

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y 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 Y School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2017 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, 2017 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, 2017 (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 black ink, reading 'Simpson & Simpson'.

Los Angeles, California
January 25, 2018

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

Statement of Bond Expenditures
Year Ended June 30, 2017

Cost Category	2017
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 16,099,307
School Modernization	28,246,087
Information Technology Network Upgrade	1,182,405
Adult and Career Education	3,247,971
Early Childhood Education	72,696
Charter Schools	2,709,446
Indirects	1,196,480
Total FSD Capital Programs	<u>52,754,392</u>
Information Technology Division (ITD) Capital Programs	
School Network Modernization	2,993,159
Safety, Communications and Security Modernization	201,090
Total ITD Capital Programs	<u>3,194,249</u>
Transportation (Buses)	1,121,748
Library Services	1,760,081
Other Costs	
Office of Bond Compliance	7,500
Office of the Inspector General	11,175
Total Other Costs	<u>18,675</u>
Total Expenditures, June 30, 2017	<u>\$ 58,849,145</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, 2017

(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. \$3.60 billion has since been issued between November 2005 and June 2015. 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 (SEP) 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, 2017

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, 2017, 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 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.

(3) Information Technology Division (ITD) – Category Changes

The ITD Cost Categories in the Fiscal Year 2016-17 Statement of Bond Expenditures appear different than Fiscal Year 2015-16 due to additional new projects approved by the Board of Education in the 2017 ITD Strategic Execution Plan (SEP) and other Board Reports. The project categories were consolidated into cost categories by program.

The Information Technology Network Upgrade Program presented in the Fiscal Year 2015-16 Statement of Bond Expenditures has been included under the umbrella of the School Network Modernization Program as of June 30, 2017.

The Radio System Program presented in the Fiscal Year 2015-16 Statement of Bond Expenditures has been included under the umbrella of the Safety, Communications and Security Modernization Program as of June 30, 2017.

The Statement of Bond Expenditures has been updated to reflect these changes.

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 Balances
Period from November 8, 2005 (Inception) to June 30, 2017
(Unaudited)

Sources of Funds from Inception through June 30, 2017:

Bonds Issued - FY 2005-06 through FY 2014-15	\$ 3,602,850,000
Adjustments - Bond Premium, net of Cost of Issuance (COI) FY 2005-06	6,614,884
Adjustments - COI/Underwriter's Discount FY 2008-09	(667,495)
Interest Income - FY 2005-06 through FY 2015-16	100,101,037
Interest Income - FY 2016-17	371,924
Local Income - FY 2007-08 through FY 2015-16	37,038,000
Transfers In (Reimbursements) - Other Financing Sources (OFS)	
FY 2005-06 through FY 2015-16	480,245,516
Transfers In (Reimbursements) - OFS FY 2016-17	19,007,037
Total Sources of Funds, June 30, 2017	<u>\$ 4,245,560,903</u>
Uses of Funds (Expenditures) from Inception through June 30, 2017	<u>(4,248,924,488)</u>
Fund (Deficit), June 30, 2017	<u><u>\$ (3,363,585)</u></u>

Notes to Schedule:

Other Financing Sources

Transfers In and Other Financing Sources (OFS) represent financial accounting transfers of resources to the bond fund from other funds, such as: the general fund, special reserve fund, or county school facilities (state) fund. The primary example is when a project uses bond funds in place of approved state funding until the state funding has been received. Upon receipt of state funding the bond fund is reimbursed from the state fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the state or other fund. Project expenditures are credited in the project's bond resource and debited to the projects state resource.

Fund Deficit

The Measure Y Fund Deficit for the fiscal year ended June 30, 2017 is a function of the planning and timing of the issuance and sales of authorized bonds. As a whole, the District's Bond Funds (Proposition BB, Measure K, Measure R, Measure Y, Measure Q) reported a Fund Balance of \$693 million as of fiscal year ended June 30, 2017. The District plans to issue up to \$1.4 billion in bonds in March 2018 with an estimated \$145 million designated for Measure Y, at which point the Fund Deficit will be eliminated.

