



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2014. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures (statement) of the **Measure R School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2013. The expenditures incurred included in the statement of bond expenditures from March 2, 2004 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that 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 expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from March 2, 2004 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement. 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 expenditures incurred included in the statement of bond expenditures are free of 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 entity'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 entity'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, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure R School Bond Construction Program of the Los Angeles Unified School District for the period from March 2, 2004 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
February 28, 2014

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

Statement of Bond Expenditures
Period from March 2, 2004 (Inception) through June 30, 2013

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		March 2, 2004 (Inception) through June 30, 2012	Expenditure Year Ended June 30, 2013	Total Expenditure through June 30, 2013	
New Construction	\$1,503,809,424	\$1,092,097,603	\$ 116,314,987	\$1,208,412,590	\$ 295,396,834
School Modernization / Repairs	1,535,914,012	1,279,921,087	37,205,635	1,317,126,722	218,787,290
Adult Education	25,000,000	24,180,869	302,073	24,482,942	517,058
Early Childhood Education	76,595,609	51,866,305	4,516,380	56,382,685	20,212,924
Information Technology Division	297,891,274	82,923,853	16,403,040	99,326,893	198,564,381
Library Services	53,000,000	24,811,698	13,352,354	38,164,052	14,835,948
Charter	70,680,814	31,946,713	7,968,136	39,914,849	30,765,965
Joint Use	19,598,295	17,235,240	301,425	17,536,665	2,061,630
Office of Inspector General	10,000,000	8,769,914	45,718	8,815,632	1,184,368
Others:					
Employee Benefits	4,501,970	4,145,090	356,880	4,501,970	-
Prior Year Adjustments	896,591,161	836,473,267	60,117,894	896,591,161	-
COPs Defeasance	150,000,000	149,994,712	-	149,994,712	5,288
Cost of Issuance	11,620,953	11,620,953	-	11,620,953	-
Total Others	1,062,714,084	1,002,234,022	60,474,774	1,062,708,796	5,288
Total Measure R Bond Expenditures	\$4,655,203,512	\$3,615,987,304	\$ 256,884,522	\$3,872,871,826	\$ 782,331,686

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

Period from March 2, 2004 (inception) to June 30, 2013

(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" 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 2013. 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 accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2012 and FY 2012-13 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 column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from March 2, 2004 (inception) through June 30, 2013, adjusted by discounts received from the vendors.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2013

(c) Unexpended Balance (Unaudited)

The amounts included within the unexpended balances (unaudited) column in the accompanying statement of bond expenditures costs represent the difference between the adjusted budget (unaudited) column and the total bond project expenditures through June 30, 2013 column.

(d) 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 “Others” refer to all expenditures that have been recorded without adequate indicators to allow their proper classifications into the major cost categories.

Employee benefits, as an example, are pension benefits incurred by the District and proportionally allocated to the bond fund for the portion incurred by the bond fund based on the number of employees assigned to the bond fund. There is no cost-effective basis to allocate these expenses at the program level.

(e) Prior Year Adjustments

The District’s Capital Improvement Program is financed with 15 capital fund sources. The accompanying statement of bond expenditures for Measure R represents expenditures for a single source of funds within the Program’s overall funding strategy. Due to the timing of revenue streams for the various funding sources, project expenditures may be financed with eligible funding sources with adequate cash balances, such as Measure R, until the revenues for the project’s other fund sources are realized. Upon recognition of the project’s full funding strategy, expenditures are subsequently transferred to appropriate funding sources for cost accounting requirements. For expenditures recorded in prior fiscal years, expenditure transfers between funds are converted to prior year adjustments and interfund transfers in compliance with financial accounting requirements.

The aggregate of interfund transfers in, for all four bonds combined, which amounts to about \$2.0 billion generally represent the use of bond funds and subsequent reimbursements from state grant revenues. The District has been able to leverage the four local bonds to obtain approximately \$5.2 billion in grant apportionments from the state lease purchase and school facility programs. The state programs require the commitment of local funds prior to release of grant revenues

Accruals are included in prior year adjustments. Accruals represent expenditures incurred but have not been paid at the end of the fiscal year; therefore, have not been classified into the categories they belong under. In the following fiscal year when they are paid, the actual expenditures are recorded in the appropriate cost category while the transaction to reverse the corresponding accrual amount as well as the clearing of accruals at the end of the fiscal year are recorded in the prior year adjustments cost category.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from March 2, 2004 (inception) to June 30, 2013

(3) Fund Balances from Inception to Fiscal Year Ended June 30, 2013 (Unaudited)

The following is a summary of the sources of funds and uses of funds for the Program from March 2, 2004 (inception) through June 30, 2013:

Actual:

Bond Issued - FY 2004-05 through FY 2009-10	\$ 3,634,795,000
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 2011-12	122,772,832
Interest Income - FY 2012-13	10,398,935
Interfund Transfer In - OFS FY 2005-06 through FY 2011-12	817,987,597
Interfund Transfer In - OFS FY 2012-13	<u>60,614,516</u>
Total Sources of Funds, June 30, 2013	\$ 4,655,203,512
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	<u>(3,872,871,826)</u>
Fund Balances, June 30, 2013	<u><u>\$ 782,331,686</u></u>