

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Proposition BB, Measure K, Measure R, Measure Y, and  
Measure Q School Bond Construction Programs  
Agreed-Upon Procedures Report  
For the Year Ended June 30, 2016,  
Statements of Bond Expenditures  
and Supplementary Schedules as of June 30, 2016  
(With Independent Auditor's Reports Thereon)





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## **Independent Accountant's Report on Applying Agreed-Upon Procedures and Management's Responses to Exceptions**

The Honorable Board of Education  
Los Angeles Unified School District:

We have performed the procedures enumerated below, for the Proposition BB, Measure K, Measure R, Measure Y, and Measure Q School Bond Construction Programs (Bond Programs) which were agreed to by the Los Angeles Unified School District's (the District or LAUSD) officials and bond oversight committee, solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs for the year ended June 30, 2016. District management is responsible for the administration of the Bond Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the corresponding findings are as follows. The samples selected below were for Proposition BB, Measure K, Measure R, Measure Y, and Measure Q expenditures, unless otherwise noted.

### **Procedure 1**

From a population of all expenditures charged to Commitment Item #500000 in the general ledger for the year ended June 30, 2016, we selected a total of 50 expenditures samples with Work Breakdown Structure (WBS) account assignments from the Local Bond Funds (Proposition BB, Measure K, Measure R, Measure Y, and Measure Q) to represent the following distributions:

- 10 expenditures to represent Facilities Services Division (FSD) (non-Maintenance and Operations (M&O)),
- 25 expenditures to represent M&O,
- 10 expenditures to represent Information Technology Division (ITD) – Select ITD samples to include expenditures for the Instruction Technology Initiative (ITI) (formerly Common Core Technology Project), My Integrated Student Information System (MiSiS), and IT Network Upgrades, and
- 5 expenditures to represent Integrated Library and Textbook Support Services (ILTSS).

We obtained supporting invoices for the expenditures selected and performed the following procedures:





- 1.1 We tested the 46 invoices from the different Bond Funds selected in Procedure 1 to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters and further defined by various Board approved Strategic Execution Plans and amendments.

***Results***

We identified 1 out of the 5 required expenditures that represented ILTSS. Therefore, we tested a total of 46 samples in conjunction with Procedure 1.

We read the ballot measures to understand the work scope and list of specific projects proposed to be financed with the proceeds of the Local Bonds. We then inspected the invoices supporting the samples tested to determine whether amounts expended were consistent with the work scope of each bond measure. As required by Section 3 of Proposition 39, a list of specific projects is to be presented to the voter in each ballot. As such, we identified the projects to which the above expenditures were incurred and traced these projects to the Bond Project List presented in the Full Text of Ballot Measure K, R, Y, and Q (Proposition BB was issued under the traditional authority and not under Proposition 39; therefore references to specific school facilities projects were not required).

No exceptions were noted as a result of performing this procedure.

- 1.2 We tested the 46 invoices from the different Local Bond Funds selected in Procedure 1, to determine whether the corresponding projects or non-project allocations in each of the invoices were included in the related Strategic Execution Plan (SEP) or approved SEP amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

***Results***

No exceptions were noted as a result of performing this procedure.

- 1.3 For the items selected in Procedure 1 that represents FSD construction payments, we determined whether the following requirements of construction project payment procedures had been met:

- a) There are signatures on the required lines where the Contractor has certified the Application for Payment; and that the Owner Authorized Representative (OAR) has certified that the services have been rendered.
- b) Payment package includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.



### ***Results***

There were 8 samples that we selected in Procedure 1 above which represented construction payments. No exceptions were noted as a result of performing this procedure.

- 1.4** For the items selected in Procedure 1 above, we determined whether the payment package was appropriately approved and reviewed for payment.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **Procedure 2**

From the population of all expenditures charged to Commitment Item #700000 in the general ledger for the fiscal year ended June 30, 2016, we reviewed inter-fund transfers out (ITF-Out) expenditure transactions to the Proposition 39 Local Bond funds (Measure K, Measure R, Measure Y, and Measure Q) from non-Bond funds that represent Board-authorized uses of Bond funds that were executed outside of the Proposition 39 Local Bond funds. We selected one IFT transaction for each of the following activities:

- Capital Improvement Program Reserve (CIPR) – Cafeteria Equipment Replacement
- \$30M Bond-Eligible Transfers of Routine Restricted General Maintenance (RRGM) Expenditures
- ITD – Instructional Technology Initiative (ITI)
- ITD – My Integrated Student Information System (MiSiS)
- ITD – Project-related Certificated salaries
- ILTSS – Project-related Certificated salaries

We traced the inter-fund transfer back to the non-Bond fund where the expenditures were originally recorded and selected up to 10 expenditure samples for each of the above activities that represent district organization codes, projects, jobs, purchase order, District employees or Contract Professionals related to the Board authorized expenditures of Proposition 39 Bond funds.

We obtained supporting documents for each selected expenditures and performed the following tests:

- 2.1** For each invoice selected in Procedure 2 that represents invoices, we reviewed the supporting documents and determined whether amounts expended were consistent with the work scope in the Board Report authorizing use of Bond funds.

### ***Results***

We noted no IFT-Out activity for MiSiS. No exceptions were noted as a result of performing this procedure.



- 2.2** For each expenditure selected in Procedure 2 that represent District employee salaries, we performed tests similar to Procedure 4 to determine that expenditures were not spent for “administrator salaries” or “teacher salaries” in the context of “Employee Salaries for Bond Program Administrative Oversight.”

***Results***

We noted no IFT-Out activity for ITD and ILTSS project-related certificated salaries.

No exceptions were noted as a result of performing this procedure.

**Procedure 3**

From the population of all expenditures charged to Commitment Item #500000 in the general ledger for the fiscal year ended June 30, 2016, we selected up to 20 expenditure samples from the Local Bond funds (Proposition BB, Measure K, Measure R, Measure Y, and Measure Q) corresponding to up to 20 staff augmentation / professional services staffing agreements with over \$5 million in expenditures for the fiscal year and representing the following distribution:

- 9 samples to represent FSD (excluding M&O)
- 2 samples to represent M&O, and
- 9 samples to represent ITD

We obtained supporting invoices for these selected expenditures and performed the following procedure:

- 3.1** We obtained a copy of each agreement, and reviewed each invoice selected in procedure 3 to determine consistency with the terms of the agreement. We reviewed up to five individuals for each invoice tested.

