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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 R 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 R 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.

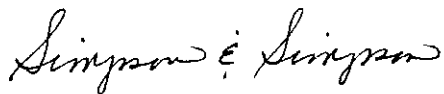
Other Matters

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 R 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 March 2, 2004 (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 R SCHOOL BOND CONSTRUCTION PROGRAM**

Statement of Bond Expenditures

Year Ended June 30, 2014

Cost Category	2014
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 5,712,236
School Modernization	67,228,515
Adult and Career Education	44,018
Early Childhood Education	3,828,243
Charter Schools	41,823
Indirects	94,185,345
Total FSD Capital Programs	<u>171,040,180</u>
Information Technology Division (ITD) Capital Programs	
Instructional Technology Initiative	75,712,090
Information Technology Network Upgrade	59,672,845
Disaster Recovery & Business Continuity	6,607,706
My Integrated Student Information System	9,947,401
Total ITD Capital Programs	<u>151,940,042</u>
Library Services	3,721,429
Other Costs	
Office of Bond Compliance	157,195
Office of the Inspector General	1,172,237
Total Other Costs	<u>1,329,432</u>
Other Financing Uses	
Information Technology Initiative Phase 1 Reimbursements:	
Transfers Out to Special Reserve Fund	<u>4,611,741</u>
Total Expenditures and Other Uses, June 30, 2014	<u>\$ 332,642,824</u>

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

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

(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" 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 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 2010. 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 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 R 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 R 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 R SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
 Period from March 2, 2004 (inception) to June 30, 2014
 (Unaudited)

Sources of Funds from Inception through June 30, 2014:

Bond Issued - FY 2004-05 through FY 2009-10	\$ 3,634,795,000
Adjustments - Bond Premium, net of Cost of Issuance FY 2004-05 through FY 2006-07	11,082,578
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	(2,447,946)
Interest Income - FY 2005-06 through FY 2012-13	133,171,767
Interest Income - FY 2013-14	4,999,880
Local Income - FY 2013-14	2,663,268
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2012-13	878,602,113
Total Sources of Funds, June 30, 2014	4,662,866,660
Uses of Funds (Expenditures) from Inception through June 30, 2014	(4,205,514,650)
Fund Balance, June 30, 2014	\$ 457,352,010

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Bond Expenditures
 Period from March 2, 2004 (inception) to June 30, 2014
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		March 2, 2004 (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	\$ 1,983,599,583	\$ 1,782,545,289	\$ 5,712,236	\$ 1,788,257,525	\$ 195,342,058
School Modernization	1,800,092,876	1,641,122,222	67,228,515	1,708,350,737	91,742,139
Adult and Career Education	25,000,000	24,484,533	44,018	24,528,551	471,449
Early Childhood Education	76,595,609	56,385,752	3,828,243	60,213,995	16,381,614
Charter Schools	70,680,814	39,914,850	41,823	39,956,673	30,724,141
Indirects	94,185,345	-	94,185,345	94,185,345	-
Total FSD Capital Programs	4,050,154,227	3,544,452,646	171,040,180	3,715,492,826	334,661,401
Information Technology Division (ITD)					
Capital Programs					
Instructional Technology Initiative	104,833,180	4,180,364	75,712,090	79,892,454	24,940,726
Information Technology Network Upgrade	219,800,074	109,065,291	59,672,845	168,738,136	51,061,938
Disaster Recovery & Business Continuity	22,366,294	-	6,607,706	6,607,706	15,758,588
My Integrated Student Information System	29,744,820	-	9,947,401	9,947,401	19,797,419
Radio System	1,864,969	1,864,969	-	1,864,969	-
Total ITD Capital Programs	378,609,337	115,110,624	151,940,042	267,050,666	111,558,671
Library Services	53,000,000	38,164,053	3,721,429	41,885,482	11,114,518
Other Costs					
Employee Benefits	4,502,691	4,502,691	-	4,502,691	-
Cost of Issuance	11,831,469	11,831,469	-	11,831,469	-
Office of Bond Compliance	157,195	-	157,195	157,195	-
Office of Inspector General	10,000,000	8,815,631	1,172,237	9,987,868	12,132
Total Other Costs	26,491,355	25,149,791	1,329,432	26,479,223	12,132
Other Financing Uses					
COPs Defeasance: Transfers Out to Debt Service Fund	150,000,000	149,994,712	-	149,994,712	5,288
Information Technology Initiative Phase 1 Reimbursements: Transfers Out to Special Reserve Fund	4,611,741	-	4,611,741	4,611,741	-
Total Other Financing Uses	154,611,741	149,994,712	4,611,741	154,606,453	5,288
Total Measure R Bond Expenditures	\$ 4,662,866,660	\$ 3,872,871,826	\$ 332,642,824	\$ 4,205,514,650	\$ 457,352,010

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2014
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Measure R School Bond Construction Program for the period from March 2, 2004 (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 fund balance: uses represent the prior year expenditures from March 2, 2004 (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 March 2, 2004 (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 R SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from March 2, 2004 (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 from inception for Measure R 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
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