

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, 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 Y 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 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, 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 cursive script that reads 'Simpson & Simpson'.

Los Angeles, California
February 19, 2019

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

Statement of Bond Expenditures
Year Ended June 30, 2018

Cost Category	2018
Facilities Services Division (FSD) Capital Programs	
New Construction	\$ 6,499,657
School Modernization	53,703,240
Information Technology Network Upgrade	178,979
Adult and Career Education	437,995
Charter Schools	10,642,483
Indirects	(979,406)
Total FSD Capital Programs	<u>70,482,948</u>
Information Technology Division (ITD) Capital Programs	
School Network Modernization	3,148,587
Safety, Communications and Security Modernization	239,355
Total ITD Capital Programs	<u>3,387,942</u>
Transportation (Buses)	(8,916)
Total Transportation (Buses)	<u>(8,916)</u>
Library Services	518,890
Total Library Services	<u>518,890</u>
Other Costs	
Cost of Issuance	67,889
Office of Bond Compliance	(2,000)
Office of the Inspector General	2,548,498
Total Other Costs	<u>2,614,387</u>
Total Expenditures, June 30, 2018	<u><u>\$ 76,995,251</u></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, 2018

(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. \$3.73 billion has since been issued between November 2005 and June 2018. 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, 2018

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.

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.

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, 2018
 (Unaudited)

Sources of Funds from Inception through June 30, 2018:

Bonds Issued - FY 2005-06 through FY 2016-17	\$ 3,602,850,000
Bond Issued - FY 2017-18	130,000,000
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 2016-17	100,472,961
Interest Income - FY 2017-18	562,990
Local Income - FY 2007-08 through FY 2015-16	37,038,000
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2005-06 through FY 2016-17	499,252,553
Transfers In (Reimbursements) - OFS FY 2017-18	15,984,200
Total Sources of Funds, June 30, 2018	<u>\$ 4,392,108,093</u>
Uses of Funds (Expenditures) from Inception through June 30, 2018	<u>(4,325,919,739)</u>
Fund Balance, June 30, 2018	<u><u>\$ 66,188,354</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.

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, 2018
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended / Over-expended Balance
		November 8, 2005 (Inception) through June 30, 2017	Expenditure Year Ended June 30, 2018	Total Expenditure through June 30, 2018	
Facilities Services Division (FSD)					
New Construction	\$ 2,364,933,391	\$ 2,337,843,241	\$ 6,499,657	\$ 2,344,342,898	\$ 20,590,493
School Modernization	1,039,620,177	973,232,632	53,703,240	1,026,935,872	12,684,305
Information Technology Network Upgrade	165,294,210	163,694,210	178,979	163,873,189	1,421,021
Adult and Career Education	70,485,965	66,838,038	437,995	67,276,033	3,209,932
Early Childhood Education	32,000,000	31,784,833	-	31,784,833	215,167
Charter Schools	50,000,000	36,645,644	10,642,483	47,288,127	2,711,873
Indirects	17,196,022	17,190,708	(979,406)	16,211,302	984,720
Total FSD Capital Programs	3,739,529,765	3,627,229,306	70,482,948	3,697,712,254	41,817,511
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	120,725,656	3,148,587	123,874,243	9,317,861
Safety, Communications and Security Modernization	30,316,963	19,851,695	239,355	20,091,050	10,225,913
Total ITD Capital Programs	186,097,163	160,782,421	3,387,942	164,170,363	21,926,800
Transportation (Buses)	25,000,000	23,657,353	(8,916)	23,648,437	1,351,563
Total Transportation (Buses)	25,000,000	23,657,353	(8,916)	23,648,437	1,351,563
Library Services	5,000,000	3,390,647	518,890	3,909,537	1,090,463
Total Library Services	5,000,000	3,390,647	518,890	3,909,537	1,090,463
Other Costs					
Employee Benefits and Other Post-Employment Benefits (OPEB)	25,280,723	25,280,723	-	25,280,723	-
Cost of Issuance	8,553,710	8,485,821	67,889	8,553,710	-
Office of Bond Compliance	2,157,766	2,157,766	(2,000)	2,155,766	2,000
Office of Inspector General	17,000,000	14,451,485	2,548,498	16,999,983	17
Total Other Costs	52,992,199	50,375,795	2,614,387	52,990,182	2,017
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	\$ 4,392,108,093	\$ 4,248,924,488	\$ 76,995,251	\$ 4,325,919,739	\$ 66,188,354

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, 2018
(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, 2018.

(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, 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 from inception represent actual expenditures paid and accrued by the District for the period from November 8, 2005 (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 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, 2018 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, 2018
(Unaudited)

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.