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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 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	38,259,775	6,649	(539,951)	(533,302)	38,793,077
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	222,001,173	20,464,757	19,930,157	40,394,914	181,606,259
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	78,063,230	215,291,472	36,504,574	251,796,046	(173,732,816)
Total measure Y bond expenditures	\$ 412,311,340	235,762,878	68,764,783	304,527,661	107,783,679

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	\$ 351,685,000
Total bonds issued as of June 30, 2007	351,685,000
Interest – earned FY 2005-06	3,000,029
Interest – earned FY 2006-07	7,983,713
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	49,314,884
Total other fund sources as of June 30, 2007	49,642,598
Total sources of funds as of June 30, 2007	412,311,340
Less bond expenditures from inception through June 30, 2007	(304,567,661)
Fund balance as of June 30, 2007	\$ 107,743,679

**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>

