

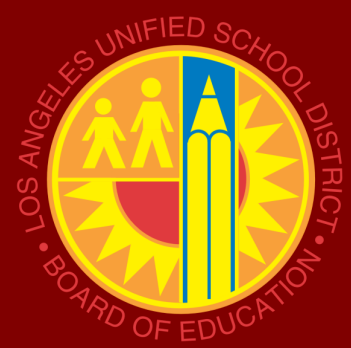
# PRESENTATION to the LAUSD BOARD OF EDUCATION



January 16, 2018



SIMPSON & SIMPSON  
CERTIFIED  
PUBLIC ACCOUNTANTS



# ***AGENDA***

- ❑ Auditor's Required Communication (SAS 114)
- ❑ Audit Results and Highlights of the AAFR Audit
- ❑ Audit Results and Highlights of the Federal Compliance Audit
- ❑ Audit Results and Highlights of the State Compliance Audit
- ❑ Highlights of Letter to Management
- ❑ Questions and Answers



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# ***Auditor's Required Communication SAS 114***

## ***1. Our Responsibility under Generally Accepted Auditing Standards (GAAS)***

- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control
- Design and implement audit procedures based on our understanding of LAUSD to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements
- Perform tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts





# ***Auditor's Required Communication SAS 114***

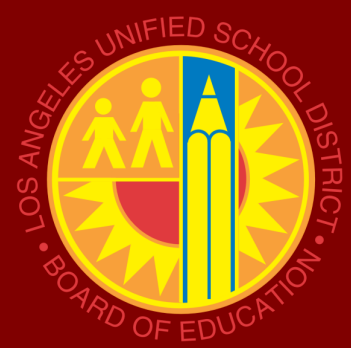
## ***1. Our Responsibility under Generally Accepted Auditing Standards (GAAS) (Continued)***

- Opinion on financial statements based on our audit

## ***2. Significant Accounting Policies***

- LAUSD's significant accounting policies are described in Note 1 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards





# Auditor's Required Communication SAS 114

## 2. Significant Accounting Policies (Continued)

- LAUSD is currently in the 3<sup>rd</sup> year of adopting the provisions of GASB 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as well as GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; an amendment of GASB Statement No. 68
- The application of existing policies was not changed during the year
- All significant transactions have been recognized in the financial statements in the proper period



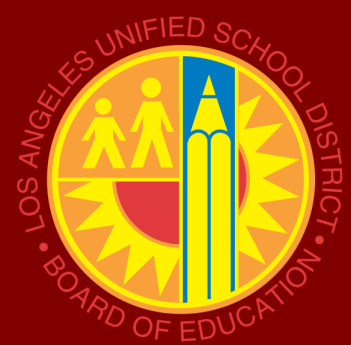


# ***Auditor's Required Communication SAS 114***

## **3. *Management Judgments and Accounting Estimates***

- Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments.
- The most sensitive estimates affecting the financial statements were:



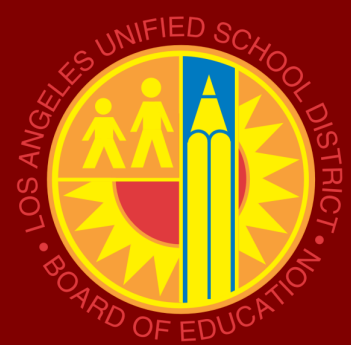


# ***Auditor's Required Communication SAS 114***

## **3. *Management Judgments and Accounting Estimates (Continued)***

- Estimates of deferred outflows/inflows of resources, net pension liability, and pension expense. These estimates are prepared by the CalPERS' and CalSTRS' actuaries based on the information provided by participating employers.
- Reserves for loss adjustment expenses and incurred but not reported claims for worker's compensation, general liability, and health & welfare benefits, prepared by external claims administrator based on information from management





# ***Auditor's Required Communication SAS 114***

## **3. Management Judgments and Accounting Estimates (Continued)**

- Liability for other post employment benefits other than pensions- health care costs (OPEB)
- Other liabilities for legal claims
- Useful life of capital assets used for depreciation
- ❑ We evaluated the key factors and assumptions used to develop the accounting estimation of the above in determining that they were reasonable in relation to the financial statements taken as a whole.

## **4. Corrected Misstatements**

- ❑ All material proposed audit adjustments were booked







# ***Auditor's Required Communication SAS 114***

## **5. Uncorrected Misstatements**

- The effects of the uncorrected misstatements of the financial statements have been determined to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole
- Schedule of summarized immaterial uncorrected misstatements have been provided with the SAS 114 letter

## **6. *No Disagreements or Difficulties with Management***

- There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on LAUSD's financial statements, nor were there significant difficulties in dealing with management in performing our audit





# ***Auditor's Required Communication SAS 114***

## ***7. No Consultations with Other Accountants***

- To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of AU 625, Reports on the Application of Accounting Principles.

