

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, 2012

**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, 2012

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

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, 2012, as listed in the accompanying table of contents. The statement of expenditures of bond proceeds is the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying 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 and 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of expenditures of bond proceeds, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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*.

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of bond proceeds of the Proposition A Bond Construction Program for the year ended June 30, 2012, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 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 that 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds for the year ended June 30, 2012. 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, 2012 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 for the year ended June 30, 2012, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

December 19, 2012

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

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2012

College direct costs:	
Structural and equipment costs:	
Construction (new)	\$ 7,873,680
Construction (renovation)	9,886,314
Temporary facilities	1,013,940
Furniture, fixtures, and equipment	6,012,811
Total structural and equipment costs	<u>24,786,745</u>
Development and support costs:	
Master planning	6,164
Design	2,244,844
Specialty consulting	1,201,297
Project management	1,763,533
Inspection and testing	1,231,979
Reimbursable	50,482
Total development and support costs	<u>6,498,299</u>
Total college direct costs	<u>31,285,044</u>
Programwide costs:	
Legal consulting fees	67,340
Compliance and audit fees	148,026
Total programwide costs	<u>215,366</u>
Total college direct costs and programwide costs	<u>\$ 31,500,410</u>

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, 2012

(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. The current contract between the District and Program Manager expired on April 12, 2012, and has subsequently been extended through January 2013.

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 development.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2012, has been prepared on the accrual basis of accounting. The Act requires an annual, independent financial audit of the 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

For the period from April 10, 2001 (inception) through June 30, 2012

(Unaudited)

	<u>2012 Budget</u>	<u>Period from April 10, 2001 (inception) through June 30, 2012</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the State of California as of June 30, 2012</u>	<u>Cumulative expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2012</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 579,407,112	709,394,045	(7,110,425)	702,283,620	(113,356,259)	588,927,361
Construction (renovation)	225,766,931	208,058,390	(9,203,852)	198,854,538	(15,397,995)	183,456,543
Hardscape/landscape	44,105	125,771	—	125,771	—	125,771
Temporary facilities	16,076,512	16,388,680	—	16,388,680	—	16,388,680
Furniture, fixtures, and equipment	38,574,122	47,656,596	(446,566)	47,210,030	(11,259,100)	35,950,930
Total structural and equipment costs	<u>859,868,782</u>	<u>981,623,482</u>	<u>(16,760,843)</u>	<u>964,862,639</u>	<u>(140,013,354)</u>	<u>824,849,285</u>
Other costs:						
Land acquisition	47,884,252	51,191,119	—	51,191,119	—	51,191,119
Development and support costs:						
Master planning	14,530,957	15,239,151	(20,445)	15,218,706	(186,299)	15,032,407
Pre-design/programming	7,874,932	8,132,952	—	8,132,952	—	8,132,952
Design	131,647,444	136,124,331	(468,482)	135,655,849	(8,023,138)	127,632,711
Specialty consulting	39,570,266	40,325,642	(331,966)	39,993,676	(204,510)	39,789,166
Project management	111,979,949	111,872,751	63,616	111,936,367	(279,808)	111,656,559
Inspection and testing	35,855,018	35,463,982	(695,368)	34,768,614	(802,884)	33,965,730
Construction management	487,052	507,406	—	507,406	(401,473)	105,933
Reimbursable	11,139,297	6,268,945	(27,906)	6,241,039	(34,803)	6,206,236
Total development and support costs	<u>353,084,915</u>	<u>353,935,160</u>	<u>(1,480,551)</u>	<u>352,454,609</u>	<u>(9,932,915)</u>	<u>342,521,694</u>
Total college direct costs	<u>1,260,837,949</u>	<u>1,386,749,761</u>	<u>(18,241,394)</u>	<u>1,368,508,367</u>	<u>(149,946,269)</u>	<u>1,218,562,098</u>
Programwide costs:						
Program management	73,022,772	76,553,967	—	76,553,967	—	76,553,967
Legal consulting fees	5,735,400	5,767,366	—	5,767,366	—	5,767,366
Compliance and audit fees	2,850,810	2,331,316	(59,013)	2,272,303	—	2,272,303
Bond measure election costs	454,332	585,660	—	585,660	—	585,660
Rents and leases	615,973	1,281,244	—	1,281,244	—	1,281,244
Total programwide costs	<u>82,679,287</u>	<u>86,519,553</u>	<u>(59,013)</u>	<u>86,460,540</u>	<u>—</u>	<u>86,460,540</u>
Total college direct costs and programwide costs	<u>1,343,517,236</u>	<u>\$ 1,473,269,314</u>	<u>(18,300,407)</u>	<u>1,454,968,907</u>	<u>(149,946,269)</u>	<u>1,305,022,638</u>
Unallocated interest earned (notes 1)	<u>16,753,342</u>					
Total college direct costs, programwide costs, and unallocated interest earned	<u>\$ 1,360,270,578</u>					

See 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

For the period from April 10, 2001 (inception) through June 30, 2012

(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, 2012.