***Results***

No exceptions were noted as a result of performing this procedure.

**Procedure 4**

From the population of all salary expenditures charged to Commitment Items #100000 and #200000 in the general ledger for the fiscal year ended June 30, 2016, we selected up to a total of 50 expenditure samples from the Proposition 39 Local Bond funds (Measure K, Measure R, Measure Y, and Measure Q) representing the following distribution:

- 8 expenditures to represent FSD (excluding M&O),
- 17 expenditures to represent M&O,
- 10 expenditures to represent ITD,
- 3 expenditures to represent ILTSS,



- 3 expenditures to represent Office of Inspector General (OIG),
- 3 expenditures to represent Office of General Counsel (OGC),
- 3 expenditures to represent Finance and Office of Bond Compliance, and
- 3 expenditures to represent Procurement.

We performed the following procedure:

- 4.1** For each expenditure selected in procedure 4, we determined whether the samples selected were inappropriately spent on “administrator salaries” as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “...Employee Salaries for Bond Program Administrative Oversight”.

### ***Results***

No exceptions were noted as a result of performing this procedure.

## **Procedure 5**

From the population of all expenditures charged to Commitment Items #400000 and #500000 in the general ledger for the fiscal year ended June 30, 2016, we selected up to a total of 50 expenditure samples that have Facilities “Indirect” WBS Commitments or have cost center commitments for those outside of Facilities from the Proposition 39 Local Bond funds (Measure K, Measure R, Measure Y, and Measure Q) to represent the following distribution:

- 8 expenditures to represent FSD (excluding M&O),
- 17 expenditures to represent M&O,
- 12 expenditures represent ITD,
- 3 expenditures to represent ILTSS,
- 3 expenditures to represent OIG,
- 3 expenditures to represent OGC,
- 3 expenditures to represent Finance and Office of Bond Compliance, and
- 1 expenditure to represent Procurement.

We obtained supporting invoices for the selected expenditures and performed the following procedure:

- 5.1** For each invoice selected in procedure 5 we determined whether bond funds were used for “other day-to-day school operating expenses” as referenced in the State Proposition 39 as codified in the State Constitution Article 13A, Section 1 (b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “... Employee Salaries for Bond Program Administrative Oversight”.



### ***Results***

We noted a total of 16 expenditures incurred during the fiscal year which meet the above parameters. No exceptions were noted as a result of performing this procedure.

## **Procedure 6**

From a list of FSD construction contract change orders generated from the COLIN or Maximo systems approved during the fiscal year ended June 30, 2016, we selected a total of 25 samples, including up to 5 samples from M&O, if any, from the population of all the Local Bond funds (Proposition BB, Measure K, Measure R, Measure Y, and Measure Q). We obtained the District Change Order Procedures and performed the following review to determine compliance with the procedures.

**6.1** We determined compliance with the following Change Order Policy approval thresholds:

- For new construction work, individual Change Orders may not exceed ten percent (10%) of the original contract price.
- For demolition, reconstruction or rehabilitation work of existing structures, individual Change Orders may exceed ten percent (10%) according to Public Contract Code, but must not exceed twenty-five percent (25%) of the original contract price.

### ***Results***

No exceptions were noted as a result of performing this procedure.

**6.2** We determined whether the change order package was submitted with the required documents in accordance with the Change Order checklist from the change order preparation requirements (the checklist form is not required to be included in retained documentation).

### ***Results***

No exceptions were noted as a result of performing this procedure.

**6.3** For End User-initiated change orders, we verified whether the related scope changes did not commence nor the Owner Authorized Representative (OAR) did not process the Change Order until the following has been completed:

- a) End User-initiated Scope Change Request Form completed by OAR
- b) Review and approval by Construction Manager/ Senior Project Manager, Regional Construction Director and Deputy Director of Facilities Project Execution
- c) Request For Proposal (RFP) or Constructive Directive (CD) issued to Contractor.



***Results***

None of the 25 samples we tested were an End User-Initiated change order. As such, this procedure is not applicable.

- 6.4** We verified compliance with the signatory requirements on the Change Order form.

***Results***

We identified one (1) Change Order in which the signatory requirements were not met. The Change Order required the signature of the Regional Construction Director (RCD) as it exceeded 5% of the original contract amount. The Change Order was processed prior to the RCD's approval.

***Management Response***

The non-compliance of the Change Order signatory requirements on the sample change order was an oversight by the staff and was not forwarded to the Regional Construction Director for signature. Project Execution staff has been provided with the signatory requirements and Senior Project Managers will check the change order percentages and cost to ensure compliance. This will be reaffirmed at the regular scheduled Region meetings and will be an agenda item during those meetings and training will be provided as needed.

- 6.5** We reviewed the change orders for splitting for the purpose of avoiding threshold limits.

***Results***

For the samples selected, we searched for additional change orders approved for the same contract during fiscal year ended June 30, 2016, and verified that either the initial submittal of the change orders occurred on different dates, or the nature of the services to be performed on the change orders were not related.

No exceptions were noted as a result of performing this procedure.

**Procedure 7**

We determined whether the total expenditures reported in the year-end "Summary Statements of Bond Expenditures and Other Uses" for each G.O. Bond fund reconcile with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2016.

***Results***

No exceptions were noted as a result of performing this procedure.





## Procedure 8

We selected a sample of 10 projects from the 2016 FSD SEP. We reviewed the sample projects for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for FSD SEP projects for approved changes that occur in the fiscal year ended June 30, 2016:

- 8.1** For each of the ten projects selected in procedure 8, we compared the project budgets from the 2016 FSD SEP to the 2015 FSD SEP. For each project with a 2016 FSD SEP project budget that increased \$100,000 or more than the 2015 FSD SEP project budget, if applicable, we determined if the budget increase was reported to the BOC.

