



LOS ANGELES COMMUNITY COLLEGE DISTRICT

**BOND CONSTRUCTION PROGRAMS:
PROPOSITION A
PROPOSITION AA
MEASURE J**

Statements of Expenditures of Bond Proceeds
and Supplementary Schedules

Year ended June 30, 2014

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
BOND CONSTRUCTION PROGRAMS**

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**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Report on the Statement

We have audited the accompanying statement of expenditures of bond proceeds of the Proposition A Bond Construction Program of the Los Angeles Community College District (the District) for the year ended June 30, 2014, and the related notes to the statement of expenditures of bond proceeds.

Management's Responsibility for the Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the statement of expenditures of bond proceeds based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of expenditures of bond proceeds. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statement of expenditures of bond proceeds, 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 of expenditures of bond proceeds 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 of expenditures of bond proceeds.

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



Opinion on the Statement of Expenditures of Bond Proceeds

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of the Los Angeles Community College District’s Proposition A Bond Construction Program for the year ended June 30, 2014, in accordance with U.S. generally accepted accounting principles.

Other Matters

As described in note 2 to the statement of expenditures of bond proceeds, the accompanying statement of expenditures of bond proceeds was prepared to comply with the requirements of California’s Proposition 39, *Smaller Classes, Safer Schools and Financial Accountable Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds of the Proposition A Bond Construction Program. The accompanying supplementary schedule of expenditures of bond proceeds of the Proposition A Bond Construction Program of the District for the period from April 10, 2001 (inception) through June 30, 2014 is presented for purposes of additional analysis and is not a required part of the statement of expenditures of bond proceeds.

The supplementary schedule of expenditures of bond proceeds has not been subjected to the auditing procedures applied in the audit of the statement of expenditures of bond proceeds, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

KPMG LLP

December 3, 2014

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

College direct costs:	
Structural and equipment costs:	
Construction (new)	\$ 1,222,925
Construction (renovation)	148,621
Temporary facilities	594,155
Furniture, fixtures, and equipment	453,434
	2,419,135
Total structural and equipment costs	
Development and support costs:	
Master planning	5,283
Pre-design/programming	29,012
Design	1,072,678
Specialty consulting	83,694
Project management	596,614
Inspection and testing	72,572
Reimbursable expenditures	31,079
	1,890,932
Total development and support costs	1,890,932
Total college direct costs	4,310,067
Programwide costs:	
Program management	357,966
Compliance and audit fees	40,600
	398,566
Total programwide costs	398,566
Total college direct costs and programwide costs	\$ 4,708,633

See accompanying notes to statement of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Notes to Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

(1) Program Background

In April 2001, the Los Angeles Community College District (the District) became the first community college district in the State of California to pass a property tax financed bond (Proposition A) under the requirements of the Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act). Passed by voters at a value of \$1.245 billion, the District's Proposition A Bond Construction Program (the Program) stands as one of the largest community college bonds ever passed in California. The bond measure was designed to implement a capital improvement program for each of the nine colleges within the District.

The Program is intended to increase educational opportunities, raise student achievement, and improve health and safety conditions on the campuses of the nine colleges within the District through the replacement and/or repair and rehabilitation of deteriorating buildings; the construction, furnishing, and equipping of classrooms, laboratories, libraries, and related facilities; the repair and upgrading of electrical wiring for computer technology, heating, air conditioning, and plumbing; complete earthquake retrofitting; improvement of campus safety, fire security, parking, and lighting; and the improvement of current or to be acquired real property to relieve overcrowding of the facilities on these campuses.

In August 2001, the District's board of trustees approved an award of the contract for program management (Program Manager) services to Daniel, Mann, Johnson & Mendenhall/Jenkins/Gales & Martinez, Inc. (DMJM/JGM). Effective April 12, 2007, DMJM/JGM was replaced by a new Program Manager, URS Corporation. Effective April 4, 2013, URS Corporation was replaced by a new Program Manager, AECOM.

The Program Manager is responsible for managing all program-related activities, including the maintenance of the master schedule and the master program budget. The Program Manager provides its own staff and services for budgeting, accounting, contracting, and supervising the program.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2014 has been prepared on the accrual basis of accounting. The Act 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 accompanying statement of expenditures of bond proceeds includes all amounts expended using bond proceeds regardless of expenditure type.

**UNAUDITED SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF BOND PROCEEDS**

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from April 10, 2001 (inception) through June 30, 2014

(Unaudited)