(2) Basis of Presentation

The accompanying unaudited schedule statement 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 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 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, 2012.

(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, 2012, 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 A bond proceeds were used to fund the projects. The reimbursements received by the District, totaling \$149,946,269 for the period from April 10, 2001 (inception) through June 30, 2012, 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

For the period from April 10, 2001 (inception) through June 30, 2012

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2012, which were related to prior years. Such amounts totaling \$7,019,320 were reclassified from Proposition AA and Measure J funds to Proposition A.

In addition, during the ordinary course of operations, management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes. Expenditure transfers from other bond programs were made resulting in a net decrease in Proposition A expenditures of \$25,319,727.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2012:

Bonds authorized and issued	\$ 1,245,000,000
Bonds authorized but not yet issued	—
Total bonds authorized	1,245,000,000
Additional proceeds from General Obligation Refunding Bonds, 2005 Series A	12,330,000
Additional proceeds from surplus equipment sales	151,537
Interest earned for the period from April 10, 2001 (inception) through June 30, 2012	102,789,041
Total bonds authorized, interest earned, and other	1,360,270,578
Less expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2012	(1,305,022,638)
Total authorized and issued bond funds available at June 30, 2012	\$ 55,247,940



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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the 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 the Proposition A Bond Construction Program statement of expenditures of bond proceeds of the Los Angeles Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control over financial reporting to be a material weakness.

Bond Program Expenditures

The District's bond program (measures A, AA, and J) is currently the largest non-operating financial activity being undertaken by the District, with total expenditures expected to exceed \$6 billion, and currently representing over \$550 million in annual expenditures. We performed testwork over the



expenditures made with the use of bond proceeds for the year ended June 30, 2012, using a sample of 942 items and representing \$271.7 million in expenditures for the combined measures. The District engages a service provider to manage, process and account for the bond proceeds. The District separately records in its financial statements the expenditures processed by its service provider, and other entries as required by U.S. Generally Accepted Accounting Policies (GAAP). The following findings address the controls and process activities at both the service provider and the District.

Criteria

Given the size and magnitude of the bond program, management of the District should have adequate controls in place over bond expenditures such that they are recorded regularly and accurately, and no less than monthly, in the financial statements of the District and the individual bond expenditure reports, and be subject to an independent review.

Observations and Recommendations

The service provider accounts for expenditures on a cash basis. As a result, expenditures are frequently reported in the wrong period. We noted approximately \$2.75 million and \$14 million, for 2012 and 2011, respectively, of bond expenditures that were not recorded in the financial statements of the District or the individual bond reports in the proper period. While there may be system limitations, the service provider, along with the District, should develop and enforce control processes that would ensure all expenditures are reported timely and accurately in the financial statements of the District and the separate bond expenditure reports.

Amounts expended and provided to the District by the service provider are reported in the financial records of the District as expended. During the 2011 audit, we identified control weaknesses in the bond expenditure reconciliations and recommended that the District implement a documented reconciliation process. The District has developed a written monthly reconciliation process that was implemented in 2012. However, we believe the process needs to be enhanced as reconciliations between amounts recorded by the service provider and amounts recorded by the District are not prepared properly, and do not identify adjustments that need to be made to the financial statements of the District or the separate bond expenditure reports. Additionally, we did not identify a process whereby an individual, separate from the preparer of such information, performs a formal monthly and documented review of the reconciliation or an evaluation that the amounts are reported completely, accurately, or timely. As a result, other accounting entries required under GAAP, including the allocation of program management fees, are not properly recorded throughout the year, causing undue inefficiencies and inaccuracies in the preparation of the financial records of the District.

We recommend that there be a District employee dedicated to accounting for the expenditures of bond funds and that these types of control activities occur monthly and are properly reconciled to amounts provided by the service provider. Additionally, we recommend that the controls and processes in place to reconcile bond expenditures in the financial statements of the District to those provided by the service provider be available, such that other District employees would have sufficient information to perform this function during periods of employee transition.