### *Results*

No exceptions were noted as a result of performing this procedure.

- 8.2** For each of the ten projects selected in procedure 8, we compared the project's scheduled substantial completion date from the 2016 FSD SEP to the 2015 FSD SEP. For each project with a 2016 FSD SEP substantial completion date that was later than the 2015 FSD SEP substantial completion date, if applicable, we determined if the project's schedule change in readiness for use as a school or campus element was reported to the BOC.

### *Results*

No exceptions were noted as a result of performing this procedure.

- 8.3** For each of the ten projects selected in procedure 8, we compared the project's scope from the 2016 FSD SEP to the 2015 FSD SEP. For each project with a 2016 FSD SEP scope that differs significantly from the 2015 FSD SEP scope, if applicable, we determined if the project's scope change was reported to the BOC.

### *Results*

No exceptions were noted as a result of performing this procedure.

## Procedure 9

We selected a sample of four (4) Local Bond Information Technology Division (ITD) projects from the 2016 ITD SEP, one from each of the following four ITD project types:

- Instruction Technology Initiative (ITI, formerly Common Core Technology Project),
- My Integrated Student Information System (MiSiS),
- Information Technology Network Upgrade, and
- Radio Systems.



We reviewed the selected projects for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for ITD projects:

- 9.1** For each of the four (4) project types selected in procedure 9, we compared the project budgets from the 2016 ITD SEP to the 2015 ITD SEP. For each project with a 2016 ITD SEP project budget that increased \$100,000 or more than the 2015 ITD SEP project budget, if applicable, we determined whether the budget increase was reported to the BOC.
- 9.2** For each of the four (4) projects selected in procedure 9, we compared the substantial completion dates from the 2016 ITD SEP to the 2015 ITD SEP. For each project that has a 2016 ITD SEP substantial completion date that is 180 days or greater than the 2015 ITD SEP substantial completion date, if applicable, we determined whether the project's scope change was reported to the BOC.
- 9.3** For each of the four (4) projects selected in procedure 9, we compared the project's scope from the 2016 ITD SEP to the 2015 ITD SEP. For each project with 2016 ITD SEP scope that differs significantly from the 2015 ITD SEP, if applicable, we determined whether the project's scope change was reported to the BOC.

### ***Results***

A revision of the 2015 ITD SEP has not been issued in the fiscal year. An annual submission is not required. As such, procedures 9.1, 9.2 and 9.3 are not applicable for the current fiscal year.

## **Procedure 10**

We inquired of the Board of Education as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector had been performed in accordance with the provision of Measure Y and Measure Q on a timely basis.

- 10.1** We determined whether FSD management compensation survey was performed and presented to the Board of Education.
- 10.2** We determined whether the Board of Education declared a finding that the managers of the District's FSD are being compensated accordingly.

### ***Results***

According to the provisions of Measure Y and Measure Q, managers of the FSD shall have the education and employment experience comparable to that of persons with similar responsibility in the private sector.



To ensure that the District employs managers of the Division who are so qualified, the Board shall no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private sectors, and the Board shall make a finding that the managers of the District's FSD are being compensated accordingly.

Based on inquiry with District management, the survey was not performed by the District's Personnel Commission during FY 2015-16 as required by the provisions of Measure Y and Measure Q.

As a result of not performing the survey and presenting results to the Board of Education, the District was unable to obtain a declaration from the Board of Education that the managers of the District's FSD are being compensated accordingly.

### ***Management Response***

The District's Personnel Commission completed a draft report on management compensation in November 2016, including compensation for employees in the FSD. This survey was shared with Senior Leadership and the Board of Education. Given continuing District budget concerns, management will discuss next steps for this report, including the requirements set forth in the District's local bond measures.

## **Procedure 11**

We followed-up with management regarding the status of the FY 14-15 findings. See below for prior year findings, and the current status:

### **Finding – FY 14-15 - Procedure 6.1**

We determined compliance with the following Change Order Policy approval thresholds:

- For new construction work, individual Change Orders may not exceed ten percent (10%) of the original contract price.
- For demolition, reconstruction or rehabilitation work of existing structures, individual Change Orders may exceed ten percent (10%) according to Public Contract Code, but must not exceed twenty-five percent (25%) of the original contract price.

### ***Results***

We identified one (1) Job Order Contract (JOC) Change Order in which the total amount of the Change Order exceeded the threshold, as stipulated in the Change Order Policy, of 25% of the original contract price.



The Change Order was approved as the nature of the cost was related to reimbursement of plans and permits, which based on the department's analysis qualified as an appropriate exception to the threshold requirement. The Change Order Policy does not stipulate acceptable reasons for the approval of a Change Order which exceeds the threshold requirement. As a result the Change Order was not approved according to the Change Order Policy.

***Management Response***

The Job Order Contracting procedure did not provide guidance on a job order change of this nature. In this situation there was an unforeseen increase in the cost incurred by the contractor for mandated changes to traffic control plans and building permit. Reimbursement of incurred cost does not represent work scope that can be rebid. This was a small job that was deemed suitable for immediate execution by job order contracting. The change increases a \$31,811 job order by \$12,033 or 37% to \$43,844. While the percentage increase exceeds the limit, the amount is a low order of magnitude. The Job Order Contracting procedure draft is under review to provide guidance on this and similar exceptions, if any. This process will be completed in May 2016.

***Current Status***

Corrective action from the prior year audit was not implemented. The Job Order Contracting Procedure has gone through several departments and revisions and is still in draft status since May 2016. FSD Contract, the sponsoring organization, experienced reorganization, relocation, and staffing changes and departures in fiscal year 2015-2016. Staff assigned to manage the procedure revision process is no longer with the District. The procedure is complete and incorporates new legislation. The procedure will be finalized in February 2017.

***Finding – FY 14-15 - Procedure 6.4***

We verified compliance with the signatory requirements on the Change Order form.

***Results***

We identified one (1) M&O Change Order in which the signatory requirements as stipulated on the Change Order form was not consistent with the requirements stipulated in the Change Order Policy.