	<u>2014 Budget</u>	<u>Period from April 10, 2001 (inception) through June 30, 2014</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the State of California as of June 30, 2014</u>	<u>Cumulative expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2014</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 579,889,234	696,469,243	(259,916)	696,209,327	(118,328,313)	577,881,014
Construction (renovation)	225,566,414	213,924,441	—	213,924,441	(15,439,345)	198,485,096
Hardscape/landscape	44,105	125,771	—	125,771	—	125,771
Temporary facilities	15,411,313	18,988,582	—	18,988,582	—	18,988,582
Furniture, fixtures, and equipment	39,404,432	46,320,145	—	46,320,145	(13,471,325)	32,848,820
Total structural and equipment costs	<u>860,315,498</u>	<u>975,828,182</u>	<u>(259,916)</u>	<u>975,568,266</u>	<u>(147,238,983)</u>	<u>828,329,283</u>
Other costs:						
Land acquisition	47,885,676	43,869,570	—	43,869,570	—	43,869,570
Development and support costs:						
Master planning	14,430,254	15,248,874	—	15,248,874	(186,299)	15,062,575
Pre-design/programming	7,847,837	8,443,210	—	8,443,210	—	8,443,210
Design	129,002,316	137,633,076	—	137,633,076	(8,358,344)	129,274,732
Specialty consulting	39,625,515	40,584,663	—	40,584,663	(204,510)	40,380,153
Project management	112,964,873	113,719,637	—	113,719,637	(279,808)	113,439,829
Inspection and testing	35,386,911	34,890,752	—	34,890,752	(886,599)	34,004,153
Construction management	487,053	523,943	—	523,943	(401,473)	122,470
Reimbursable expenditures	11,193,122	6,330,277	—	6,330,277	(34,803)	6,295,474
Total development and support costs	<u>350,937,881</u>	<u>357,374,432</u>	<u>—</u>	<u>357,374,432</u>	<u>(10,351,836)</u>	<u>347,022,596</u>
Total college direct costs	<u>1,259,139,055</u>	<u>1,377,072,184</u>	<u>(259,916)</u>	<u>1,376,812,268</u>	<u>(157,590,819)</u>	<u>1,219,221,449</u>
Programwide costs:						
Program management	76,637,095	77,340,701	—	77,340,701	—	77,340,701
Legal consulting fees	5,627,017	5,767,366	—	5,767,366	—	5,767,366
Compliance and audit fees	2,746,759	2,384,290	—	2,384,290	—	2,384,290
Bond measure election costs	523,743	585,660	—	585,660	—	585,660
Rents and leases	615,973	1,281,244	—	1,281,244	—	1,281,244
Total programwide costs	<u>86,150,587</u>	<u>87,359,261</u>	<u>—</u>	<u>87,359,261</u>	<u>—</u>	<u>87,359,261</u>
Total college direct costs and programwide costs	1,345,289,642	\$ <u>1,464,431,445</u>	<u>(259,916)</u>	<u>1,464,171,529</u>	<u>(157,590,819)</u>	<u>1,306,580,710</u>
Unallocated interest earned	<u>16,138,462</u>					
Total college direct costs, programwide costs, and unallocated interest earned	\$ <u>1,361,428,104</u>					

See independent auditors' report and accompanying notes to unaudited supplementary schedule of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from April 10, 2001 (inception) through June 30, 2014

(Unaudited)

(1) Background

The unaudited supplementary schedule of expenditures of bond proceeds presents expenditures for the period from April 10, 2001 (inception) through June 30, 2014.

(2) Basis of Presentation

The accompanying unaudited supplementary schedule of expenditures of bond proceeds has been prepared on the accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act) requires an annual, independent financial audit of the proceeds from the sale of the school facilities bonds until all of the expenditures of proceeds have been expended. Accordingly, the accompanying unaudited statement of expenditures of bond proceeds includes all amounts expended using bond proceeds, regardless of expenditure type, since inception.

The unaudited supplementary schedule of expenditures of bond proceeds includes the following:

(a) Budget

The amounts included within the budget column in the accompanying unaudited supplementary schedule of expenditures of bond proceeds represent reasonable estimates of the costs that will be expended to complete the various projects at each of the Los Angeles Community College District's (the District) colleges.

(b) Cumulative Expenditures

The amounts included within the cumulative expenditures of bond proceeds in the accompanying unaudited supplementary schedule of expenditures of bond proceeds may include reclassifications and reimbursements from other funding sources for the period from April 10, 2001 (inception) through June 30, 2014.

(c) Interest Earned

Interest earned on bond issuances that has not been expended is added to project budgets upon approval by the District. Interest earned that has not yet been approved for specific projects is included in unallocated interest earned.

(d) Cumulative Reimbursements from the State of California

During the period from April 10, 2001 (inception) through June 30, 2014, the District received amounts from the State of California and other non-Proposition A funding sources as reimbursement for various multi-funded projects. These projects were to be funded by both state funds and bond proceeds. Prior to filing claims and receipt of funds from the state, eligible Proposition A bond proceeds were used to fund the projects. The reimbursements received by the District, totaling \$157,590,819 for the period from April 10, 2001 (inception) through June 30, 2014, have been reflected in the accompanying unaudited supplementary schedule of expenditures of bond proceeds as a reduction of expenditures made with bond proceeds by cost classification on a cumulative basis.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from April 10, 2001 (inception) through June 30, 2014

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2014, which were related to prior years. Such amounts totaling \$259,916 were reclassified from Proposition A to Proposition AA.

In addition, during the ordinary course of operations, no management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds and other bond related sources of funds available at June 30, 2014:

Bonds authorized and issued	\$ <u>1,245,000,000</u>
Other bond related sources of funds:	
Additional proceeds from General Obligation Refunding Bonds, 2005 Series A	12,330,000
Interest earned for the period from April 10, 2001 (inception) through June 30, 2014	103,474,060
Other	<u>624,044</u>
Total other bond related sources of funds	<u>116,428,104</u>
Total bonds authorized and issued and other bond related sources of funds	1,361,428,104
Less expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2014	<u>(1,306,580,710)</u>
Total authorized and issued bond funds and other bond related sources of funds available at June 30, 2014	<u>\$ 54,847,394</u>



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Proposition A Bond Construction Program Statement of Expenditures of Bond Proceeds Performed in Accordance With *Government Auditing Standards*

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Proposition A Bond Construction Program statement of expenditures of bond proceeds (statement of expenditures of bond proceeds) of the Los Angeles Community College District (the District), as of June 30, 2014, and have issued our report thereon dated December 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of expenditures of bond proceeds, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of expenditures of bond proceeds, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's statement of expenditures of bond proceeds will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.



