

LOS ANGELES UNIFIED SCHOOL DISTRICT
Proposition BB, Measure K, Measure R, and
Measure Y School Bond Construction Programs
Agreed-Upon Procedures Report for the Year Ended
June 30, 2013 and Statements of Bond Expenditures
from Inception through June 30, 2013
(With Independent Auditor's Reports Thereon)





SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS

BRAINARD C. SIMPSON, CPA

MELBA W. SIMPSON, CPA

**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, and Measure Y 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, 2013. 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, and Measure Y expenditures, unless otherwise noted.

1. Procedure

From a population of all expenditures charged to Object Code #6000 in the general ledger (IFS) for the year ended June 30, 2013, we selected 10 expenditures for each of the General Obligation (GO) Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y). We also selected an additional Information Technology Department (ITD) expenditure for each of the Measures K, R and Y. We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 1.1** We tested the 43 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 read the ballot measures to understand the work scope and list of specific projects proposed to be financed with the proceeds of the GO 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 and Y (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 43 invoices from the different GO 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 above that represent construction payments, we determined whether the following requirements of GO Bond construction project payments procedures had been met:

- a) There are signatures on the required lines where an Owner Authorized Representative (OAR) validates that the contractor has certified the Application for Payment, and that the OAR has signed it.
- 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 18 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.

- a) The invoice was appropriately approved by a Los Angeles Unified School District employee on the Encumbrance/Payment Request form or other appropriate approval form.
- b) For each invoice, the related encumbrance/payment request was signed by the District FPPS Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments.

Results

We noted one (1) item that was not signed by an FPPS Analyst for accuracy, completeness, and proper approvals prior to the processing of the payments. However, the item was properly reviewed and approved by authorized District personnel.



Management Response

Management concurs that the request for replenishment of the Utilities imprest account is an exception to the Facilities payment process and was properly reviewed and approved by authorized District personnel. The sample is not a payment for a vendor invoice. It is an internal request to Accounts Payable to replenish the \$500,000 Utilities imprest account.. The Encumbrance/Payment Request was appropriately reviewed by the District FPPS Financial Specialist and approved by the Director of Program Support Services. The Imprest Fund Claim Form was certified by the Director of Program Support Services, the Imprest account administrator, in compliance with Bulletin No. REF-1706.2 Imprest Funds, Guidance on the Appropriate Use of Imprest Fund Accounts.

2. Procedure

From the population of all expenditures charged to Object Code #1000 and #2000 in IFS to the Proposition BB, Measure K, Measure R and Measure Y bond funds, collectively referred to as the GO Bond Funds, for the fiscal year ended June 30, 2013, we selected 10 total expenditures for all GO Bond Funds combined (Proposition BB, Measure K, Measure R, and Measure Y) to perform the following procedures:

- 2.1** We determined whether the items selected for Measure K, Measure R and Measure Y were 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) and the California Attorney General.

Results

After interviewing 10 employees whose salaries were fully or partly charged to the bond funds, we noted one (1) employee whose job description did not establish clear compliance with the requirements of Measures Y. The employee’s job title is “investigator”. He works as part of the Investigations Unit of the Office of the Inspector General. He stated that his main projects include performing due diligence for charter schools, as part of LAUSD’s evaluation process of such schools. He also worked on investigating potential new hires, as requested by the Human Resources Department. In FY 12-13, he also worked on projects involving investigating suppliers that contracted with the Facilities Department. His salary was fully charged to Measure Y in FY 12-13.

Management Response

The OIG investigative staff does not currently track its time by project or funding source so it is not possible to identify the level of staff time with a funding source. Going forward, the OIG will implement a policy to track investigative staff time by project and by funding source to ensure that the appropriate allocation of staff time to funding source is maintained.

- 2.2** For each expenditure selected in Procedure 2 for Proposition BB, we determined that no bond funds were spent on “administrator salaries” as noted in the ballot measure.

