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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 Y 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 Y 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 Y 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 8, 2005 (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.

A handwritten signature in cursive script, reading 'Simpson & Simpson'.

Los Angeles, California
February 18, 2015

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

Statement of Bond Expenditures

Year Ended June 30, 2014

Cost Category	2014
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 12,014,155
School Modernization	146,564,869
Information Technology Network Upgrade	42,206,339
Adult and Career Education	6,982,859
Early Childhood Education	1,471,940
Charter Schools	2,296,628
Indirects	2,703,091
Total FSD Capital Programs	<u>214,239,881</u>
Information Technology Division (ITD) Capital Programs	
Information Technology Network Upgrade	23,812,958
Radio System	290,947
Virtual Learning Complex Planning	262,264
Total ITD Capital Programs	<u>24,366,169</u>
Other Costs	
Office of Bond Compliance	157,048
Office of the Inspector General	1,436,762
Total Other Costs	<u>1,593,810</u>
Other Financing Uses	
Cafeteria: Transfers Out to Cafeteria Fund	860,761
Labor Compliance Program (LCP) Penalties:	
Transfers Out to General Fund	1,672,308
Integrated Student Information Systems (ISIS):	
Transfers Out to General Fund-Restricted	4,072,832
Total Other Financing Uses	<u>6,605,901</u>
Total Expenditures and Other Uses, June 30, 2014	<u>\$ 246,805,761</u>

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
Year Ended June 30, 2014

(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" 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 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 Program's bond issuances 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. \$3.54 billion has since been issued between November 2005 and June 2010. 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.

(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.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Statement of Bond Expenditures
Year Ended June 30, 2014

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.

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 Y 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 Y SCHOOL BOND CONSTRUCTION PROGRAM
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance
 Period from November 8, 2005 (inception) to June 30, 2014
 (Unaudited)

Sources of Funds from Inception through June 30, 2014:

Bonds Issued - FY 2005-06 through FY 2009-10	\$ 3,542,235,000
Adjustments - Bond Premium, net of Cost of Issuance FY 2005-06	6,614,884
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	(667,495)
Interest Income - FY 2005-06 through FY 2012-13	93,325,217
Interest Income - FY 2013-14	4,034,545
Local Income - FY 2007-08 through FY 2012-13	23,493,159
Local Income - FY 2013-14	8,834,562
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2012-13	391,255,411
Total Sources of Funds, June 30, 2014	4,069,125,283
Uses of Funds (Expenditures) from Inception through June 30, 2014	(3,669,970,382)
Fund Balance, June 30, 2014	\$ 399,154,901

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Unaudited Supplementary Schedule of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2014
(Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		November 8, 2005 (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	\$ 2,519,847,792	\$ 2,298,873,965	\$ 12,014,155	\$ 2,310,888,120	\$ 208,959,672
School Modernization	805,316,661	550,308,895	146,564,869	696,873,764	108,442,897
Information Technology Network Upgrade	42,206,339	-	42,206,339	42,206,339	-
Adult and Career Education	50,000,000	40,575,915	6,982,859	47,558,774	2,441,226
Early Childhood Education	38,609,232	29,215,640	1,471,940	30,687,580	7,921,652
Charter Schools	50,000,000	28,413,874	2,296,628	30,710,502	19,289,498
Indirects	2,703,167	-	2,703,091	2,703,091	76
Total FSD Capital Programs	3,508,683,191	2,947,388,289	214,239,881	3,161,628,170	347,055,021
Information Technology Division (ITD)					
Capital Programs					
Information Technology					
Network Upgrade	133,192,104	75,330,915	23,812,958	99,143,873	34,048,231
Radio System	30,316,963	19,045,701	290,947	19,336,648	10,980,315
Virtual Learning Complex Planning	2,030,131	1,350,075	262,264	1,612,339	417,792
Total ITD Capital Programs	165,539,198	95,726,691	24,366,169	120,092,860	45,446,338
Transportation (Buses)	21,539,197	21,178,922	-	21,178,922	360,275
Library Services	5,000,000	-	-	-	5,000,000
Other Costs					
Employee Benefits	1,843,223	1,843,223	-	1,843,223	-
Cost of Issuance	8,182,760	8,182,760	-	8,182,760	-
Office of Bond Compliance	157,048	-	157,048	157,048	-
Office of Inspector General	10,000,000	7,269,971	1,436,762	8,706,733	1,293,267
Total Other Costs	20,183,031	17,295,954	1,593,810	18,889,764	1,293,267
Other Financing Uses					
COPs Defeasance: Transfers Out to Deferred Maintenance Match: Transfers	193,738,416	193,738,416	-	193,738,416	-
Out to General Fund-Restricted	120,000,000	120,000,000	-	120,000,000	-
Cafeteria: Transfers Out to Cafeteria Fund	3,665,822	2,805,061	860,761	3,665,822	-
Buses: Transfers Out to General Fund - Restricted	3,460,803	3,460,803	-	3,460,803	-
Labor Compliance Program (LCP):					
Transfers Out to General Fund	1,672,308	-	1,672,308	1,672,308	-
Integrated Student Information Systems:					
Transfers Out to General Fund-	25,643,317	21,570,485	4,072,832	25,643,317	-
Total Other Financing Uses	348,180,666	341,574,765	6,605,901	348,180,666	-
Total Measure Y Bond Expenditures	\$4,069,125,283	\$3,423,164,621	\$246,805,761	\$3,669,970,382	\$399,154,901

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2014
(Unaudited)

(1) Background

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Measure Y School Bond Construction Program for the period from November 8, 2005 (inception) through June 30, 2014.

(2) Basis of Presentation

The accompanying unaudited supplementary information, schedule of bond expenditures from inception, has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying unaudited supplementary schedule of bond expenditures from inception 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 from inception represent the prior year expenditures from November 8, 2005 (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 from inception represent actual expenditures paid and accrued by the District for the period from November 8, 2005 (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 fund balance column in the accompanying unaudited supplementary schedule of bond expenditures from inception represent the difference between the adjusted budget column and the total expenditures through June 30, 2014 column.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Unaudited Supplementary Schedule of Bond Expenditures

Period from November 8, 2005 (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 Y 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.