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, 2017
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended / Over-expended Balance
		November 8, 2005 (Inception) through June 30, 2016	Expenditure Year Ended June 30, 2017	Total Expenditure through June 30, 2017	
Facilities Services Division (FSD)					
New Construction	\$ 2,304,054,090	\$ 2,321,743,934	\$ 16,099,307	\$ 2,337,843,241	\$ (33,789,151)
School Modernization	969,620,177	944,986,545	28,246,087	973,232,632	(3,612,455)
Information Technology Network Upgrade	163,694,210	162,511,805	1,182,405	163,694,210	-
Adult and Career Education	70,485,965	63,590,067	3,247,971	66,838,038	3,647,927
Early Childhood Education	32,000,000	31,712,137	72,696	31,784,833	215,167
Charter Schools	38,000,000	33,936,198	2,709,446	36,645,644	1,354,356
Indirects	17,196,022	15,994,228	1,196,480	17,190,708	5,314
Total FSD Capital Programs	3,595,050,464	3,574,474,914	52,754,392	3,627,229,306	(32,178,842)
Information Technology Division (ITD)					
Virtual Learning Complex Planning	2,030,131	1,878,689	-	1,878,689	151,442
Classroom Technology Modernization	20,557,965	18,326,381	-	18,326,381	2,231,584
School Network Modernization	133,192,104	117,732,497	2,993,159	120,725,656	12,466,448
Safety, Communications and Security Modernization	30,316,963	19,650,605	201,090	19,851,695	10,465,268
Total ITD Capital Programs	186,097,163	157,588,172	3,194,249	160,782,421	25,314,742
Transportation (Buses)	25,000,000	22,535,605	1,121,748	23,657,353	1,342,647
Library Services	5,000,000	1,630,566	1,760,081	3,390,647	1,609,353
Other Costs					
Employee Benefits and Other Post-Employment Benefits (OPEB)	25,280,723	25,280,723	-	25,280,723	-
Cost of Issuance	8,485,821	8,485,821	-	8,485,821	-
Office of Bond Compliance	2,157,766	2,150,266	7,500	2,157,766	-
Office of Inspector General	15,000,000	14,440,310	11,175	14,451,485	548,515
Total Other Costs	50,924,310	50,357,120	18,675	50,375,795	548,515
Other Financing Uses					
COPs Defeasance: Transfers Out to Debt Service Fund	193,738,416	193,738,416	-	193,738,416	-
COPS Defeasance Cafeteria: Transfers Out to Special Reserve Fund Capital Outlay	20,554,147	20,554,147	-	20,554,147	-
COPS Defeasance ISIS: Transfers Out to Special Reserve Fund Capital Outlay	12,663,712	12,663,712	-	12,663,712	-
CIPR Cafeteria: Transfers Out to Cafeteria Fund	4,999,580	4,999,580	-	4,999,580	-
Buses: Transfer Out to General Fund Restricted	3,460,803	3,460,803	-	3,460,803	-
CIPR Integrated Student Information Systems (ISIS): Transfers Out to General Fund Restricted	26,400,000	26,400,000	-	26,400,000	-
Deferred Maintenance Match: Transfers Out to General Fund Restricted	120,000,000	120,000,000	-	120,000,000	-
Transfers Out to General Fund	1,672,308	1,672,308	-	1,672,308	-
Total Other Financing Uses	383,488,966	383,488,966	-	383,488,966	-
Total Measure Y Bond Expenditures	\$ 4,245,560,903	\$ 4,190,075,343	\$ 58,849,145	\$ 4,248,924,488	\$ (3,363,585)

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, 2017
(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, 2017.

(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, 2016 and FY 2016-17 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, 2017, 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 / Over-Expended 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, 2017 column.

The Facilities Services Division (FSD) New Construction and School Modernization Programs have an over-expended balance as of fiscal year ended June 30, 2017. This is a function of the planning and timing of the issuance and sales of authorized bonds.

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, 2017
(Unaudited)

c) Unexpended / Over-Expended Balance (continued)

As a whole, the District's Bond Funds (Proposition BB, Measure K, Measure R, Measure Y, Measure Q) reported an Unexpended Balance of \$238M for the New Construction Program, and \$185M for the School Modernization Program as of fiscal year ended June 30, 2017. The District plans to issue up to \$1.4 billion in bonds in March 2018 with an estimated \$145 million designated for Measure Y, at which point the over-expended balances will be eliminated.

d) Cost Category

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.

(3) Other Financing Uses

Transfers Out and Other Financing Uses (OFU) represent financial accounting transfers of bond proceeds (inter-fund transactions of revenue) from the bond fund to other funds for approved financing uses of bond funds. One example is reimbursement of prior year bond eligible capital expenditures in the general fund. For cost accounting purposes when project tracking is required, these transfers are represented as project expenditures in the bond fund.

(4) Information Technology Division (ITD) – Category Changes

The ITD Cost Categories in the Fiscal Year 2016-17 Unaudited Supplementary Schedule of Bond Expenditures appear different than Fiscal Year 2015-16 due to additional new projects approved by the Board of Education in the 2017 ITD Strategic Execution Plan (SEP) and other Board Reports. The project categories were consolidated into cost categories by program.

The Instructional Technology Initiative Program presented in the Fiscal Year 2015-16 Unaudited Supplementary Schedule of Bond Expenditures has been included under the umbrella of the Classroom Technology Modernization Program as of June 30, 2017.

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, 2017
(Unaudited)

(4) Information Technology Division (ITD) – Category Changes (continued)

The Information Technology Network Upgrade Program presented in the Fiscal Year 2015-16 Unaudited Supplementary Schedule of Bond Expenditures has been included under the umbrella of the School Network Modernization Program as of June 30, 2017.

The Radio Systems Program presented in the Fiscal Year 2015-16 Unaudited Supplementary Schedule of Bond Expenditures has been included under the umbrella of the Safety, Communications and Security Modernization Program as of June 30, 2017.

The Unaudited Supplementary Schedule of Bond Expenditures has been updated to reflect these changes.