Bond Program Expenditures

The District's bond program includes three separate measures (A, AA, and J). We performed separate audits of the statement of expenditures of bond proceeds for each of these measures, which combined, comprise approximately \$274 million in expenditures for the year ended June 30, 2014. We selected a sample of 1,599 expenditures representing \$123 million in expenditures for the combined measures. The District engages a service provider to process and account for the expenditures of bond proceeds.

Criteria

Management of the District and the service provider should have appropriate controls in place to ensure that expenditures are reported in the appropriate category, period and bond measure, in accordance with U.S. generally accepted accounting principles.

Observation

At the end of the prior fiscal year, the District's service provider accrued for certain liabilities in Proposition AA, such as claims and stop notices, based on estimates determined from information available at the time of the accrual. During the current year, those accruals were reversed. However, we noted that while approximately \$1.935 million of reversed accruals were recorded in the Proposition AA bond measure, payments of \$260k and \$1.675 million, were paid from the Proposition A and J measures, respectively. As a result, expenditures were understated in Proposition AA and overstated in Proposition A and J.

Cause

During the year, the service provider accounts for bond proceeds expenditures on a cash basis, and prepares expenditure accruals at year end to the bond measure applicable to the expenditure. In addition, many expenditures are eligible expenditures under all three bond measures. However, there are no documented policies or procedures over expenditure accruals or reversals, and it is a highly manual process. As a result, there was no review process in place to identify and reclassify expenditures when management determined that funds from a different measure than the original accrual be used for the expenditures.

Recommendation

We recommend that there be documented policies and procedures over the expenditure accrual and reversal process. If the expenditure is reported in a different measure than where it was originally accrued, an adjustment should be made to ensure the current year expenditures accurately reflect this information. In addition, an automated accounts payable tool that would allow for more reliable tracking of accruals should be considered.

View of Responsible Officials

Management acknowledges that certain program expenditure accruals were recorded in a Bond measure different than the ultimate payment of such accruals. The cause was the exhaustion of certain College project budgets under Proposition AA funds. Many times settlements and claims are anticipated to be incurred out of one Bond fund and the actual time of settlement such disputes are paid from alternate funding sources due to various reasons.

Management has reconciled and finalized the item in the financial reports and has immediately addressed the issue accordingly. In addition, program management will require the colleges to make the appropriate budget adjustments or budget transfers to ensure that payments will be expended from the same fund accrued when applicable.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement, we performed 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District’s response to the finding identified in our audit is described above. However, we did not audit the District’s response, and accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2014



**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Report on the Statement

We have audited the accompanying statement of expenditures of bond proceeds of the Proposition AA Bond Construction Program of the Los Angeles Community College District (the District) for the year ended June 30, 2014, and the related notes to the statement of expenditures of bond proceeds.

Management's Responsibility for the Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the statement of expenditures of bond proceeds based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of expenditures of bond proceeds. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statement of expenditures of bond proceeds, 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 of expenditures of bond proceeds 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 of expenditures of bond proceeds.

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

Opinion on the Statement

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of the Los Angeles Community College District's Proposition AA Bond



Construction Program for the year ended June 30, 2014, in accordance with U.S. generally accepted accounting principles.

Other Matters

As described in note 2 to the statement of expenditures of bond proceeds, the accompanying statement of expenditures of bond proceeds was prepared to comply with the requirements of California's Proposition 39, *Smaller Classes, Safer Schools and Financial Accountable Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds of the Proposition AA Bond Construction Program. The accompanying supplementary schedule of expenditures of bond proceeds of the Proposition AA Bond Construction Program of the District for the period from May 20, 2003 (inception) through June 30, 2014, is presented for purposes of additional analysis and is not a required part of the statement of expenditures of bond proceeds.

The supplementary schedule of expenditures of bond proceeds has not been subjected to the auditing procedures applied in the audit of the statement of expenditures of bond proceeds, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

December 3, 2014

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

College direct costs:		
Structural and equipment costs:		
Construction (new)	\$	8,751,391
Construction (renovation)		4,348,197
Temporary facilities		16,244
Furniture, fixtures, and equipment		2,088,700
Total structural and equipment costs		<u>15,204,532</u>
Development and support costs:		
Master planning/environmental impact report		113,868
Pre-design/programming		134,609
Design		840,506
Specialty consulting		445,215
Project management		1,005,799
Inspection and testing		565,544
Reimbursable expenditures		65,481
Total development and support costs		<u>3,171,022</u>
Total college direct costs		<u>18,375,554</u>
Programwide costs:		
Program management		1,519,828
Compliance and audit fees		56,800
Total programwide costs		<u>1,576,628</u>
Total college direct costs and programwide costs	\$	<u><u>19,952,182</u></u>

See independent auditors' report and accompanying notes to statement of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Notes to Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

(1) Program Background

In May 2003, the Los Angeles Community College District (the District) electorate approved the passage of a \$980 million property tax financed bond measure under the requirements of the Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act), known as Proposition AA (the Program). This Program was intended to supplement the District's \$1.245 billion Proposition A Bond Construction Program of the nine college master plans. The college master plans identify areas for improvement needed to prepare the colleges to meet the future needs of the community and provide a time line for addressing those needs within the next 10 years.