Although the Change Order was compliant as per the requirements on the Change Order form, we identified that these requirements were inconsistent with that of the Change Order Policy.



### *Management Response*

The approval thresholds and signatures on the Change Order form are correct but are not reflected in the effective Change Order procedure for the audit period. The Change Order form used was updated May 8, 2014, while the effective Change Order procedure was last revised January 30, 2013. FSD initiated an effort to bring all FSD procedures up to date in February 2014. Unfortunately, the Change Order procedure update is still in draft form to date. FSD tend to revise forms in shorter cycles than the procedures since the responsible parties are often in different groups. FSD will revise and align both the Change Order form and procedure and assign responsibility to coordinate further revisions. This process will be completed in April 2016.

### *Current Status*

Corrective action from the prior year audit was not implemented. The Change Order Procedures were updated by Project Execution Branch in June 2016. While the change order approval thresholds for Maintenance and Operations Branch are correct in the previous and the current procedure revisions, the corrective action was not made on the change order form. The revision to change order form was to be performed as part of the revision to the procedures and for various reasons was not completed. Subsequent to FY-2016, the change order form was revised in January 2017.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Proposition BB, Measure K, Measure R, Measure Y, and Measure Q School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The District's written response to the exceptions identified in the report has not been subjected to auditing procedures and accordingly, we do not express an opinion on it.

The report is intended only for the information and use of the Board of Education, management, and members of the Citizens' Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Simpson &amp; Simpson', written in a cursive style.

Los Angeles, California  
January 26, 2017

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB 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 **Proposition BB School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2016 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 Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the statement of bond expenditures of the Proposition BB 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 April 8, 1997 (inception) to June 30, 2016 (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 that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
January 26, 2017



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Year Ended June 30, 2016

<b>Cost Category</b>	<b>2016</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
New Construction	\$ 208,840
School Modernization	958,329
Indirects	3,998,295
Total FSD Capital Programs	5,165,464
 <b>Total Expenditures, June 30, 2016</b>	 <b>\$ 5,165,464</b>

See accompanying notes to statement of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures  
Year Ended June 30, 2016

**(1) Proposition BB School Bond Construction Program Background**

Proposition BB Initiative (Proposition BB) authorized the Los Angeles Unified School District (District) to issue \$2.4 billion in general obligation bonds. Bond proceeds are to be utilized for projects such as the repair of safety hazards, asbestos removal, installation of air-conditioning, making classrooms accessible to the disabled, upgrading security, and the construction of new classrooms. Proposition BB specifically states that no bond proceeds are to be used for administrator salaries.

The Proposition BB School Bond Construction Program (Program) is intended to provide needed health and safety improvements to more than 800 deteriorating schools and 15,000 buildings and to match state funds for new construction and modernization projects. The District Board of Education has established a Citizen's Oversight Committee to ensure that the proceeds of the Proposition BB School Bond Construction Program bond issuances are used for the purposes stated in the resolution, which placed the Proposition BB on the 1997 ballot.

**(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) 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, 2016, 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 Proposition BB 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 offices of the General Counsel, Inspector General, Accounts Payable, and Risk Management.

**UNAUDITED SUPPLEMENTARY SCHEDULES**

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**  
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance  
 Period from April 8, 1997 (inception) through June 30, 2016  
 (Unaudited)

Sources of Funds from Inception through June 30, 2016:	
Bonds Issued - FY 1997-98 through FY 2002-03 (final issuance)	\$ 2,400,000,000
Interest Income - FY 1997-98 through FY 2014-15	177,259,217
Interest Income - FY 2015-16	67,737
Local Income - FY 2001-02 through FY 2013-14	239,866
Local Income - FY 2015-16	1,698,768
Transfers In (Reimbursements) - Other Financing Sources (OFS) FY 2006-07 through FY 2014-15	198,950,531
Transfers In (Reimbursements) - OFS FY 2015-16	<u>44,596</u>
Total Sources of Funds, June 30, 2015	2,778,260,715
Uses of Funds (Expenditures) from Inception through June 30, 2016	<u>(2,766,781,672)</u>
<b>Fund Balance, June 30, 2016</b>	<b><u>\$ 11,479,043</u></b>

**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**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**  
 Unaudited Supplementary Schedule of Bond Expenditures  
 Period from April 8, 1997 (inception) through June 30, 2016  
 (Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		April 8, 1997 (Inception) through June 30, 2015	Expenditure Year Ended June 30, 2016	Total Expenditure through June 30, 2016	
<b>Facilities Services Division (FSD)</b>					
<b>Capital Programs</b>					
New Construction	\$ 828,112,719	\$ 822,720,674	\$ 208,840	\$ 822,929,514	\$ 5,183,205
School Modernization	1,915,043,208	1,911,713,054	958,329	1,912,671,383	2,371,825
Charter Schools	116,215	103,335		103,335	12,880
Indirects	11,652,462	3,743,038	3,998,295	7,741,333	3,911,129
Total FSD Capital Programs	<u>2,754,924,604</u>	<u>2,738,280,101</u>	<u>5,165,464</u>	<u>2,743,445,565</u>	<u>11,479,039</u>
<b>Other Costs</b>					
Employee Benefits	3,100,417	3,100,417		3,100,417	-
Cost of Issuance	1,140,865	1,140,865		1,140,865	-
Office of Inspector General	3,750,000	3,749,996		3,749,996	4
Total Other Costs	<u>7,991,282</u>	<u>7,991,278</u>	<u>-</u>	<u>7,991,278</u>	<u>4</u>
<b>Other Financing Uses</b>					
COPs Defeasance: Transfers Out To Debt Service Fund	15,344,829	15,344,829	-	15,344,829	-
Total Other Financing Uses	<u>15,344,829</u>	<u>15,344,829</u>	<u>-</u>	<u>15,344,829</u>	<u>-</u>
<b>Total Proposition BB Bond Expenditures</b>	<b><u>\$ 2,778,260,715</u></b>	<b><u>\$ 2,761,616,208</u></b>	<b><u>\$ 5,165,464</u></b>	<b><u>\$ 2,766,781,672</u></b>	<b><u>\$ 11,479,043</u></b>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Unaudited Supplementary Schedule of Bond Expenditures  
Period from April 8, 1997 (inception) through June 30, 2016  
(Unaudited)

**(1) Background**

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Proposition BB School Bond Construction Program for the period from April 8, 1997 (inception) through June 30, 2016.