Cause

The procedures in place for the recording and review of bond expenditures in the financial statements of the District or the separate bond expenditure reports require enhancement to include a proper reconciliation and review process. The service provider recording expenditures on a cash basis without a strong trail of contemporaneously prepared documentation for non-routine transactions, coupled with a lack of timely



coordination and reconciliation of amounts expended between the District and the service provider contribute to the issues noted.

Views of Responsible Officials

All financial statements are currently reported on accrual basis and comply with U.S. Generally Accepted Accounting Policies (GAAP). The amount of \$2.75 million for 2012 of bond expenditures has been recorded in the current financial statements of the District and the individual bond expenditure reports. Management agrees that certain amounts were not recorded in the proper period due to the nature of estimating the accrued amounts by campus project management staff and other vendors on the program. Further improvements will be implemented to include additional training to campus project management staff and other vendors on the program and an increase in oversight by BuildLACCD.

The District will continue to work on the implementation of its newly developed monthly reconciliation process and provide additional training to enhance the process to ensure reconciliations are prepared timely and properly and that any adjustments that need to be made to the financial statements are made. We will also add a procedure to the process that will more clearly identify that an individual, separate from the preparer of such reconciliations, performs a formal monthly and documented review of the reconciliation as required in the written procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition A Bond Construction Program statement of expenditures of bond proceeds is free of 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 findings 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.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 19, 2012



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

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2012

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

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, 2012, as listed in the accompanying table of contents. The statement of expenditures of bond proceeds is the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying 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 and 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of expenditures of bond proceeds, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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*.

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of bond proceeds of the Proposition AA Bond Construction Program for the year ended June 30, 2012 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 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 that 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds for the year ended June 30, 2012. 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, 2012 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 for the year ended June 30, 2012, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

December 19, 2012

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

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2012

College direct costs:	
Structural and equipment costs:	
Construction (new)	\$ 3,667,073
Construction (renovation)	17,752,509
Temporary facilities	1,405
Furniture, fixtures, and equipment	2,926,109
Total structural and equipment costs	<u>24,347,096</u>
Other costs:	
Land acquisition	7,172,424
Total other costs	<u>7,172,424</u>
Development and support costs:	
Master planning/environmental impact report	416,765
Pre-design/programming	21,047
Design	2,962,756
Specialty consulting	1,941,379
Project management	2,245,899
Inspection and testing	1,273,015
Reimbursables	20,396
Total development and support costs	<u>8,881,257</u>
Total college direct costs	<u>40,400,777</u>
Programwide costs:	
Compliance and audit fees	55,100
Rents and leases	749,585
Total programwide costs	<u>804,685</u>
Total college direct costs and programwide costs	<u><u>\$ 41,205,462</u></u>

See 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, 2012

(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 known as Proposition AA (the Program), 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. The current contract between the District and Program Manager expired on April 12, 2012, and has subsequently been extended through January 2013.

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 development.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2012, has been prepared on the accrual basis of accounting. The Act requires an annual, independent financial audit of the 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 AA BOND CONSTRUCTION PROGRAM**

Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

For the period from May 20, 2003 (inception) through June 30, 2012

(Unaudited)