The Program is intended to prepare students for jobs and four-year colleges; train nurses, police, firefighters, and emergency medical personnel; improve health, safety, and security conditions on the campuses of the nine colleges within the District through the construction of computer technology centers to train students for high tech jobs; repair deteriorating classrooms, science laboratories, and libraries; expand educational centers in underserved communities; upgrade heating, plumbing, wiring, roofs, sewers, energy efficiency, and water conservation; improve campus environmental standards, safety, lighting, fire alarms, sprinklers, intercoms, and fire doors; and acquire/improve real property and/or build new classrooms to relieve overcrowding.

The District's board of trustees approved an award of the contract for program management (Program Manager) services to Daniel, Mann, Johnson & Mendenhall/Jenkins/Gales & Martinez, Inc. (DMJM/JGM). Effective April 12, 2007, DMJM/JGM was replaced by a new Program Manager, URS Corporation. Effective April 4, 2013, URS Corporation was replaced by a new Program Manager, AECOM.

The Program Manager is responsible for managing all program-related activities, including the maintenance of the master schedule and the master program budget. The Program Manager provides its own staff and services for budgeting, accounting, contracting, and supervising the program.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2014, has been prepared on the accrual basis of accounting. The Act 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 accompanying statement of expenditures of bond proceeds includes all amounts expended using bond proceeds regardless of expenditure type.

(3) Bond Issuances

On June 11, 2013, the District issued the 2013 Refunding Bonds (Proposition AA) in the amount of \$55.7 million with interest rates ranging from 2% to 5%, maturing in 2028. This issuance refunded \$62.9 million of the 2003 Series B G.O. Bonds (Proposition AA).

**UNAUDITED SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF BOND PROCEEDS**

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from May 20, 2003 (inception) through June 30, 2014

(Unaudited)

	2014 Budget	Period from May 20, 2003 (inception) through June 30, 2014	Reclassifications	Subtotal	Cumulative reimbursements from the state of California as of June 30, 2014	Cumulative expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2014
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 330,671,105	359,620,309	259,916	359,880,225	(30,777,295)	329,102,930
Construction (renovation)	195,764,810	219,627,066	1,675,000	221,302,066	(39,359,956)	181,942,110
Temporary facilities	6,186,179	4,606,546	—	4,606,546	—	4,606,546
Furniture, fixtures, and equipment	41,106,784	37,176,008	—	37,176,008	(3,154,218)	34,021,790
Total structural and equipment costs	<u>573,728,878</u>	<u>621,029,929</u>	<u>1,934,916</u>	<u>622,964,845</u>	<u>(73,291,469)</u>	<u>549,673,376</u>
Other costs:						
Land acquisition	113,611,472	103,353,733	—	103,353,733	—	103,353,733
Building acquisition	—	19,704,402	—	19,704,402	—	19,704,402
Total other costs	<u>113,611,472</u>	<u>123,058,135</u>	<u>—</u>	<u>123,058,135</u>	<u>—</u>	<u>123,058,135</u>
Development and support costs:						
Master planning/EIR	4,884,037	4,392,442	—	4,392,442	—	4,392,442
Pre-design/programming	1,552,457	1,328,199	—	1,328,199	—	1,328,199
Design	66,039,568	70,555,467	—	70,555,467	(7,806,416)	62,749,051
Specialty consulting	30,378,538	30,424,884	—	30,424,884	(80,910)	30,343,974
Project management	73,660,937	72,037,190	—	72,037,190	—	72,037,190
Inspection and testing	22,492,454	22,017,105	—	22,017,105	(180,024)	21,837,081
Construction management	—	1,607	—	1,607	—	1,607
Reimbursable expenditures	6,137,015	3,030,191	—	3,030,191	(754,703)	2,275,488
Total development and support costs	<u>205,145,006</u>	<u>203,787,085</u>	<u>—</u>	<u>203,787,085</u>	<u>(8,822,053)</u>	<u>194,965,032</u>
Total college direct costs	<u>892,485,356</u>	<u>947,875,149</u>	<u>1,934,916</u>	<u>949,810,065</u>	<u>(82,113,522)</u>	<u>867,696,543</u>
Programwide costs:						
Program management	36,027,544	38,510,212	—	38,510,212	—	38,510,212
Legal consulting fees	3,539,520	1,158,475	—	1,158,475	—	1,158,475
Compliance and audit fees	1,493,344	1,156,710	—	1,156,710	—	1,156,710
Bond measure election costs	50,000	1,206,719	—	1,206,719	—	1,206,719
Rents and leases	6,340,046	6,062,392	—	6,062,392	—	6,062,392
Total programwide costs	<u>47,450,454</u>	<u>48,094,508</u>	<u>—</u>	<u>48,094,508</u>	<u>—</u>	<u>48,094,508</u>
Debt refinancing	107,303,489	109,886,025	—	109,886,025	—	109,886,025
Total college direct costs, programwide costs, and debt refinancing	1,047,239,299	\$ <u>1,105,855,682</u>	<u>1,934,916</u>	<u>1,107,790,598</u>	<u>(82,113,522)</u>	<u>1,025,677,076</u>
Unallocated interest earned	<u>8,092,904</u>					
Total college direct costs, programwide costs, and unallocated interest earned	\$ <u>1,055,332,203</u>					

See independent auditors' report and accompanying notes to unaudited supplementary schedule of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from May 20, 2003 (inception) through June 30, 2014

(Unaudited)

(1) Background

The unaudited supplementary schedule of expenditures of bond proceeds presents expenditures for the period from May 20, 2003 (inception) through June 30, 2014.