**(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.

***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 April 8, 1997 (inception) through June 30, 2015 and FY 2015-16 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 April 8, 1997 (inception) through June 30, 2016, 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, 2016 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Bond Expenditures

Period from April 8, 1997 (inception) through June 30, 2016

(Unaudited)

*d) Cost Category*

The major cost categories in the unaudited supplementary schedule of bond expenditures for Proposition BB 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, Inspector General, 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.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE K 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 K School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2016 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 K School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2016 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 K 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 5, 2002 (inception) to June 30, 2016 (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 &amp; Simpson".

Los Angeles, California  
January 26, 2017

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Year Ended June 30, 2016

<b>Cost Category</b>	<b>2016</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
New Construction	\$ 6,473,725
School Modernization	5,455,539
Early Childhood Education	362,640
Charter Schools	893,208
Indirects	<u>12,655,478</u>
Total FSD Capital Programs	<u>25,840,590</u>
<b>Information Technology Division (ITD) Capital Programs</b>	
Information Technology Network Upgrade	3,441,303
Virtual Learning Complex Planning	<u>9,031</u>
Total ITD Capital Programs	<u>3,450,334</u>
<b>Library Services</b>	2,630
<b>Total Expenditures, June 30, 2016</b>	<b><u>\$ 29,293,554</u></b>

See accompanying notes to statement of bond expenditures.

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

Notes to Statement of Bond Expenditures  
Year Ended June 30, 2016

**(1) Measure K School Bond Construction Program Background**

The Measure K School Bond Construction Program (Program) 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 improvements to schools and to build new neighborhood schools that will provide an additional 112,000 new seats for children. Additionally, the Program has set funds aside for improving the neighboring communities by enhancing recreational activities and providing after-school space by constructing new schools, new parks and libraries.

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 K on the 2002 ballot. The Measure K School Bond initiative authorized the issuance of \$3.35 billion in bonds. \$3.35 billion has since been issued between February 2003 and June 2010. The proceeds from the Measure K School Bonds are to be used for projects such as repairing leaky roofs, connecting classrooms to intranets and the internet, equipping libraries at new schools with the initial stock of new books, and construction of new schools and early education centers. 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. All projects are managed by District-approved project managers. Each project manager is responsible for managing all project-related activities, including the maintenance of the District's master schedule and the master project budget.

**(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, 2016, 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 K SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Statement of Bond Expenditures  
Year Ended June 30, 2016

*b) Cost Category*

The major cost categories in the statement of bond expenditures for Measure K 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 K SCHOOL BOND CONSTRUCTION PROGRAM**  
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance  
 Period from November 5, 2002 (inception) to June 30, 2016  
 (Unaudited)

Sources of Funds from Inception through June 30, 2016:	
Bonds Issued - FY 2002-03 through FY 2009-10 (final issuance)	\$ 3,350,000,000
Interest Income - FY 2002-03 through FY 2014-15	140,014,789
Interest Income - FY 2015-16	1,596,626
Local Income - FY 2013-14	71,051
Local Income - FY 2015-16	881,231
Transfers In (Reimbursements) – Other Financing Sources (OFS) FY 2006-07 through FY 2014-15	522,167,318
Transfers In (Reimbursements) - OFS FY 2015-16	26,899,591
Adjustments - Bond Premium, net of Cost of Issuance FY 2006-07	5,482,312
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	<u>(1,111,624)</u>
Total Sources of Funds, June 30, 2016	\$ 4,046,001,294
Uses of Funds (Expenditures) from Inception through June 30, 2016	<u>(3,837,972,831)</u>
<b>Fund Balance, June 30, 2016</b>	<b><u>\$ 208,028,463</u></b>

**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 K SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 5, 2002 (inception) to June 30, 2016  
(Unaudited)

<u>Cost Category</u>	<u>Actual Expenditures Incurred</u>				<u>Unexpended Balance</u>
	<u>Adjusted Budget</u>	<u>November 5, 2002 (Inception) through June 30, 2015</u>	<u>Expenditure Year Ended June 30, 2016</u>	<u>Total Expenditure through June 30, 2016</u>	
<b>Facilities Services Division (FSD)</b>					
<b>Capital Programs</b>					
New Construction	\$ 2,969,295,432	\$ 2,856,435,655	\$ 6,473,725	\$ 2,862,909,380	\$ 106,386,052
School Modernization	677,499,918	627,311,264	5,455,539	632,766,803	44,733,115
Early Childhood Education	80,000,000	76,412,106	362,640	76,774,746	3,225,254
Charter Schools	53,500,000	40,552,870	893,208	41,446,078	12,053,922
Indirects	79,517,577	32,172,658	12,655,478	44,828,136	34,689,441
Total FSD Capital Programs	<u>3,859,812,927</u>	<u>3,632,884,553</u>	<u>25,840,590</u>	<u>3,658,725,143</u>	<u>201,087,784</u>
<b>Information Technology Division (ITD)</b>					
<b>Capital Programs</b>					
Information Technology Network Upgrade	125,590,133	115,926,512	3,441,303	119,367,815	6,222,318
Virtual Learning Complex Planning	1,909,867	1,678,702	9,031	1,687,733	222,134
Total ITD Capital Programs	<u>127,500,000</u>	<u>117,605,214</u>	<u>3,450,334</u>	<u>121,055,548</u>	<u>6,444,452</u>
<b>Library Services</b>	38,000,000	37,501,143	2,630	37,503,773	496,227
<b>Other Costs</b>					
Employee Benefits	3,780,148	3,780,148	-	3,780,148	-
Cost of Issuance	5,658,218	5,658,218	-	5,658,218	-
Office of Inspector General	11,250,001	11,250,001	-	11,250,001	-
Total Other Costs	<u>20,688,367</u>	<u>20,688,367</u>	<u>-</u>	<u>20,688,367</u>	<u>-</u>
<b>Total Measure K Bond Expenditures</b>	<b><u>\$ 4,046,001,294</u></b>	<b><u>\$ 3,808,679,277</u></b>	<b><u>\$ 29,293,554</u></b>	<b><u>\$ 3,837,972,831</u></b>	<b><u>\$ 208,028,463</u></b>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 5, 2002 (inception) to June 30, 2016  
(Unaudited)

**(1) Background**

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Measure K School Bond Construction Program for the period from November 5, 2002 (inception) through June 30, 2016.