	<u>2012 Budget</u>	<u>Period from May 20, 2003 (inception) through June 30, 2012</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the state of California as of June 30, 2012</u>	<u>Cumulative expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2012</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 332,202,658	366,947,708	(24,583,514)	342,364,194	(29,371,030)	312,993,164
Construction (renovation)	195,059,485	213,536,822	(4,546,480)	208,990,342	(35,937,873)	173,052,469
Temporary facilities	6,150,209	6,085,554	—	6,085,554	—	6,085,554
Furniture, fixtures, and equipment	45,923,915	40,365,937	(4,523)	40,361,414	(1,527,752)	38,833,662
Total structural and equipment costs	<u>579,336,267</u>	<u>626,936,021</u>	<u>(29,134,517)</u>	<u>597,801,504</u>	<u>(66,836,655)</u>	<u>530,964,849</u>
Other costs:						
Land acquisition	114,109,246	113,996,403	(12,685,000)	101,311,403	—	101,311,403
Building acquisition	—	19,704,402	—	19,704,402	—	19,704,402
Total other costs	<u>114,109,246</u>	<u>133,700,805</u>	<u>(12,685,000)</u>	<u>121,015,805</u>	<u>—</u>	<u>121,015,805</u>
Development and support costs:						
Master planning/EIR	4,518,240	4,257,479	—	4,257,479	—	4,257,479
Pre-design/programming	1,665,805	1,474,755	—	1,474,755	—	1,474,755
Design	67,813,474	70,296,613	(2,684,069)	67,612,544	(7,688,440)	59,924,104
Specialty consulting	27,834,422	29,378,587	43,024	29,421,611	(80,910)	29,340,701
Project management	71,472,192	68,375,072	(78,068)	68,297,004	—	68,297,004
Inspection and testing	21,024,053	19,872,660	541,514	20,414,174	(168,742)	20,245,432
Construction management	—	1,607	—	1,607	—	1,607
Reimbursable	5,903,291	2,821,308	3,767	2,825,075	(754,703)	2,070,372
Total development and support costs	<u>200,231,477</u>	<u>196,478,081</u>	<u>(2,173,832)</u>	<u>194,304,249</u>	<u>(8,692,795)</u>	<u>185,611,454</u>
Total college direct costs	<u>893,676,990</u>	<u>957,114,907</u>	<u>(43,993,349)</u>	<u>913,121,558</u>	<u>(75,529,450)</u>	<u>837,592,108</u>
Programwide costs:						
Program management	34,730,154	36,099,570	—	36,099,570	—	36,099,570
Legal consulting fees	933,999	1,158,475	—	1,158,475	—	1,158,475
Compliance and audit fees	1,656,344	942,564	58,013	1,000,577	—	1,000,577
Bond measure election costs	119,000	1,206,719	—	1,206,719	—	1,206,719
Rents and leases	6,409,234	5,741,517	—	5,741,517	—	5,741,517
Total programwide costs	<u>43,848,731</u>	<u>45,148,845</u>	<u>58,013</u>	<u>45,206,858</u>	<u>—</u>	<u>45,206,858</u>
Debt refinancing	<u>107,161,451</u>	<u>110,970,482</u>	<u>(1,084,458)</u>	<u>109,886,024</u>	<u>—</u>	<u>109,886,024</u>
Total college direct costs, programwide costs, and debt refinancing	<u>1,044,687,172</u>	<u>\$ 1,113,234,234</u>	<u>(45,019,794)</u>	<u>1,068,214,440</u>	<u>(75,529,450)</u>	<u>992,684,990</u>
Unallocated interest earned (note 1)	<u>9,850,871</u>					
Total college direct costs, programwide costs, and unallocated interest earned	<u>\$ 1,054,538,043</u>					

See 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

For the period from May 20, 2003 (inception) through June 30, 2012

(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, 2012.

(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 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 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, 2012.

(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, 2012, the District received amounts from the State of California as reimbursement for various multifunded 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 \$75,529,450 for period from May 20, 2003 (inception) through June 30, 2012 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

For the period from May 20, 2003 (inception) through June 30, 2012

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2012, which were related to prior years. Such amounts totaling \$5,958,171 were reclassified from Proposition AA funds to Measure J and Proposition A.

In addition, during the ordinary course of operations, management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes. Expenditure transfers were made resulting in a net decrease in Proposition AA expenditures of \$39,061,623 to other bond programs.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2012:

Bonds authorized and issued	\$ 980,000,000
Bonds authorized but not yet issued	—
Total bonds authorized and issued	980,000,000
Interest earned from May 20, 2003 (inception) through June 30, 2012	44,533,953
Proceeds from sale of property purchased with bond funds	29,974,680
Other	29,410
Total bonds authorized, interest earned, proceeds from sale of property, and other	1,054,538,043
Less expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2012	(992,684,990)
Total authorized and issued bond funds available at June 30, 2012	\$ 61,853,053



KPMG LLP
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Los Angeles, CA 90071-1568

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the 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 the Proposition AA Bond Construction Program statement of expenditures of bond proceeds of the Los Angeles Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control over financial reporting to be a material weakness.

Bond Program Expenditures

The District's bond program (measures A, AA, and J) is currently the largest nonoperating financial activity being undertaken by the District, with total expenditures expected to exceed \$6 billion, and currently representing over \$550 million in annual expenditures. We performed testwork over the



expenditures made with the use of bond proceeds for the year ended June 30, 2012, using a sample of 942 items and representing \$271.7 million in expenditures for the combined measures. The District engages a service provider to manage, process, and account for the bond proceeds. The District separately records in its financial statements the expenditures processed by its service provider, and other entries as required by U.S. Generally Accepted Accounting Policies (GAAP). The following findings address the controls and process activities at both the service provider and the District.