(2) Basis of Presentation

The accompanying unaudited schedule of expenditures of bond proceeds has been prepared on the accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act) 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 accompanying unaudited statement of expenditures of bond proceeds includes all amounts expended using bond proceeds regardless of expenditure type, since inception.

The unaudited supplementary schedule of expenditures of bond proceeds includes the following:

(a) Budget

The amounts included within the budget column in the accompanying unaudited supplementary schedule of expenditures of bond proceeds represent reasonable estimates of the costs that will be expended to complete the various projects at each of the Los Angeles Community College District's (the District) colleges.

(b) Cumulative Expenditures

The amounts included within the cumulative expenditures of bond proceeds in the accompanying unaudited supplementary schedule of expenditures of bond proceeds may include reclassifications and reimbursements from other funding sources for the period from May 20, 2003 (inception) through June 30, 2014.

(c) Interest Earned

Interest earned on bond issuances that has not been expended is added to project budgets upon approval by the District. Interest earned that has not yet been approved for specific projects is included in unallocated interest earned.

(d) Cumulative Reimbursements from the State of California

During the period from May 20, 2003 (inception) through June 30, 2014, the District received amounts from the State of California as reimbursement for various multi-funded projects. These projects were to be funded by both state funds and bond proceeds. Prior to filing claims and receipt of funds from the state, eligible Proposition AA bond proceeds were used to fund the projects. The reimbursements received by the District, totaling \$82,113,522 for period from May 20, 2003 (inception) through June 30, 2014, have been reflected in the accompanying unaudited supplementary schedule of expenditures of bond proceeds as a reduction of expenditures made with bond proceeds by cost classification on a cumulative basis.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from May 20, 2003 (inception) through June 30, 2014

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2014, which were related to prior years. Such amounts totaling \$1,934,916 were reclassified to Proposition AA funds from Measure J and Proposition A.

In addition, during the ordinary course of operations, no management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2014:

Bonds authorized and issued	\$ 980,000,000
Other bond related sources of funds:	
Interest earned on bond funds from May 20, 2003 (inception) through June 30, 2014	45,220,723
Proceeds from sale of property purchased with bond funds	29,974,680
Other	<u>136,800</u>
Total other bond related sources of funds	1,055,332,203
Less expenditures of bonds proceeds for the period from May 20, 2003 (inception) through June 30, 2014	<u>(1,026,677,076)</u>
Total authorized and issued bond funds and other bond related sources of funds available at June 30, 2014	\$ <u><u>28,655,127</u></u>



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Proposition AA Bond Construction Program Statement of Expenditures of Bond Proceeds Performed in Accordance With *Government Auditing Standards*

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Proposition AA Bond Construction Program statement of expenditures of bond proceeds (statement of expenditures of bond proceeds) of the Los Angeles Community College District (the District), as of June 30, 2014, and have issued our report thereon dated December 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the statement of expenditures of bond proceeds, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of expenditures of bond proceeds, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's statement of expenditures of bond proceeds will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below that we consider to be a significant deficiency.

Bond Program Expenditures

The District's bond program includes three separate measures (A, AA, and J). We performed separate audits of the statement of expenditures of bond proceeds for each of these measures, which combined,



comprise approximately \$274 million in expenditures for the year ended June 30, 2014. We selected a sample of 1,599 expenditures representing \$123 million in expenditures for the combined measures. The District engages a service provider to process and account for the expenditures of bond proceeds.

Criteria

Management of the District and the service provider should have appropriate controls in place to ensure that expenditures are reported in the appropriate category, period and bond measure, in accordance with U.S. generally accepted accounting principles.

Observation

At the end of the prior fiscal year, the District's service provider accrued for certain liabilities in Proposition AA, such as claims and stop notices, based on estimates determined from information available at the time of the accrual. During the current year, those accruals were reversed. However, we noted that while approximately \$1.935 million of reversed accruals were recorded in the Proposition AA bond measure, payments of \$260k and \$1.675 million, were paid from the Proposition A and J measures, respectively. As a result, expenditures were understated in Proposition AA and overstated in Proposition A and J.

Cause

During the year, the service provider accounts for bond proceeds expenditures on a cash basis, and prepares expenditure accruals at year end to the bond measure applicable to the expenditure. In addition, many expenditures are eligible expenditures under all three bond measures. However, there are no documented policies or procedures over expenditure accruals or reversals, and it is a highly manual process. As a result, there was no review process in place to identify and reclassify expenditures when management determined that funds from a different measure than the original accrual be used for the expenditures.