**(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 November 5, 2002 (inception) through June 30, 2015 and FY 2015-16 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 November 5, 2002 (inception) through June 30, 2016, 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, 2016 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 5, 2002 (inception) to June 30, 2016  
(Unaudited)

*d) Cost Category*

The major cost categories in the unaudited supplementary schedule of bond expenditures for Measure K 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.

**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, 2016 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, 2016 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, 2016 (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 &amp; Simpson".

Los Angeles, California

January 26, 2017

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Year Ended June 30, 2016

<b>Cost Category</b>	<b>2016</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
New Construction	\$ 2,244,368
School Modernization	34,268,792
Information Technology Network Upgrade	28,555
Early Childhood Education	4,656,185
Charter Schools	12,177,430
Indirects	26,233,595
Total FSD Capital Programs	79,608,925
<b>Information Technology Division (ITD) Capital Programs</b>	
Instructional Technology Initiative	20,586,724
Information Technology Network Upgrade	14,630,966
Disaster Recovery & Business Continuity	3,728,069
My Integrated Student Information System	2,045,664
Total ITD Capital Programs	40,991,423
<b>Library Services</b>	1,174,571
<b>Other Costs</b>	
Office of Bond Compliance	(6,367)
Office of the Inspector General	(17,565)
Total Other Costs	(23,932)
<b>Other Financing Uses</b>	
Reimbursements: Transfers Out to Special Reserve Fund	1,752,450
Total Other Financing Uses	1,752,450
<b>Total Expenditures, June 30, 2016</b>	<b>\$ 123,503,437</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, 2016

**(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, 2016, 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, 2016

***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 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.



**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, 2016  
 (Unaudited)

Sources of Funds from Inception through June 30, 2016:	
Bonds Issued - FY 2004-05 through FY 2014-15	\$ 3,710,010,000
Adjustments - Bond Premium, net of Cost of Issuance 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 2014-15	141,397,772
Interest Income - FY 2015-16	2,318,832
Local Income – FY 2013-14 through FY 2014-15	18,343,918
Local Income - FY 2015-16	8,854,091
Federal Income - FY 2014-15	1,752,450
Transfers In (Reimbursements) – Other Financing Sources (OFS) FY 2005-06 through FY 2014-15	936,513,790
Transfers In (Reimbursements) - OFS FY 2015-16	<u>23,992,992</u>
Total Sources of Funds, June 30, 2016	\$ 4,851,818,477
Uses of Funds (Expenditures) from Inception through June 30, 2016	<u>(4,602,441,141)</u>
<b>Fund Balance, June 30, 2016</b>	<b><u><u>\$ 249,377,336</u></u></b>

**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, 2016  
 (Unaudited)

Cost Category	Actual Expenditures Incurred				Unexpended Balance
	Adjusted Budget	March 2, 2004 (Inception) through June 30, 2015	Expenditure Year Ended June 30, 2016	Total Expenditure through June 30, 2016	
<b>Facilities Services Division (FSD) Capital Programs</b>					
New Construction	\$ 1,854,166,710	\$ 1,792,047,971	\$ 2,244,368	\$ 1,794,292,339	\$ 59,874,371
School Modernization	1,873,829,051	1,757,992,178	34,268,792	1,792,260,970	81,568,081
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	65,426,014	4,656,185	70,082,199	24,113,410
Charter Schools	71,885,324	46,589,631	12,177,430	58,767,061	13,118,263
Indirects	206,748,489	180,514,894	26,233,595	206,748,489	-
<b>Total FSD Capital Programs</b>	<b>4,125,853,738</b>	<b>3,867,119,297</b>	<b>79,608,925</b>	<b>3,946,728,222</b>	<b>179,125,516</b>
<b>Information Technology Division (ITD) Capital Programs</b>					
Instructional Technology Initiative	157,291,794	124,836,241	20,586,724	145,422,965	11,868,829
Information Technology Network Upgrade	247,930,742	192,355,610	14,630,966	206,986,576	40,944,166
Disaster Recovery & Business Continuity	22,375,863	17,385,947	3,728,069	21,114,016	1,261,847
My Integrated Student Information System	53,491,015	38,573,419	2,045,664	40,619,083	12,871,932
Radio System	1,864,969	1,864,969	-	1,864,969	-
<b>Total ITD Capital Programs</b>	<b>482,954,383</b>	<b>375,016,186</b>	<b>40,991,423</b>	<b>416,007,609</b>	<b>66,946,774</b>
<b>Library Services</b>	<b>53,000,000</b>	<b>48,804,213</b>	<b>1,174,571</b>	<b>49,978,784</b>	<b>3,021,216</b>
<b>Other Costs</b>					
Employee Benefits – 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	163,486	(6,367)	157,119	261,122
Office of Inspector General	10,000,000	10,000,145	(17,565)	9,982,580	17,420
<b>Total Other Costs</b>	<b>33,646,165</b>	<b>33,391,555</b>	<b>(23,932)</b>	<b>33,367,623</b>	<b>278,542</b>
<b>Other Financing Uses</b>					
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	-
<b>Total Other Financing Uses</b>	<b>156,364,191</b>	<b>154,606,453</b>	<b>1,752,450</b>	<b>156,358,903</b>	<b>5,288</b>
<b>Total Measure R Bond Expenditures</b>	<b>\$ 4,851,818,477</b>	<b>\$ 4,478,937,704</b>	<b>\$ 123,503,437</b>	<b>\$ 4,602,441,141</b>	<b>\$ 249,377,336</b>

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, 2016  
(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, 2016.

