



**SIMPSON & SIMPSON**  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
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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), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2014. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures (statement) of the **Measure K School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2013. 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.

### **Management's Responsibility for the Statement of Bond Expenditures**

Management is responsible for the preparation and fair presentation of the statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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 K School Bond Construction Program of the Los Angeles Unified School District for the period from November 5, 2002 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

*Simpson & Simpson*

Los Angeles, California  
February 28, 2014

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Period from November 5, 2002 (Inception) through June 30, 2013

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		November 5, 2002 (Inception) through June 30, 2012	Expenditure Year Ended June 30, 2013	Total Expenditure through June 30, 2013	
New Construction	\$2,610,670,080	\$2,416,939,034	-	\$2,416,939,034	\$ 193,731,046
School Modernization / Repairs	580,061,714	543,159,810	3,013,810	546,173,620	33,888,094
Early Childhood Education	80,000,000	74,294,210	371,099	74,665,309	5,334,691
Information Technology Division	126,506,134	81,000,000	5,251,739	86,251,739	40,254,395
Library Services	38,000,000	33,064,638	2,207,912	35,272,550	2,727,450
Charter	53,500,000	33,682,477	1,252,869	34,935,346	18,564,654
Joint Use	10,000,000	9,386,087	9,104	9,395,191	604,809
Office of Inspector General	11,250,000	11,249,690	4	11,249,694	306
Others:					
Employee Benefits	3,780,148	3,739,539	40,609	3,780,148	-
Prior Year Adjustments	484,372,076	431,843,957	52,528,119	484,372,076	-
Cost of Issuance	5,658,218	5,658,218	-	5,658,218	-
Total Others	493,810,442	441,241,714	52,568,728	493,810,442	-
<b>Total Measure K Bond Expenditures</b>	<b>\$4,003,798,370</b>	<b>\$3,644,017,660</b>	<b>\$ 64,675,265</b>	<b>\$3,708,692,925</b>	<b>\$ 295,105,445</b>

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, 2013

**(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. \$3.35 billion has since been issued between February 2003 and June 2013. 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, 2012 and FY 2012-13 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 November 5, 2002 (inception) through June 30, 2013, adjusted by discounts received from the vendors.

**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, 2013

***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, 2013 column.

***d) Cost Category***

The major cost categories in the statement of bond expenditures for Measure K 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 K 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 K, 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 \$2.0 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 \$5.2 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**  
**MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures  
Period from November 5, 2002 (inception) to June 30, 2013

**(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2013 (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, 2013:

Actual:

Bonds Issued - FY 2002-03 through FY 2009-10 (final issuance)	\$ 3,350,000,000
Interest Income - FY 2002-03 through FY 2011-12	134,283,923
Interest Income - FY 2012-13	2,122,772
Interfund Transfer In - OFS FY 2006-07 through FY 2011-12	428,736,940
Interfund Transfer In - OFS FY 2012-13	84,284,047
Adjustments - Bond Premium, net of COI FY 2006-07	5,482,312
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	<u>(1,111,624)</u>
Total Sources of Funds, June 30, 2013	\$ 4,003,798,370
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	<u>(3,708,692,925)</u>
<b>Fund Balances, June 30, 2013</b>	<b><u><u>\$ 295,105,445</u></u></b>