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Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the accompanying statement of bond expenditures (Statement) of the **Measure K School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2014 and the related notes to the 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 Statement 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 Statement is free from 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 District'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 District'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, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures of the Measure K School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

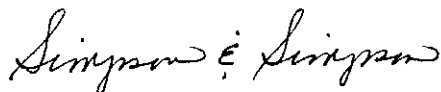
Other Matters

As described in note 2 to the statement of bond expenditures, the accompanying statement of bond expenditures was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Measure K School Bond Construction Program of the Los Angeles Unified School District. The accompanying supplementary schedule of sources and uses of funds and fund balance and supplementary schedule of bond expenditures for the period from November 5, 2002 (inception) to June 30, 2014 (Supplementary Schedules), are presented for purposes of additional analysis, and are not a required part of the statement of bond expenditures.

The Supplementary Schedules have not been subjected to the auditing procedures applied in the audit of the statement of bond expenditures, and accordingly, we do not express an opinion or provide any assurance on them.



Los Angeles, California
February 18, 2015

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

Statement of Bond Expenditures
Year Ended June 30, 2014

Cost Category	2014
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 6,930,878
School Modernization	9,809,254
Early Childhood Education	1,167,073
Charter Schools	1,565,068
Indirects	5,754,166
Total FSD Capital Programs	<u>25,226,439</u>
Information Technology Division (ITD) Capital Programs	
Information Technology Network Upgrade	16,634,707
Virtual Learning Complex Planning	509,998
Total ITD Capital Programs	<u>17,144,705</u>
Library Services	<u>2,120,104</u>
Total Expenditures, June 30, 2014	<u>\$ 44,491,248</u>

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

Year Ended June 30, 2014

(1) Measure K School Bond Construction Program Background

The Measure K School Bond Construction Program (Program) approved by the voters under California Proposition 39, known as the *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39), 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 2010. 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 statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. Prop 39 requires an annual, independent financial audit of the expenditures of proceeds from the sale of the school facilities bonds until all of the proceeds have been expended. Accordingly, the statement of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types.

a) Actual Expenditures Incurred

The amounts included within the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the year ended June 30, 2014, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Year Ended June 30, 2014

b) Cost Category

The format of the statement of bond expenditures for the year ended June 30, 2014 has been revised. The major cost categories in the statement of bond expenditures for Measure K represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non-FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

UNAUDITED SUPPLEMENTARY SCHEDULES

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

Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
Period from November 5, 2002 (inception) to June 30, 2014
(Unaudited)

Sources of Funds from Inception through June 30, 2014:

Bonds Issued - FY 2002-03 through FY 2009-10 (final issuance)	\$ 3,350,000,000
Interest Income - FY 2002-03 through FY 2012-13	136,406,695
Interest Income - FY 2013-14	1,992,306
Local Income - FY 2013-14	71,052
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2006-07 through FY 2012-13	513,020,987
Adjustments - Bond Premium, net of Cost of Issuance 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, 2014	4,005,861,728
Uses of Funds (Expenditures) from Inception through June 30, 2014	<u>(3,753,184,173)</u>
Fund Balance, June 30, 2014	<u>\$ 252,677,555</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from November 5, 2002 (inception) to June 30, 2014
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		November 5, 2002 (Inception) through June 30, 2013	Expenditures Year Ended June 30, 2014	Total Expenditures through June 30, 2014	
Facilities Services Division (FSD)					
Capital Programs					
New Construction	\$ 3,033,216,227	\$ 2,845,239,497	\$ 6,930,878	\$ 2,852,170,375	\$ 181,045,852
School Modernization	647,202,819	610,524,281	9,809,254	620,333,535	26,869,284
Early Childhood Education	80,000,000	74,666,427	1,167,073	75,833,500	4,166,500
Charter Schools	53,500,000	34,977,776	1,565,068	36,542,844	16,957,156
Indirects	5,754,316	-	5,754,166	5,754,166	150
Total FSD Capital Programs	3,819,673,362	3,565,407,981	25,226,439	3,590,634,420	229,038,942
Information Technology Division (ITD)					
Capital Programs					
Information Technology Network					
Upgrade	125,590,133	86,584,695	16,634,707	103,219,402	22,370,731
Virtual Learning Complex Planning	1,909,867	739,640	509,998	1,249,638	660,229
Total ITD Capital Programs	127,500,000	87,324,335	17,144,705	104,469,040	23,030,960
Library Services	38,000,000	35,272,550	2,120,104	37,392,654	607,346
Other Costs					
Employee Benefits	3,780,148	3,780,148	-	3,780,148	-
Cost of Issuance	5,658,218	5,658,218	-	5,658,218	-
Office of Inspector General	11,250,000	11,249,693	-	11,249,693	307
Total Other Costs	20,688,366	20,688,059	-	20,688,059	307
Total Measure K Bond Expenditures	\$ 4,005,861,728	\$ 3,708,692,925	\$ 44,491,248	\$ 3,753,184,173	\$ 252,677,555

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2014
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Measure K School Bond Construction Program for the period from November 5, 2002 (inception) through June 30, 2014.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act* (Prop 39) requires an annual, independent audit of the expenditures of proceeds from the sale of school facilities bonds until all of the proceeds have been expended. Accordingly, the unaudited supplementary schedule of bond expenditures includes all amounts expended using bond proceeds regardless of expenditure types, from inception.

a) Adjusted Budget

The amounts included within the adjusted budget column in the accompanying unaudited supplementary schedule of bond expenditures represent the prior year expenditures from November 5, 2002 (inception) through June 30, 2013 and FY 2013-14 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 columns in the accompanying unaudited supplementary schedule of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 5, 2002 (inception) through June 30, 2014, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds, reimbursements of bond proceeds, and interest earned on the bond proceeds and reimbursements.

c) Unexpended Balance

The amounts included within the unexpended balance column in the accompanying unaudited supplementary schedule of bond expenditures represent the difference between the adjusted budget column and the total expenditures through June 30, 2014 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2014
(Unaudited)

d) Cost Category

The format of the statement of the unaudited supplementary schedule of bond expenditures for the year ended June 30, 2014 has been revised. Certain cost categories for expenditures incurred from inception to June 30, 2013 have been reclassified, however, these reclassifications have no impact on the total bond expenditures. The major cost categories in the unaudited supplementary schedule of bond expenditures for Measure K represent bond programs funded by the bond. The cost category “Indirects” refer to all expenditures that should not or cannot be reasonably attributed to individual projects.

An example of “Indirect” cost is program management. Program management includes program-level support costs for staff members of the Facilities Executive Office and Facilities Services Division (FSD) branches as well as non FSD support which includes costs of support staff outside of FSD charged to the bond program, such as the Office of the General Counsel, Accounts Payable, and Risk Management.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
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