Results

There were no expenditures in Object 1000 and 2000 for Proposition BB. This procedure is therefore, not applicable.



3. Procedure

From a population of all expenditures charged to Object Code #4000 and #5000 in IFS to all Proposition 39 Local Bond Funds (Measure K, Measure R and Measure Y) during the fiscal year ended June 30, 2013, we selected a sample of 10 expenditures and an additional one ITD expenditure. We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 3.1** We reviewed the invoices to determine 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). We also determined whether the expenditures complied with the additional guidance provided by the California Attorney General.

Results

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

4. Procedure

From a population of all expenditures charged to Object Code #5000 and #6000 in IFS to all GO Bond Funds for the fiscal year ended June 30, 2013, we selected 10 expenditures corresponding to 10 individual program management/construction management firms. We noted that ITD does not employ construction management firms. We obtained supporting invoices for the expenditures selected and performed the following procedures:

- 4.1** We obtained a copy of the contract for each program management/construction management firm selected and we reviewed each invoice for consistency with contract terms.

Results

We obtained a list of programs or construction management firms utilized by the District from the Facilities Construction Contract Unit. We obtained a copy of the contract, including approved amendments, for each of the 10 selected program and construction management firms. We read the contract provisions specifically covering charges and payments.

In addition to the contract, we utilized the Program Support Services Invoicing Guidelines (Guidelines) designed by the Facilities Services as a guide, if applicable, in reviewing invoices to determine whether the information provided in the billing was consistent with the contract.

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

5. Procedure

From a population of all expenditures charged to Object Code #4000, #5000, and #6000 in IFS to all GO Bond Funds during the fiscal year ended June 30, 2013, we selected all expenditures from the samples selected in Procedure 3 and Procedure 4 above and obtained corresponding invoices. We tested the sample of invoices to determine compliance with District Bond Charging Procedures.

Results

In conjunction with the issuance of GO Bonds, the District drafted Bond Charging Procedures for



Measures K, R and Y and Proposition BB to provide procedures relating to the distribution and assignment of costs. Based on the bond charging procedures, bond proceeds shall not be applied to any purposes other than those for which the bonds were issued. In addition, there are other general guidelines such as the intent of the voters as reflected in the Bond Project List, Strategic Execution Plan and the California School Accounting Manual. These are guidelines being referred to in the Bond Charging Procedures. We examined the invoices to determine compliance with District Bond Charging Procedures. No exceptions were noted as a result of performing this procedure.

6. Procedure

From a listing of change orders approved during the fiscal year ended June 30, 2013 generated from the Project Information Control (PIC) system, we selected 20 change orders from all GO Bond Funds. We obtained the District Change Order Procedures and performed the following review to determine compliance with the District's Change Order Procedures.

- 6.1** We compared the "Not to exceed Limits" to determine the compliance with the following procedures. According to the Change Order Procedures, individual change orders for New Construction work may not exceed 10% of the original contract price before securing additional bids. For demolition, reconstruction or rehabilitation work of existing structures, individual change orders may exceed ten percent (10%) according to the 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.

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:

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

Results

None of the 20 samples we tested is an End User-initiated change order. No exceptions were noted as a result of performing this procedure.

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

Results

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



7. Procedure

We determined whether the total expenditures reported in the year-end "Statements of Bond Expenditures" for each GO Bond Fund measure agree with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2013.

Results

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

8. Procedure

We selected 10 New Construction projects from the June 2012 Facilities Services Division (FSD) Strategic Execution Plan (SEP) and verified the sample projects for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for New Construction projects:

- 8.1** For each of the 10 projects, we compared the SEP project budgets from the June 2012 FSD SEP to the June 2013 FSD SEP. For each project with a 2013 FSD SEP project budget that is greater than 105% of the 2012 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 10 projects, we compared the project's scheduled school occupancy date from the 2012 FSD SEP to the 2013 FSD SEP. For each project with a 2013 FSD SEP school occupancy date that is later than the 2012 FSD SEP school occupancy 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 10 projects, we compared the project's scope from the 2012 FSD SEP to the 2013 FSD SEP. For each project with a 2013 FSD SEP scope that differs significantly from the 2012 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.

