

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**  
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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, 2015 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.



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## **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, 2015 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, 2015 (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 &amp; Simpson'.

Los Angeles, California

February 9, 2016

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Year Ended June 30, 2015

<b>Cost Category</b>	<b>2015</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
New Construction	\$ 3,790,446
School Modernization	51,583,035
Adult and Career Education	20,058
Early Childhood Education	5,212,019
Charter Schools	4,691,364
Indirects	86,329,549
Total FSD Capital Programs	<u>151,626,471</u>
<b>Information Technology Division (ITD) Capital Programs</b>	
Instructional Technology Initiative	44,943,787
Information Technology Network Upgrade	10,778,242
Disaster Recovery & Business Continuity	28,626,018
My Integrated Student Information System	23,617,473
Total ITD Capital Programs	<u>107,965,520</u>
<b>Library Services</b>	6,918,731
<b>Other Costs</b>	
Employee Benefits - Other Post-Employment Benefits (OPEB)	6,562,500
Cost of Issuance	331,264
Office of Bond Compliance	6,291
Office of the Inspector General	12,277
Total Other Costs	<u>6,912,332</u>
<b>Total Expenditures and Other Uses, June 30, 2015</b>	<b><u>\$ 273,423,054</u></b>

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, 2015

**(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, 2015, 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, 2015

***b) Cost Category***

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.

**(3) Other Post-Employment Benefits (OPEB)**

The amount represents an application of \$30 million in taxable bond proceeds (\$6.6 million from Measure R and \$23.4 million from Measure Y) to fund a portion of the Other Post-Employment Benefits (OPEB) costs allocable to work performed in the current and prior years by District employees on Measure R projects and Measure Y projects, respectively, and was deposited in an OPEB Trust Fund of the District.

**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, 2015  
 (Unaudited)

Sources of Funds from Inception through June 30, 2015:	
Bonds Issued - FY 2004-05 through FY 2009-10	\$ 3,634,795,000
Bonds Issued - FY 2014-15	75,215,000
Adjustments - Bond Premium, net of COI 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 2013-14	138,171,647
Interest Income - FY 2014-15	3,226,125
Local Income - FY 2013-14	2,663,268
Local Income - FY 2014-15	15,680,650
Federal Income - FY 2014-15	1,752,450
Transfers In (Reimbursements) - OFS FY 2005-06 through FY 2013-14	878,602,113
Transfers In (Reimbursements) - OFS FY 2014-15	57,911,677
Total Sources of Funds, June 30, 2015	<u>\$ 4,816,652,562</u>
Uses of Funds (Expenditures) from Inception through June 30, 2015	<u>(4,478,937,704)</u>
<b>Fund Balance, June 30, 2015</b>	<b><u>\$ 337,714,858</u></b>

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, 2015

(Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			
		March 2, 2004 (Inception) through June 30, 2014	Expenditures Year Ended June 30, 2015	Total Expenditures through June 30, 2015	Unexpended Balance
Facilities Services Division (FSD)					
Capital Programs					
New Construction	\$ 1,854,166,710	\$ 1,788,257,525	\$ 3,790,446	\$ 1,792,047,971	\$ 62,118,739
School Modernization	1,866,677,591	1,706,409,143	51,583,035	1,757,992,178	108,685,413
Adult and Career Education	25,000,000	24,528,551	20,058	24,548,609	451,391
Early Childhood Education	94,195,609	60,213,995	5,212,019	65,426,014	28,769,595
Charter Schools	71,885,324	41,898,267	4,691,364	46,589,631	25,295,693
Indirects	180,514,894	94,185,345	86,329,549	180,514,894	-
Total FSD Capital Programs	4,092,440,128	3,715,492,826	151,626,471	3,867,119,297	225,320,831
Information Technology Division (ITD)					
Capital Programs					
Instructional Technology Initiative	157,291,794	79,892,454	44,943,787	124,836,241	32,455,553
Information Technology Network Upgrade	247,930,742	168,738,137	23,617,473	192,355,610	55,575,132
Disaster Recovery & Business Continuity	22,375,863	6,607,705	10,778,242	17,385,947	4,989,916
My Integrated Student Information System	53,491,015	9,947,401	28,626,018	38,573,419	14,917,596
Radio System	1,864,969	1,864,969		1,864,969	-
Total ITD Capital Programs	482,954,383	267,050,666	107,965,520	375,016,186	107,938,197
Library Services	53,000,000	41,885,482	6,918,731	48,804,213	4,195,787
Other Costs					
Employee Benefits - OPEB	11,065,191	4,502,691	6,562,500	11,065,191	-
Cost of Issuance	12,162,733	11,831,469	331,264	12,162,733	-
Office of Bond Compliance	418,241	157,195	6,291	163,486	254,755
Office of Inspector General	10,000,145	9,987,868	12,277	10,000,145	-
Total Other Costs	33,646,310	26,479,223	6,912,332	33,391,555	254,755
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	154,606,453	-	154,606,453	5,288
Total Measure R Bond Expenditures	\$ 4,816,652,562	\$ 4,205,514,650	\$ 273,423,054	\$ 4,478,937,704	\$ 337,714,858

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, 2015  
(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, 2015.

**(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, 2014 and FY 2014-15 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, 2015, 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, 2015 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, 2015  
(Unaudited)

***d) Cost Category***

Certain cost categories for expenditures incurred from inception to June 30, 2014 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.