Recommendation

We recommend that there be documented policies and procedures over the expenditure accrual and reversal process. If the expenditure is reported in a different measure than where it was originally accrued, an adjustment should be made to ensure the current year expenditures accurately reflect this information. In addition, an automated accounts payable tool that would allow for more reliable tracking of accruals should be considered.

View of Responsible Officials

Management acknowledges that certain program expenditure accruals were recorded in a Bond measure different than the ultimate payment of such accruals. The cause was the exhaustion of certain College project budgets under Proposition AA funds. Many times settlements and claims are anticipated to be incurred out of one Bond fund and the actual time of settlement such disputes are paid from alternate funding sources due to various reasons.

Management has reconciled and finalized the item in the financial reports and has immediately addressed the issue accordingly. In addition, program management will require the colleges to make the appropriate budget adjustments or budget transfers to ensure that payments will be expended from the same fund accrued when applicable.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement, we performed 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described above. However, we did not audit the District's response, and accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2014



**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Report on the Statement

We have audited the accompanying statement of expenditures of bond proceeds of the Measure J Bond Construction Program of the Los Angeles Community College District (the District) for the year ended June 30, 2014, and the related notes to the statement of expenditures of bond proceeds.

Management's Responsibility for the Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the statement of expenditures of bond proceeds based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of expenditures of bond proceeds. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statement of expenditures of bond proceeds, 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 of expenditures of bond proceeds 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 of expenditures of bond proceeds.

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



Opinion on the Statement

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of the Los Angeles Community College District’s Measure J Bond Construction Program for the year ended June 30, 2014, in accordance with U.S. generally accepted accounting principles.

Other Matters

As described in note 2 to the statement of expenditures of bond proceeds, the accompanying statement of expenditures of bond proceeds was prepared to comply with the requirements of California’s Proposition 39, *Smaller Classes, Safer Schools and Financial Accountable Act*.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds of the Measure J Bond Construction Program. The accompanying supplementary schedule of expenditures of bond proceeds of the Measure J Bond Construction Program of the District for the period from November 4, 2008 (inception) through June 30, 2014, is presented for purposes of additional analysis, and is not a required part of the statement of expenditures of bond proceeds.

The supplementary schedule of expenditures of bond proceeds has not been subjected to the auditing procedures applied in the audit of the statement of expenditures of bond proceeds, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

KPMG LLP

December 3, 2014

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

College direct costs:	
Structural and equipment costs:	
Construction (new)	\$ 93,588,362
Construction (renovation)	48,997,481
Temporary facilities	886,009
Furniture, fixtures, and equipment	5,456,807
	148,928,659
Total structural and equipment costs	
Development and support costs:	
Master planning	413,332
Pre-design/programming	171,104
Design	13,927,542
Specialty consulting	23,134,268
Project management	21,201,722
Inspection and testing	6,295,955
Reimbursable expenditures	402,147
	65,546,070
Total development and support costs	
Total college direct costs	214,474,729
Programwide costs:	
Program management	20,676,697
Legal consulting fees	10,567,658
Compliance and audit fees	404,175
Rents and leases	3,303,694
	34,952,224
Total programwide costs	
Total college direct costs and programwide costs	\$ 249,426,953

See accompanying notes to statement of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Notes to Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

(1) Program Background

In November 2008, the Los Angeles Community College District (the District) electorate approved the passage of a \$3.5 billion property tax financed bond measure under the requirements of the Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act), known as Measure J (the Program). This Program was intended to supplement the District's cumulative \$2.225 billion Proposition AA and A Bond Construction Programs of the nine college master plans. The college master plans identify areas for improvements needed to prepare the colleges to meet the future needs of the community and provide a time line for addressing those needs within the next 10 years.

The program is intended to increase educational opportunities, raise student achievement, and improve health and safety conditions on the campuses of the nine colleges within the District through the replacement and/or repair and rehabilitation of deteriorating buildings; the construction, furnishing, and equipping of classrooms, laboratories, libraries, and related facilities; the repair and upgrading of electrical wiring for computer technology, heating, air conditioning, and plumbing; complete earthquake retrofitting; improvement of campus safety, fire security, parking, and lighting; and the improvement of current or to be acquired real property to relieve overcrowding of the facilities on these campuses.

The District's board of trustees approved an award of the contract for program management (Program Manager) services to Daniel, Mann, Johnson & Mendenhall/Jenkins/Gales & Martinez, Inc. (DMJM/JGM). Effective April 12, 2007, DMJM/JGM was replaced by a new Program Manager, URS Corporation. Effective April 4, 2013, URS Corporation was replaced by a new Program Manager, AECOM.

The Program Manager is responsible for managing all program-related activities, including the maintenance of the master schedule and the master program budget. The Program Manager provides its own staff and services for budgeting, accounting, contracting, and supervising the program.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2014 has been prepared on the accrual basis of accounting. The Act 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 accompanying statement of expenditures of bond proceeds includes all amounts expended using bond proceeds regardless of expenditure type.