9. Procedure

We selected 10 samples of Repairs and modernization project types (such as classroom lighting, exterior paving and roofing) from the 2012 FSD SEP to verify compliance of sampled projects with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for Existing Facilities Projects.



9.1 For each of the 10 project types selected, we compared the aggregate June 2012 FSD SEP Current Budget to the aggregate June 2013 FSD SEP Current Budget. For any project types selected with an aggregate 2013 FSD SEP Current Budget that is greater than 105% of the aggregate 2012 FSD SEP current budget, if applicable, we determined whether the budget increase was reported to the BOC.

Results

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

9.2 We selected one specific project from the June 2012 FSD SEP for each of the 10 project types selected in procedure 9.1. For each sampled project that has a June 2013 FSD SEP scheduled substantial completion date that is 12 months or greater than the June 2012 FSD SEP substantial completion date, if applicable, we determined whether the delay was reported to the BOC.

Results

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

9.3 For each project selected in procedure 9.2 from the June 2012 FSD SEP that was cancelled when compared to the June 2013 FSD SEP, if applicable, we determined whether the project cancelled was reported to the BOC.

Results

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

10. Procedure

We inquired of District management 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.

10.1 We determined whether Facilities Services Division management compensation survey was performed and presented to the Board of Education.

10.2 We determined whether the District declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

Results

According to the provisions of Measure Y, managers of the Facilities Services Division shall have the educational 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 Facilities Services Division are being compensated accordingly.



We inquired of District management and verified that there was no survey performed by the District's Personnel Commission in FY 12-13 that was aimed at addressing the provisions of Measure Y above. Consequently, the District failed to declare a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

Based on the information gathered above, the District is not in compliance with the requirements of Measure Y.

Management Response

In light of the severity of the recent State financial crisis, the District has not been in a position to provide compensation increases to its employees, including the management of the Facilities Services Division. In the fall of 2013, the Superintendent requested that the Personnel Commission incorporate the required salary study of Facilities executive management into a broader, more comprehensive study of all management staff. Staff anticipates completion of this study before the end of this calendar year.

11. Procedure

We selected a sample of two (2) G.O. Bond Information Technology Division (ITD) project types, LAN Modernization and Radio Systems project, from the 2012 ITD SEP. We reviewed the selected project types for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for ITD projects:

11.1 For each of the 2 project types selected in procedure 11, we compared the aggregate June 2012 ITD SEP Current Budget to the aggregate 2013 ITD SEP Current Budget. For each of the 2 project types selected with an aggregate 2013 ITD SEP Current Budget that is greater than 105% of the aggregate 2012 ITD SEP Current Budget, if applicable, we determined whether the budget increase was reported to the BOC.

Results

We selected two project types from the 2012 ITD SEP, 1) School Network Modernization Program and 2) Radio Systems. We compared the budgets of these two project types in the 2012 and the 2013 ITD SEP. The budgets in the 2013 ITD SEP did not exceed the budgets in the 2012 ITD SEP by greater than 105%. No exceptions were noted as a result of performing this procedure.

11.2 We selected 10 specific projects (schools within the School Network Modernization Program) from the 2012 ITD SEP. There were no projects stated within the project type, Radio Systems. For each project selected from the 2012 ITD SEP that has a scheduled substantial completion date that is 12 months or greater than the 2013 ITD SEP substantial completion date, if applicable, we determined whether the delay was reported to the BOC.