**(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, 2015 and FY 2015-16 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, 2016, 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, 2016 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, 2016  
(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.

**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, 2016 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, 2016 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, 2016 (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 that reads "Simpson &amp; Simpson".

Los Angeles, California  
January 26, 2017



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM**  
Statement of Bond Expenditures  
Year Ended June 30, 2016

<b>Cost Category</b>	<b>2016</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
New Construction	\$ 3,833,381
School Modernization	75,165,403
Information Technology Network Upgrade	27,353,898
Adult and Career Education	1,392,060
Early Childhood Education	480,138
Charter Schools	2,605,816
Indirects	7,276,779
Total FSD Capital Programs	118,107,475
<b>Information Technology Division (ITD) Capital Programs</b>	
Instructional Technology Initiative	2,265,931
Information Technology Network Upgrade	4,033,369
Radio System	187,569
Virtual Learning Complex Planning	(739)
Total ITD Capital Programs	6,486,130
<b>Library Services</b>	1,630,566
<b>Other Costs</b>	
Office of Bond Compliance	1,028,166
Office of the Inspector General	3,109,231
Total Other Costs	4,137,397
<b>Other Financing Uses</b>	
Capital Improvement Program Reserve (CIPR) Cafeteria:	
Transfers Out to Cafeteria Fund	35,067
Total Other Financing Uses	35,067
<b>Total Expenditures and Other Uses, June 30, 2016</b>	<b>\$ 130,396,635</b>

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, 2016

**(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, 2016

***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, 2016, 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) 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.

**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 Balance  
 Period from November 8, 2005 (inception) to June 30, 2016  
 (Unaudited)

Sources of Funds from Inception through June 30, 2016:	
Bonds Issued - FY 2005-06 through FY 2014-15	\$ 3,602,850,000
Adjustments - Bond Premium, net of Cost of Issuance FY 2005-06	6,614,884
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	(667,495)
Interest Income - FY 2005-06 through FY 2014-15	99,380,415
Interest Income - FY 2015-16	720,622
Local Income - FY 2007-08 through FY 2014-15	37,027,717
Local Income - FY 2015-16	10,283
Transfers In (Reimbursements) – Other Financing Sources (OFS) FY 2005-06 through FY 2014-15	445,506,580
Transfers In (Reimbursements) - OFS FY 2015-16	<u>34,738,936</u>
Total Sources of Funds, June 30, 2016	\$ 4,226,181,942
Uses of Funds (Expenditures) from Inception through June 30, 2016	<u>(4,190,075,343)</u>
<b>Fund Balance, June 30, 2016</b>	<b><u>\$ 36,106,599</u></b>

**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 Y SCHOOL BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 8, 2005 (inception) to June 30, 2016  
(Unaudited)

Cost Category	Adjusted Budget	Actual Expenditures Incurred			Unexpended Balance
		November 8, 2005 (Inception) through June 30, 2015	Expenditures Year Ended June 30, 2016	Total Expenditures through June 30, 2016	
<b>Facilities Services Division (FSD)</b>					
<b>Capital Programs</b>					
New Construction	\$ 2,322,429,806	\$ 2,317,910,553	\$ 3,833,381	\$ 2,321,743,934	\$ 685,872
School Modernization	945,378,045	869,821,142	75,165,403	944,986,545	391,500
Information Technology Network Upgrade	162,511,805	135,157,907	27,353,898	162,511,805	-
Adult and Career Education	67,237,994	62,198,007	1,392,060	63,590,067	3,647,927
Early Childhood Education	31,712,137	31,231,999	480,138	31,712,137	-
Charter Schools	34,344,112	31,330,382	2,605,816	33,936,198	407,914
Indirects	15,994,228	8,717,449	7,276,779	15,994,228	-
Total FSD Capital Programs	<u>3,579,608,127</u>	<u>3,456,367,439</u>	<u>118,107,475</u>	<u>3,574,474,914</u>	<u>5,133,213</u>
<b>Information Technology Division (ITD)</b>					
<b>Capital Programs</b>					
Instructional Technology Initiative	20,557,965	16,060,450	2,265,931	18,326,381	2,231,584
Information Technology Network Upgrade	133,192,104	113,699,128	4,033,369	117,732,497	15,459,607
Radio System	30,316,963	19,463,036	187,569	19,650,605	10,666,358
Virtual Learning Complex Planning	2,030,131	1,879,428	(739)	1,878,689	151,442
Total ITD Capital Programs	<u>186,097,163</u>	<u>151,102,042</u>	<u>6,486,130</u>	<u>157,588,172</u>	<u>28,508,991</u>
<b>Transportation (Buses)</b>	25,000,000	22,535,605	-	22,535,605	2,464,395
<b>Library Services</b>	1,630,566	-	1,630,566	1,630,566	-
<b>Other Costs</b>					
Employee 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	2,150,266	1,122,100	1,028,166	2,150,266	-
Office of Inspector General	14,440,310	11,331,079	3,109,231	14,440,310	-
Total Other Costs	<u>50,357,120</u>	<u>46,219,723</u>	<u>4,137,397</u>	<u>50,357,120</u>	<u>-</u>
<b>Other Financing Uses</b>					
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	4,964,513	35,067	4,999,580	-
Buses: Transfers Out to General Fund Restricted	3,460,803	3,460,803	-	3,460,803	-
Transfers Out to General Fund	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	<u>383,488,966</u>	<u>383,453,899</u>	<u>35,067</u>	<u>383,488,966</u>	<u>-</u>
<b>Total Measure Y Bond Expenditures</b>	<b><u>\$ 4,226,181,942</u></b>	<b><u>\$ 4,059,678,708</u></b>	<b><u>\$ 130,396,635</u></b>	<b><u>\$ 4,190,075,343</u></b>	<b><u>\$ 36,106,599</u></b>

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, 2016  
(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, 2016.

