

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Table of Contents

| | <u>Page</u> |
|--|--------------------|
| Independent Auditor's Report | 1 |
| Statement of Bond Expenditures | 3 |
| Notes to Statement of Bond Expenditures | 4 |
| Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance Period from March 2, 2004 (inception) to June 30, 2018 | 7 |
| Unaudited Supplementary Schedule of Bond Expenditures Period from March 2, 2004 (inception) to June 30, 2018 | 8 |
| Notes to Unaudited Supplementary Schedule of Bond Expenditures | 9 |



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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, 2018 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, 2018 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, 2018 (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
February 19, 2019

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

Statement of Bond Expenditures

Year Ended June 30, 2018

| Cost Category | 2018 |
|---|-----------------------------|
| Facilities Services Division (FSD) Capital Programs | |
| New Construction | \$ 1,723,291 |
| School Modernization | 42,195,521 |
| Early Childhood Education | 1,907,354 |
| Charter Schools | 6,435,017 |
| Indirects | 1,133,079 |
| Total FSD Capital Programs | <u>53,394,262</u> |
| Information Technology Division (ITD) Capital Programs | |
| Classroom Technology Modernization | 4,340,254 |
| School Network Modernization | 20,649,577 |
| Safety, Communications and Security Modernization | 3,841,954 |
| My Integrated Student Information System | 2,919,022 |
| Disaster Recovery & Business Continuity | 169,611 |
| Total ITD Capital Programs | <u>31,920,418</u> |
| Library Services | <u>396,266</u> |
| Total Library Services | <u>396,266</u> |
| Total Expenditures, June 30, 2018 | <u><u>\$ 85,710,946</u></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, 2018

(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. \$3.710 billion has since been issued between March 2004 and June 2015. 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 (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 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, 2018, 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, 2018

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.

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 Balances
Period from March 2, 2004 (Inception) to June 30, 2018
(Unaudited)

Sources of Funds from Inception through June 30, 2018:

| | |
|--|-----------------------|
| Bonds Issued - FY 2004-05 through FY 2014-15 | \$ 3,710,010,000 |
| Adjustments - Bond Premium, net of Cost of Issuance (COI) FY 2004-05 through FY 2006-07 | 11,082,578 |
| Adjustments - COI/Underwriter's Discount FY 2008-09 | (2,447,946) |
| Interest Income - FY 2005-06 through FY 2016-17 | 146,263,851 |
| Interest Income - FY 2017-18 | 2,937,376 |
| Local Income - FY 2014-15 through FY 2016-17 | 32,485,162 |
| Local Income - FY 2017-18 | 8,986,521 |
| Federal Income - FY 2014-15 | 1,752,450 |
| Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2016-17 | 979,167,492 |
| Transfers In (Reimbursements) - OFS FY 2017-18 | 15,367,728 |
| Total Sources of Funds, June 30, 2018 | \$ 4,905,605,212 |
| Uses of Funds (Expenditures) from Inception through June 30, 2018 | (4,761,385,022) |
| Fund Balance, June 30, 2018 | \$ 144,220,190 |

Note 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.

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, 2018
(Unaudited)