Results

We noted that the 2012 ITD SEP indicated construction completion dates for the 10 specific projects selected while the 2013 ITD SEP indicated project completion dates. According to ITD, construction completion date differs from the project completion date and therefore, the two dates are not comparable. Therefore, we were unable to identify any project delays of 12 months or more based on the information in the two ITD SEPs.



11.3 For each project selected in procedure 11.2 from the 2012 ITD SEP that was cancelled when compared to the 2013 ITD SEP, if applicable, we determined whether the project cancelled was reported to the BOC.

Results

We did not note any projects in the School Network Modernization Program in the 2012 ITD SEP that were cancelled in the 2013 ITD SEP. No exceptions were noted as a result of performing this procedure.

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 and Measure Y 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, written in a cursive style, that reads "Simpson & Simpson".

Los Angeles, California
February 28, 2014



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2014. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures (statement) of the **Proposition BB School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2013. The expenditures incurred included in the statement of bond expenditures from April 8, 1997 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from April 8, 1997 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Proposition BB School Bond Construction Program of the Los Angeles Unified School District for the period from April 8, 1997 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California

February 28, 2014

LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from April 8, 1997 (Inception) through June 30, 2013

Cost Category	Adjusted Budget (Unaudited)	Actual Expenditures Incurred			Unexpended Balance (Unaudited)
		April 8, 1997 (Inception) through June 30, 2012	Expenditure Year Ended June 30, 2013	Total Expenditure through June 30, 2013	
New Construction	\$ 827,533,324	\$ 824,951,807	\$ -	\$ 824,951,807	\$ 2,581,517
School Modernization / Repairs	1,726,806,339	1,708,375,616	5,475,449	1,713,851,065	12,955,274
Office of Inspector General	3,750,000	3,750,000	-	3,750,000	-
Others:					
Employee Benefits	3,171,834	3,171,595	239	3,171,834	-
Prior Year Adjustments	193,281,816	166,739,358	26,542,458	193,281,816	-
COPs Defeasance	15,344,829	15,344,829	-	15,344,829	-
Cost of Issuance	1,136,865	1,136,865	-	1,136,865	-
Total Others	<u>212,935,344</u>	<u>186,392,647</u>	<u>26,542,697</u>	<u>212,935,344</u>	<u>-</u>
Total Proposition BB Bond Expenditures	<u><u>\$2,771,025,007</u></u>	<u><u>\$2,723,470,070</u></u>	<u><u>\$ 32,018,146</u></u>	<u><u>\$2,755,488,216</u></u>	<u><u>\$ 15,536,791</u></u>

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
Period from April 8, 1997 (inception) through June 30, 2013

(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) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from April 8, 1997 (inception) through June 30, 2012 and FY 2012-13 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred columns in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from April 8, 1997 (inception) through June 30, 2013, adjusted by discounts received from the vendors.

c) Unexpended Balance (Unaudited)

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPOSITION BB SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from April 8, 1997 (inception) through June 30, 2013

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

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

e) Prior Year Adjustments

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

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

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

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

Notes to Statement of Bond Expenditures
Period from April 8, 1997 (inception) through June 30, 2013

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

The following is a summary of the budgeted revenues and expenditures for the Program from April 8, 1997 (inception) through June 30, 2013:

Actual:

Bonds Issued - FY 1997-98 through FY 2002-03 (final issuance)	\$ 2,400,000,000
Interest Income - FY 1997-98 through FY 2011-12	176,694,363
Interest Income - FY 2012-13	304,810
Local Income - FY 2001-02	93,057
Interfund Transfer In - OFS FY 2006-07 through FY 2011-12	167,839,161
Interfund Transfer In - OFS FY 2012-13	29,093,616
Total Bonds issued, Interest /Local Income/OFS as of June 30, 2013	\$ 2,774,025,007
Less: Reserves- Relocation Revolving Fund	(3,000,000)
Total Sources of Funds (net of Reserves), June 30, 2013	\$ 2,771,025,007
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	(2,755,488,216)
Fund Balances, June 30, 2013	\$ 15,536,791