**(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, 2015 and FY 2015-16 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, 2016, 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, 2016 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, 2016  
(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.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**  
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CERTIFIED PUBLIC ACCOUNTANTS

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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 Q School Bond Construction Program** of the Los Angeles Unified School District (the District) for the year ended June 30, 2016 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 Q School Bond Construction Program of the Los Angeles Unified School District for the year ended June 30, 2016 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 Q 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, 2008 (inception) to June 30, 2016 (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 that reads "Simpson &amp; Simpson".

Los Angeles, California  
January 26, 2017

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

Statement of Bond Expenditures  
Year Ended June 30, 2016

<b>Cost Category</b>	<b>2016</b>
<b>Facilities Services Division (FSD) Capital Programs</b>	
School Modernization	\$ 28,455,174
Adult and Career Education	87,755
Charter Schools	27,139
Indirects	59,023,926
Total FSD Capital Programs	87,593,994
<b>Information Technology Division (ITD) Capital Programs</b>	
Information Technology Network Upgrade	886,764
Disaster Recovery & Business Continuity	8,907,707
My Integrated Student Information System	44,931,729
Total ITD Capital Programs	54,726,200
<b>Other Costs</b>	
Cost of Issuance	519,135
Total Other Costs	519,135
<b>Other Financing Uses</b>	
Transfers Out to General Fund Restricted – Routine Restricted General Maintenance (RRGM)	19,893,571
Total Other Financing Uses	19,893,571
<b>Total Expenditures and Other Uses, June 30, 2016</b>	<b>\$ 162,732,900</b>

See accompanying notes to statement of bond expenditures.

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

Notes to Statement of Bond Expenditures  
Year Ended June 30, 2016

**(1) Measure Q School Bond Construction Program Background**

The Measure Q School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Repair and Construction Measure of 2008" 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 Q on the 2008 ballot. The Measure Q School Bond initiative authorized the issuance of \$7.0 billion in bonds. \$.649 billion has since been issued between November 2008 and June 2016. The proceeds from the Measure Q 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 Q SCHOOL BOND CONSTRUCTION PROGRAM**

Notes to Statement of Bond Expenditures  
Year Ended June 30, 2016

***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, 2016, 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 Q 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.

**UNAUDITED SUPPLEMENTARY SCHEDULES**

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**  
 Unaudited Supplementary Schedule of Sources and Uses of Funds and Fund Balance  
 Period from November 4, 2008 (inception) to June 30, 2016  
 (Unaudited)

Sources of Funds from Inception through June 30, 2016:

Bonds Issued - FY 2015-16	\$ 648,955,000
Local Income - FY 2015-16	1,196,948
Total Sources of Funds, June 30, 2016	<u>650,151,948</u>
Uses of Funds (Expenditures) from Inception through June 30, 2016	<u>(162,732,900)</u>
<b>Fund Balance, June 30, 2016</b>	<b><u>\$ 487,419,048</u></b>

See accompanying independent auditor's report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**  
 Unaudited Supplementary Schedule of Bond Expenditures  
 Period from November 4, 2008 (inception) to June 30, 2016  
 (Unaudited)

<u>Cost Category</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures Incurred</u>			<u>Unexpended Balance</u>
		<u>November 4, 2008 (Inception) through June 30, 2015</u>	<u>Expenditure Year Ended June 30, 2016</u>	<u>Total Expenditure through June 30, 2016</u>	
<b>Facilities Services Division (FSD)</b>					
<b>Capital Programs</b>					
School Modernization	\$ 424,174,931	\$ -	\$ 28,455,174	\$ 28,455,174	\$ 395,719,757
Adult and Career Education	87,755		87,755	87,755	-
Charter Schools	27,139		27,139	27,139	-
Indirects	59,023,926		59,023,926	59,023,926	-
Total FSD Capital Programs	<u>483,313,751</u>	<u>-</u>	<u>87,593,994</u>	<u>87,593,994</u>	<u>395,719,757</u>
<b>Information Technology Division (ITD)</b>					
<b>Capital Programs</b>					
Information Technology Network Upgrade	8,540,696		886,764	886,764	7,653,932
Disaster Recovery & Business Continuity	47,878,366		8,907,707	8,907,707	38,970,659
My Integrated Student Information System	79,900,000		44,931,729	44,931,729	34,968,271
Total ITD Capital Programs	<u>136,319,062</u>	<u>-</u>	<u>54,726,200</u>	<u>54,726,200</u>	<u>81,592,862</u>
<b>Other Costs</b>					
Cost of Issuance	519,135		519,135	519,135	-
Total Other Costs	<u>519,135</u>	<u>-</u>	<u>519,135</u>	<u>519,135</u>	<u>-</u>
<b>Other Financing Uses</b>					
Transfers Out to General Fund - RRGM	30,000,000		19,893,571	19,893,571	10,106,429
Total Other Financing Uses	<u>30,000,000</u>	<u>-</u>	<u>19,893,571</u>	<u>19,893,571</u>	<u>10,106,429</u>
<b>Total Measure Q Bond Expenditures</b>	<b><u>\$ 650,151,948</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 162,732,900</u></b>	<b><u>\$ 162,732,900</u></b>	<b><u>\$ 487,419,048</u></b>

See accompanying independent auditor's report and notes to unaudited supplementary schedule of bond expenditures.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 4, 2008 (inception) to June 30, 2016  
(Unaudited)

**(1) Background**

The unaudited supplementary schedule of bond expenditures, presents expenditures of the Measure Q School Bond Construction Program for the period from November 4, 2008 (inception) through June 30, 2016.

**(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 FY 2015-16 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 FY 2015-16, adjusted by discounts received from the vendors. The actual expenditure amounts included expenditures of bond proceeds.

**c) Unexpended Balance**

The amounts included within the fund 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, 2016 column.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
**MEASURE Q SCHOOL BOND CONSTRUCTION PROGRAM**  
Notes to Unaudited Supplementary Schedule of Bond Expenditures  
Period from November 4, 2008 (inception) to June 30, 2016  
(Unaudited)

*d) Cost Category*

The major cost categories in the unaudited supplementary schedule of bond expenditures from inception for Measure Q 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.