| Cost Category | Adjusted Budget | Actual Expenditures Incurred | | | Unexpended Balance |
|---|--------------------|--|--|--|-----------------------|
| | | March 2, 2004 (Inception) through June 30, 2017 | Expenditure Year Ended June 30, 2018 | Total Expenditure through June 30, 2018 | |
| Facilities Services Division (FSD) | | | | | |
| Capital Programs | | | | | |
| New Construction | \$ 1,865,187,301 | \$ 1,797,142,026 | \$ 1,723,291 | \$ 1,798,865,317 | \$ 66,321,984 |
| School Modernization | 1,903,067,142 | 1,816,352,483 | 42,195,521 | 1,858,548,004 | 44,519,138 |
| Information Technology Network Upgrade | 28,555 | 28,555 | - | 28,555 | - |
| Adult and Career Education | 25,000,000 | 24,548,609 | - | 24,548,609 | 451,391 |
| Early Childhood Education | 94,195,609 | 79,704,584 | 1,907,354 | 81,611,938 | 12,583,671 |
| Charter Schools | 71,885,324 | 62,528,336 | 6,435,017 | 68,963,353 | 2,921,971 |
| Indirects | 213,307,767 | 212,047,778 | 1,133,079 | 213,180,857 | 126,910 |
| Total FSD Capital Programs | 4,172,671,698 | 3,992,352,371 | 53,394,262 | 4,045,746,633 | 126,925,065 |
| Information Technology Division (ITD) | | | | | |
| Capital Programs | | | | | |
| Classroom Technology Modernization | 151,301,211 | 146,675,410 | 4,340,254 | 151,015,664 | 285,547 |
| School Network Modernization | 256,921,326 | 224,982,538 | 20,649,577 | 245,632,115 | 11,289,211 |
| Safety, Communications and Security Modernization | 5,833,743 | 1,864,969 | 3,841,954 | 5,706,923 | 126,820 |
| My Integrated Student Information System | 53,491,015 | 48,412,705 | 2,919,022 | 51,331,727 | 2,159,288 |
| Disaster Recovery & Business Continuity | 22,375,863 | 21,165,456 | 169,611 | 21,335,067 | 1,040,796 |
| Total ITD Capital Programs | 489,923,158 | 443,101,078 | 31,920,418 | 475,021,496 | 14,901,662 |
| Library Services | 53,000,000 | 50,476,681 | 396,266 | 50,872,947 | 2,127,053 |
| Total Library Services | 53,000,000 | 50,476,681 | 396,266 | 50,872,947 | 2,127,053 |
| Other Costs | | | | | |
| Employee Benefits and Other Post-Employment | | | | | |
| Benefits (OPEB) | 11,065,191 | 11,065,191 | - | 11,065,191 | - |
| Cost of Issuance | 12,162,733 | 12,162,733 | - | 12,162,733 | - |
| Office of Bond Compliance | 418,241 | 157,119 | - | 157,119 | 261,122 |
| Office of Inspector General | 10,000,000 | 10,000,000 | - | 10,000,000 | - |
| Total Other Costs | 33,646,165 | 33,385,043 | - | 33,385,043 | 261,122 |
| Other Financing Uses | | | | | |
| COPs Defeasance: Transfers Out to | | | | | |
| Debt Service Fund | 150,000,000 | 149,994,712 | - | 149,994,712 | 5,288 |
| Reimbursements: Transfers Out to Special Reserve Fund | 1,752,450 | 1,752,450 | - | 1,752,450 | - |
| 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 | 156,364,191 | 156,358,903 | - | 156,358,903 | 5,288 |
| Total Measure R Bond Expenditures | \$ 4,905,605,212 | \$ 4,675,674,076 | \$ 85,710,946 | \$ 4,761,385,022 | \$ 144,220,190 |

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, 2018
(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, 2018.

(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 March 2, 2004 (inception) through June 30, 2017 and FY 2017-18 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, 2018, 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, 2018 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, 2018
(Unaudited)

d) Cost Category

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.

(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 Classification Change

The following projects that were initiated under the Instructional Technology Initiative, formerly Common Core Technology Project, were formerly reported under the Classroom Technology Modernization Program which included the Instructional Technology Initiative are now classified in the ITD SEP under the School Network Modernization Program, Core Network Modernization:

- Email/Collaboration System
- Identity Management System
- Infrastructure Monitoring & Management Tools

As a result of the change, total prior year expenditures in the amount of \$8,291,458 was reclassified from Classroom Technology Modernization into School Network Modernization for the Adjusted Budget and the Actual Expenditures Incurred from March 2, 2004 (Inception) through June 30, 2017. Expenditures incurred in the current year in the amount of \$292,907 were classified in accordance with the change noted above.