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Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2014. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures (statement) of the **Measure K School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2013. The expenditures incurred included in the statement of bond expenditures from November 5, 2002 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from November 5, 2002 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure K School Bond Construction Program of the Los Angeles Unified School District for the period from November 5, 2002 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
February 28, 2014

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from November 5, 2002 (Inception) through June 30, 2013

<u>Cost Category</u>	<u>Actual Expenditures Incurred</u>				<u>Unexpended Balance (Unaudited)</u>
	<u>Adjusted Budget (Unaudited)</u>	<u>November 5, 2002 (Inception) through June 30, 2012</u>	<u>Expenditure Year Ended June 30, 2013</u>	<u>Total Expenditure through June 30, 2013</u>	
New Construction	\$2,610,670,080	\$2,416,939,034	-	\$2,416,939,034	\$ 193,731,046
School Modernization / Repairs	580,061,714	543,159,810	3,013,810	546,173,620	33,888,094
Early Childhood Education	80,000,000	74,294,210	371,099	74,665,309	5,334,691
Information Technology Division	126,506,134	81,000,000	5,251,739	86,251,739	40,254,395
Library Services	38,000,000	33,064,638	2,207,912	35,272,550	2,727,450
Charter	53,500,000	33,682,477	1,252,869	34,935,346	18,564,654
Joint Use	10,000,000	9,386,087	9,104	9,395,191	604,809
Office of Inspector General	11,250,000	11,249,690	4	11,249,694	306
Others:					
Employee Benefits	3,780,148	3,739,539	40,609	3,780,148	-
Prior Year Adjustments	484,372,076	431,843,957	52,528,119	484,372,076	-
Cost of Issuance	5,658,218	5,658,218	-	5,658,218	-
Total Others	<u>493,810,442</u>	<u>441,241,714</u>	<u>52,568,728</u>	<u>493,810,442</u>	<u>-</u>
Total Measure K Bond Expenditures	<u>\$4,003,798,370</u>	<u>\$3,644,017,660</u>	<u>\$ 64,675,265</u>	<u>\$3,708,692,925</u>	<u>\$ 295,105,445</u>

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
Period from November 5, 2002 (inception) to June 30, 2013

(1) Measure K School Bond Construction Program Background

The Measure K School Bond Construction Program (Program) 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 2013. 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 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 accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from November 5, 2002 (inception) through June 30, 2012 and FY 2012-13 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

b) Actual Expenditures Incurred

The amounts included within the actual expenditures incurred column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 5, 2002 (inception) through June 30, 2013, adjusted by discounts received from the vendors.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2013

c) Unexpended Balances (Unaudited)

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

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

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

e) Prior Year Adjustments

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE K SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Statement of Bond Expenditures
Period from November 5, 2002 (inception) to June 30, 2013

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

The following is a summary of the sources of funds and uses of funds for the Program from November 5, 2002 (inception) through June 30, 2013:

Actual:

Bonds Issued - FY 2002-03 through FY 2009-10 (final issuance)	\$ 3,350,000,000
Interest Income - FY 2002-03 through FY 2011-12	134,283,923
Interest Income - FY 2012-13	2,122,772
Interfund Transfer In - OFS FY 2006-07 through FY 2011-12	428,736,940
Interfund Transfer In - OFS FY 2012-13	84,284,047
Adjustments - Bond Premium, net of COI 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, 2013	\$ 4,003,798,370
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	<u>(3,708,692,925)</u>
Fund Balances, June 30, 2013	<u><u>\$ 295,105,445</u></u>



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

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

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from March 2, 2004 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure R School Bond Construction Program of the Los Angeles Unified School District for the period from March 2, 2004 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California
February 28, 2014

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from March 2, 2004 (Inception) through June 30, 2013

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

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

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

(1) Measure R School Bond Construction Program Background

The Measure R School Bond Construction Program (Program) or "the Safe and Healthy Neighborhood Schools Improvement Act of 2004" is intended to provide the Los Angeles Unified School District (District) funding for continued improvement to schools and to provide an additional 163,233 new seats for children and to build approximately 50 new neighborhood schools.

