funding strategy, expenditures are subsequently transferred to appropriate funding sources for cost accounting requirements. For expenditures recorded in prior fiscal years, expenditure transfers between funds are converted to prior year adjustments and interfund transfers in compliance with financial accounting requirements.

Accruals are included in prior year adjustments. Accruals represent expenditures incurred but have not been paid at the end of the fiscal year; therefore, have not been classified into the categories they belong under. In the following fiscal year when they are paid, the actual expenditures are recorded in the appropriate cost category while the transaction to reverse the corresponding accrual amount as well as the clearing of accruals at the end of the fiscal year are recorded in the prior year adjustments cost category.

(f) Reclassifications

Certain statement of bond expenditures line items in the prior years were reclassified to conform to the 2011 presentation.

**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, 2011

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2011 (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, 2011:

Actual:

Bond Issued - FY 2004-05 through FY 2009-10	\$ 3,634,795,000
Adjustment to Bond Proceeds - Premium net of Cost of Issuance FY 2004-05 through FY 2006-07	11,082,578
Interest Income - FY 2005-06 through FY 2009-10	94,203,542
Interest Income - FY 2010-11	10,816,181
Interfund Transfer In - Other Financing Sources (OFS) FY 2005-06 through FY 2009-10	197,592,205
Interfund Transfer In - Other Financing Sources (OFS) FY 2010-11	106,179,768
Total Bonds Issued, Interest and Income/OFS as of June 30, 2011	\$ 4,054,669,274
Less: Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	(2,447,946)
Total Sources of Funds as of June 30, 2011	\$ 4,052,221,328
Less: Uses of Funds (Expenditures) from Inception through June 30, 2011	(3,299,946,641)
Available Fund Balance as of June 30, 2011	<u><u>\$ 752,274,687</u></u>