(3) Bond Issuances

On November 4, 2008, the voters of the Los Angeles County (the County) passed Measure J, a \$3.5 billion G.O. Bond measure. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

On March 19, 2009, the District issued the 2009 Series A G.O. Bonds (Measure J) in the amount of \$350,000,000 and the 2009 Taxable Series B G.O. Bonds (Measure J) in the amount of \$75,000,000 with various interest rates ranging from 4.50% to 7.53%, maturing in 2034.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Notes to Statement of Expenditures of Bond Proceeds

Year ended June 30, 2014

On July 22, 2010, the District issued \$900,000,000 aggregate principal amount in G.O. Bonds, 2008 Election (Measure J) 2010 Series E Build America Bonds with 6.60% and 6.75% interest rates, maturing in 2049. The proceeds are to be used to finance the construction, equipping, and improving of college and support facilities at nine colleges.

On August 10, 2010, the District issued \$175,000,000 aggregate principal amount in G.O. Bonds, 2008 Election (Measure J) 2010 Series C with 5.25% interest rate, maturing in 2039. On August 10, 2010, the District issued \$125,000,000 aggregate principal amount in G.O. Bonds, 2008 Election (Measure J) 2010 Taxable Series D with 6.68% interest rate, maturing in 2036. The proceeds from these two issues were used to pay off the bond anticipation notes (BAN) payable of \$300,000,000 received in June 2010.

On June 11, 2013, the District issued the 2013 Series F G.O. Bonds (Measure J) in the amount of \$250 million with interest rates ranging from 2% to 5%, maturing in 2038.

**UNAUDITED SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF BOND PROCEEDS**

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from November 4, 2008 (inception) through June 30, 2014

(Unaudited)

	<u>2014 Budget</u>	<u>Period from November 4, 2008 (inception) through June 30, 2014</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the state of California as of June 30, 2014</u>	<u>Cumulative expenditures of bond proceeds for the period from November 4, 2008 (inception) through June 30, 2014</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 1,440,087,242	593,144,501	—	593,144,501	(8,529,538)	584,614,963
Construction (renovation)	799,747,706	347,071,628	(1,675,000)	345,396,628	(5,492,289)	339,904,339
Hardscape/landscape	—	193,527	—	193,527	—	193,527
Temporary facilities	11,447,222	6,689,536	—	6,689,536	—	6,689,536
Furniture, fixtures, and equipment	163,191,695	78,692,635	—	78,692,635	(2,702,999)	75,989,636
Total structural and equipment costs	<u>2,414,473,865</u>	<u>1,025,791,827</u>	<u>(1,675,000)</u>	<u>1,024,116,827</u>	<u>(16,724,826)</u>	<u>1,007,392,001</u>
Other costs:						
Land acquisition	55,407,726	82,543,820	—	82,543,820	—	82,543,820
Development and support costs:						
Master planning/EIR	6,476,958	5,612,964	—	5,612,964	—	5,612,964
Predesign/programming	5,768,954	4,542,017	—	4,542,017	—	4,542,017
Design	263,293,732	190,622,255	—	190,622,255	(635,899)	189,986,356
Specialty consulting	247,722,441	176,092,597	—	176,092,597	—	176,092,597
Project management	165,416,406	120,986,951	—	120,986,951	—	120,986,951
Inspection and testing	70,193,183	28,782,216	—	28,782,216	(146,535)	28,635,681
Construction management	305,217	—	—	—	—	—
Reimbursable expenditures	6,065,329	4,423,164	—	4,423,164	—	4,423,164
Total development and support costs	<u>765,242,220</u>	<u>531,062,164</u>	<u>—</u>	<u>531,062,164</u>	<u>(782,434)</u>	<u>530,279,730</u>
Total college direct costs	<u>3,235,123,811</u>	<u>1,639,397,811</u>	<u>(1,675,000)</u>	<u>1,637,722,811</u>	<u>(17,507,260)</u>	<u>1,620,215,551</u>
Programwide costs:						
Program management	209,777,100	101,095,778	—	101,095,778	—	101,095,778
Legal consulting fees	42,023,848	26,722,357	—	26,722,357	—	26,722,357
Compliance and audit fees	100	4,724,193	—	4,724,193	—	4,724,193
Bond measure election costs	—	966,188	—	966,188	—	966,188
Rents and leases	36,315,494	15,899,952	—	15,899,952	—	15,899,952
Total programwide costs	<u>288,116,542</u>	<u>149,408,468</u>	<u>—</u>	<u>149,408,468</u>	<u>—</u>	<u>149,408,468</u>
Total college direct costs and programwide costs	3,523,240,353	\$ <u>1,788,806,279</u>	<u>(1,675,000)</u>	<u>1,787,131,279</u>	<u>(17,507,260)</u>	<u>1,769,624,019</u>
Unallocated interest earned	<u>29,520,649</u>					
Total college direct costs, programwide costs, and unallocated interest earned	\$ <u>3,552,761,002</u>					

See independent auditors' report and accompanying notes to unaudited supplementary schedule of expenditures of bond proceeds.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from November 4, 2008 (inception) through June 30, 2014

(Unaudited)

(1) Background

The unaudited supplementary schedule of expenditures of bond proceeds presents expenditures for the period from November 4, 2008 (inception) through June 30, 2014.

(2) Basis of Presentation

The accompanying unaudited schedule of expenditures of bond proceeds has been prepared on the accrual basis of accounting. The Proposition 39, *Smaller Classes, Safer Schools and Financial Accountability Act*, of the State of California (the Act) 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 accompanying unaudited statement of expenditures of bond proceeds includes all amounts expended using bond proceeds regardless of expenditure type, since inception.