The Board of Education has established a School Construction Bond Citizens' Oversight Committee to ensure that the proceeds of the Program's bond issuances are used for the purposes stated in the resolution, which placed Measure R on the 2004 ballot. The Measure R School Bond initiative authorized the issuance of \$3.87 billion in bonds. \$3.63 billion has since been issued between March 2004 and June 2013. The proceeds from the Measure R School Bonds are to be used for projects such as: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos and lead paint hazards; create small learning communities; and construct/upgrade science laboratories and other buildings. All projects to be funded under the Program must be included in the Strategic Execution Plans approved by the Board of Education. The District has established General Obligation Bond Charging Guidelines to outline the allowable expenditures for the Program. Such guidelines specifically state that no funds will be spent for teacher or administrator salaries or for operating expenses.

(2) Basis of Presentation

The accompanying statement of bond expenditures has been prepared in conformity with U.S. generally accepted accounting principles. The accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from March 2, 2004 (inception) through June 30, 2012 and FY 2012-13 budget authority requested from the Board of Education for costs that are expected to be expended and/or obligated to complete the various projects.

(b) Actual Expenditures Incurred

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE R SCHOOL BOND CONSTRUCTION PROGRAM

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

(c) Unexpended Balance (Unaudited)

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

(d) Cost Category

The major cost categories in the statement of bond expenditures for Measure R represent bond programs funded by the bond. The cost category “Others” refer to all expenditures that have been recorded without adequate indicators to allow their proper classifications into the major cost categories.

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

(e) Prior Year Adjustments

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

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

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

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

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

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

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

Actual:

Bond Issued - FY 2004-05 through FY 2009-10	\$ 3,634,795,000
Adjustments - Bond Premium, net of COI FY 2004-05 through FY 2006-07	11,082,578
Adjustments - Cost of Issuance/Underwriter's Discount FY 2008-09	(2,447,946)
Interest Income - FY 2005-06 through FY 2011-12	122,772,832
Interest Income - FY 2012-13	10,398,935
Interfund Transfer In - OFS FY 2005-06 through FY 2011-12	817,987,597
Interfund Transfer In - OFS FY 2012-13	60,614,516
Total Sources of Funds, June 30, 2013	\$ 4,655,203,512
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	(3,872,871,826)
Fund Balances, June 30, 2013	\$ 782,331,686



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2014. We have also audited the expenditures incurred included in the accompanying statement of bond expenditures (statement) of the **Measure Y School Bond Construction Program** of the District for the period from July 1, 2007 through June 30, 2013. The expenditures incurred included in the statement of bond expenditures from November 8, 2005 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement.

Management's Responsibility for the Statement of Bond Expenditures

Management is responsible for the preparation and fair presentation of the statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the expenditures incurred included in the accompanying statement of bond expenditures based on our audit. The expenditures incurred included in the statement of bond expenditures from November 8, 2005 (inception) through June 30, 2007 were audited by other auditors whose report dated May 15, 2009 expressed an unqualified opinion on that statement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the expenditures incurred included in the statement of bond expenditures are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the statement of bond expenditures referred to above presents fairly, in all material respects, the expenditures incurred by the Measure Y School Bond Construction Program of the Los Angeles Unified School District for the period from November 8, 2005 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California