## ***8. Management Representations***

- We have requested certain representations from management that are included in management representation letter dated December 14, 2017.





# ***Audit Results and Highlights of the AAFR Audit***

## ***1. Unmodified Opinion***

- Unmodified opinion with respect to the governmental activities, each major fund, and the aggregate remaining “non-major” governmental funds

## ***2. Financial Highlights***

- Government-wide Financial Statements-Purpose***
- Governmental Fund Financial Statements-Purpose***





# ***Audit Results and Highlights of the AAFR Audit***

## ***A. Government-wide Financial Statements (continued)***

- ❑ Net position as of June 30, 2017 was a negative \$5.1 billion (excess of total liabilities plus deferred inflows over total assets plus deferred outflows).
- ❑ The net position decreased by \$512.6 million over last year, primarily due to the ongoing underfunding of the OPEB liability.
- ❑ Capital assets decreased by \$201.0 million, due to the recognition of depreciation expense which was higher during the fiscal year than the costs capitalized for the continuing school construction and modernization projects.





# ***Audit Results and Highlights of the AAFR Audit***

## ***2 . Financial Highlights (continued)***

### ***A. Government-wide Financial Statements (continued)***

- ❑ Long term obligations increased by \$1.2 billion, resulting primarily from the increase in the OPEB obligation and net pension liability.

### ***B. Governmental Funds Financial Statements***

- ❑ Governmental combined fund balances as of June 30, 2017 increased from last year by \$81.5 million to \$4.1 billion. The increase in fund balance is due primarily to an increase in insurance proceeds and proceeds from the sale of capital assets.





# ***Audit Results and Highlights of the AAFR Audit***

## ***2. Financial Highlights (continued)***

### ***B. Governmental Funds Financial Statements (continued)***

- ❑ The District has 20 governmental funds. These funds assist in accounting for resources for special activities and objectives, i.e. special revenue funds, debt service funds, bond funds, etc. The combined fund balance represents amounts to be carried over to the next fiscal year.
  
- ❑ The General Fund accounts for all educational activities and general business of the District. The ending fund balance of \$1,765.1 million is carried over to the next fiscal year. Of this amount \$163 million was restricted, \$23.5 million was nonspendable, and the remaining \$783.9 million was assigned and \$721.3 million was unassigned, including reserve for economic uncertainties of \$73.4 million.





# ***Audit Results and Highlights of the AAFR Audit***

## ***3. Government Auditing Standards Opinion***

- Internal Control Over Financial Reporting
  - No material weakness
  - Significant deficiency noted related MiSiS
  
- Compliance and Other Matters
  - No instances of noncompliance or other matters noted





# ***Audit Results and Highlights of the Federal Compliance Audit***

## ***Federal Compliance Audit Opinion***

- ❑ Ten major programs audited
  - Ten programs – unmodified opinion
  
- ❑ Summary of Audit Findings
  - Five types of noncompliance and internal control over compliance were identified





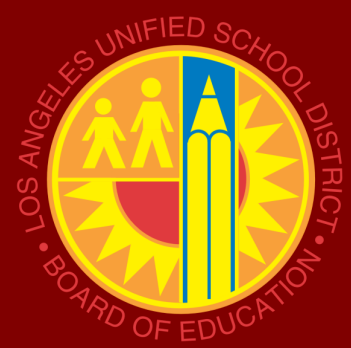


# ***Audit Results and Highlights of the State Compliance Audit***

## ***Compliance Audit Opinion***

- ❑ Over one hundred procedures performed
  - Unmodified opinion
  
- ❑ Summary of Audit Findings
  - Nine types of noncompliance were identified





# *Highlights of the Letter to Management*

## *Areas Brought to Management's Attention*

- ❑ The management letter is to provide observations during the audit in areas where the internal control procedures can be strengthened.
- ❑ The comments were discussed with the individual departments who have agreed to our recommendations and provided management responses for improvements.

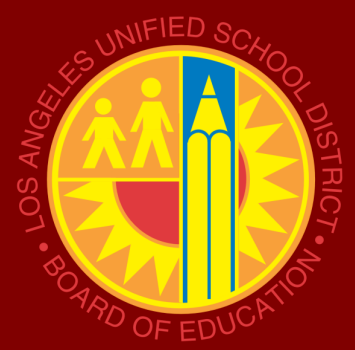




# *Questions & Answers*



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**Thank You**



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