The unaudited supplementary schedule of expenditures of bond proceeds includes the following:

(a) Budget

The amounts included within the budget column in the accompanying unaudited supplementary schedule of expenditures of bond proceeds represent reasonable estimates of the costs that will be expended to complete the various projects at each of the Los Angeles Community College District's (the District) colleges.

(b) Cumulative Expenditures

The amounts included within the cumulative expenditures of bond proceeds in the accompanying unaudited supplementary schedule of expenditures of bond proceeds may include reclassifications and reimbursements from other funding sources for the period from November 4, 2008 (inception) through June 30, 2014.

(c) Interest Earned

Interest earned on bond issuances that has not been expended is added to project budgets upon approval by the District. Interest earned that has not yet been approved for specific projects is included in unallocated interest earned.

(d) Cumulative Reimbursements from the State of California and Other Non-Bond Sources

During the period from November 4, 2008 (inception) through June 30, 2014, the District received amounts from the State of California as reimbursement for various multi-funded projects. These projects were to be funded by both state funds and bond proceeds. Prior to filing claims and receipt of funds from the state, eligible Measure J bond proceeds were used to fund the projects. The reimbursements received by the District, totaling \$17,507,260 for the period from November 4, 2008 (inception) through June 30, 2014, have been reflected in the accompanying unaudited supplementary schedule of expenditures of bond proceeds as a reduction of expenditures made with bond proceeds by cost classification on a cumulative basis.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM**

Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

Period from November 4, 2008 (inception) through June 30, 2014

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2014, which were related to prior years. Such amounts totaling \$1,675,000 were reclassified from Measure J funds to Proposition AA.

In addition, during the ordinary course of operations, no management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2014:

Bonds authorized and issued	\$ 1,875,000,000
Bonds authorized but not yet issued	<u>1,625,000,000</u>
Total bonds authorized	3,500,000,000
Other bond related sources of funds:	
Interest earned on bond funds for the period from November 4, 2008 (inception) through June 30, 2014	35,534,680
Other	<u>17,226,322</u>
Total other bond related sources of funds	3,552,761,002
Less expenditures of bond proceeds for the period from November 4, 2008 (inception) through June 30, 2014	<u>(1,769,624,019)</u>
Total authorized bond funds remaining at June 30, 2014	<u><u>\$ 1,783,136,983</u></u>



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Measure J Bond Construction Program Statement of Expenditures of Bond Proceeds Performed in Accordance With *Government Auditing Standards*

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Measure J Bond Construction Program statement of expenditures of bond proceeds (statement of expenditures of bond proceeds) of the Los Angeles Community College District (the District), as of June 30, 2014, and have issued our report thereon dated December 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of expenditures of bond proceeds, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of expenditures of bond proceeds, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's statement of expenditures of bond proceeds will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.



Bond Program Expenditures

The District's bond program includes three separate measures (A, AA, and J). We performed separate audits of the statement of expenditures of bond proceeds for each of these measures, which combined, comprise approximately \$274 million in expenditures for the year ended June 30, 2014. We selected a sample of 1,599 expenditures representing \$123 million in expenditures for the combined measures. The District engages a service provider to process and account for the expenditures of bond proceeds.

Criteria

Management of the District and the service provider should have appropriate controls in place to ensure that expenditures are reported in the appropriate category, period and bond measure, in accordance with U.S. generally accepted accounting principles.

Observation

At the end of the prior fiscal year, the District's service provider accrued for certain liabilities in Proposition AA, such as claims and stop notices, based on estimates determined from information available at the time of the accrual. During the current year, those accruals were reversed. However, we noted that while approximately \$1.935 million of reversed accruals were recorded in the Proposition AA bond measure, payments of \$260k and \$1.675 million, were paid from the Proposition A and J measures, respectively. As a result, expenditures were understated in Proposition AA and overstated in Proposition A and J.

Cause

During the year, the service provider accounts for bond proceeds expenditures on a cash basis, and prepares expenditure accruals at year end to the bond measure applicable to the expenditure. In addition, many expenditures are eligible expenditures under all three bond measures. However, there are no documented policies or procedures over expenditure accruals or reversals, and it is a highly manual process. As a result, there was no review process in place to identify and reclassify expenditures when management determined that funds from a different measure than the original accrual be used for the expenditures.

Recommendation

We recommend that there be documented policies and procedures over the expenditure accrual and reversal process. If the expenditure is reported in a different measure than where it was originally accrued, an adjustment should be made to ensure the current year expenditures accurately reflect this information. In addition, an automated accounts payable tool that would allow for more reliable tracking of accruals should be considered.

Views of Responsible Officials

Management acknowledges that certain program expenditure accruals were recorded in a Bond measure different than the ultimate payment of such accruals. The cause was the exhaustion of certain College project budgets under Proposition AA funds. Many times settlements and claims are anticipated to be incurred out of one Bond fund and the actual time of settlement such disputes are paid from alternate funding sources due to various reasons.

Management has reconciled and finalized the item in the financial reports and has immediately addressed the issue accordingly. In addition, program management will require the colleges to make the appropriate budget adjustments or budget transfers to ensure that payments will be expended from the same fund accrued when applicable.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statement of expenditures of bond proceeds is free from material misstatement, we performed 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described above. However, we did not audit the District's response, and accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2014