February 28, 2014

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2013

<u>Cost Category</u>	<u>Adjusted Budget (Unaudited)</u>	<u>Actual Expenditures Incurred</u>			<u>Unexpended Balance (Unaudited)</u>
		<u>November 8, 2005 (Inception) through June 30, 2012</u>	<u>Expenditure Year Ended June 30, 2013</u>	<u>Total Expenditure through June 30, 2013</u>	
New Construction	\$2,369,277,001	\$1,801,802,588	\$ 173,122,840	\$1,974,925,428	\$ 394,351,573
School Modernization / Repairs	640,371,443	503,181,571	29,855,240	533,036,811	107,334,632
Achievement Gap	10,000,635	8,736,624	-	8,736,624	1,264,011
Adult Education	50,000,000	35,382,704	5,139,444	40,522,148	9,477,852
Early Childhood Education	78,148,209	47,348,374	-	47,348,374	30,799,835
Information Technology Division	141,574,198	47,094,690	41,612,251	88,706,941	52,867,257
Library Services	-	-	-	-	-
Joint Use and Innovation	90,000,000	65,220,345	15,943,308	81,163,653	8,836,347
Charter	50,000,000	25,418,220	2,972,840	28,391,060	21,608,940
Transportation (Buses)	25,000,000	21,161,110	17,812	21,178,922	3,821,078
Office of Inspector General	10,000,000	4,702,090	2,567,881	7,269,971	2,730,029
Others:					
Employee Benefits	1,843,222	1,682,496	160,726	1,843,222	-
Prior Year Adjustments	388,120,289	345,481,563	42,638,726	388,120,289	-
COPs Defeasance	193,738,417	193,196,010	542,407	193,738,417	-
Cost of Issuance	8,182,761	8,182,550	211	8,182,761	-
Total Others	<u>591,884,689</u>	<u>548,542,619</u>	<u>43,342,070</u>	<u>591,884,689</u>	<u>-</u>
Total Measure Y Bond Expenditures	<u>\$4,056,256,176</u>	<u>\$3,108,590,935</u>	<u>\$ 314,573,686</u>	<u>\$3,423,164,621</u>	<u>\$ 633,091,555</u>

See accompanying notes to statement of bond expenditures.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2013

(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" 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. \$3.54 billion has since been issued between November 2005 and June 2013. 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 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 accompanying statement of bond expenditures reflects the flow of current financial resources measurement focus and is presented on the modified accrual basis of accounting.

(a) Adjusted Budget (Unaudited)

The amounts included within the adjusted budget (unaudited) column in the accompanying statement of bond expenditures represent the prior year expenditures from November 8, 2005 (inception) through June 30, 2012 and FY 2012-13 budget authority requested from the Board of Education for the costs that are expected to be expended and/or obligated to complete the various projects.

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM

Notes to Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2013

(b) *Actual Expenditures Incurred*

The amounts included within the actual expenditures incurred column in the accompanying statement of bond expenditures represent actual expenditures paid and accrued by the District for the period from November 8, 2005 (inception) through June 30, 2013 adjusted by discounts received from the vendors.

(c) *Unexpended Balance (Unaudited)*

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

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

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

(e) *Prior Year Adjustments*

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
MEASURE Y SCHOOL BOND CONSTRUCTION PROGRAM
Notes to Statement of Bond Expenditures
Period from November 8, 2005 (inception) to June 30, 2013

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

The following is a summary of the sources of funds and uses of funds for the Program from November 8, 2005 (inception) to June 30, 2013:

Actual:

Bonds Issued - FY 2005-06 through FY 2009-10	\$ 3,542,235,000
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 2011-12	89,037,457
Interest Income - FY 2012-13	4,287,760
Local Income - FY 2007-08 through FY 2011-12	13,131,131
Local Income - FY 2012-13	10,362,028
Interfund Transfer In - Other Financing Sources FY 2005-06 through FY 2011-	302,135,627
Interfund Transfer In - Other Financing Sources FY 2012-13	89,119,784
Total Sources of Funds, June 30, 2013	\$ 4,056,256,176
Less: Uses of Funds (Expenditures) from Inception through June 30, 2013	(3,423,164,621)
Fund Balances, June 30, 2013	\$ 633,091,555