Criteria

Given the size and magnitude of the bond program, management of the District should have adequate controls in place over bond expenditures such that they are recorded regularly and accurately, and no less than monthly, in the financial statements of the District and the individual bond expenditure reports, and be subject to an independent review.

Observations and Recommendations

The service provider accounts for expenditures on a cash basis. As a result, expenditures are frequently reported in the wrong period. We noted approximately \$2.75 million and \$14 million, for 2012 and 2011, respectively, of bond expenditures that were not recorded in the financial statements of the District or the individual bond reports in the proper period. While there may be system limitations, the service provider, along with the District, should develop and enforce control processes that would ensure all expenditures are reported timely and accurately in the financial statements of the District and the separate bond expenditure reports.

Amounts expended and provided to the District by the service provider are reported in the financial records of the District as expended. During the 2011 audit, we identified control weaknesses in the bond expenditure reconciliations and recommended that the District implement a documented reconciliation process. The District has developed a written monthly reconciliation process that was implemented in 2012. However, we believe the process needs to be enhanced as reconciliations between amounts recorded by the service provider and amounts recorded by the District are not prepared properly, and do not identify adjustments that need to be made to the financial statements of the District or the separate bond expenditure reports. Additionally, we did not identify a process whereby an individual, separate from the preparer of such information, performs a formal monthly and documented review of the reconciliation or an evaluation that the amounts are reported completely, accurately or timely. As a result, other accounting entries required under GAAP, including the allocation of program management fees, are not properly recorded throughout the year, causing undue inefficiencies and inaccuracies in the preparation of the financial records of the District.

We recommend that there be a District employee dedicated to accounting for the expenditures of bond funds and that these types of control activities occur monthly and are properly reconciled to amounts provided by the service provider. Additionally, we recommend that the controls and processes in place to reconcile bond expenditures in the financial statements of the District to those provided by the service provider be available, such that other District employees would have sufficient information to perform this function during periods of employee transition.

Cause

The procedures in place for the recording and review of bond expenditures in the financial statements of the District or the separate bond expenditure reports require enhancement to include a proper reconciliation and review process. The service provider recording expenditures on a cash basis without a strong trail of contemporaneously prepared documentation for nonroutine transactions, coupled with a lack of timely



coordination and reconciliation of amounts expended between the District and the service provider contribute to the issues noted.

Views of Responsible Officials

All financial statements are currently reported on accrual basis and comply with U.S. Generally Accepted Accounting Policies (GAAP). The amount of \$2.75 million for 2012 of bond expenditures has been recorded in the current financial statements of the District and the individual bond expenditure reports. Management agrees that certain amounts were not recorded in the proper period due to the nature of estimating the accrued amounts by campus project management staff and other vendors on the program. Further improvements will be implemented to include additional training to campus project management staff and other vendors on the program and an increase in oversight by BuildLACCD.

The District will continue to work on the implementation of its newly developed monthly reconciliation process and provide additional training to enhance the process to ensure reconciliations are prepared timely and properly and that any adjustments that need to be made to the financial statements are made. We will also add a procedure to the process that will more clearly identify that an individual separate from the preparer of such reconciliations performs a formal monthly and documented review of the reconciliation as required in the written procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition AA Bond Construction Program statement of expenditures of bond proceeds is free of 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 financial 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 findings 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.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 19, 2012



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

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2012

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
Suite 2000
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Los Angeles, CA 90071-1568

Independent Auditors' Report

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

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, 2012, as listed in the accompanying table of contents. The statement of expenditures of bond proceeds is the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying 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 and 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of expenditures of bond proceeds, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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*.

In our opinion, the statement of expenditures of bond proceeds referred to above presents fairly, in all material respects, the expenditures of bond proceeds of the Measure J Bond Construction Program for the year ended June 30, 2012 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 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 that 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the statement of expenditures of bond proceeds for the year ended June 30, 2012. 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, 2012 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 for the year ended June 30, 2012, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

December 19, 2012

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

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2012

College direct costs:	
Structural and equipment costs:	
Construction (new)	\$ 169,191,530
Construction (renovation)	41,638,471
Hardscape/landscape	193,527
Temporary facilities	1,288,205
Furniture, fixtures, and equipment	16,745,266
	<u>229,056,999</u>
Total structural and equipment costs	<u>229,056,999</u>
Other costs:	
Land acquisition	442,705
	<u>442,705</u>
Total other costs	<u>442,705</u>
Development and support costs:	
Master planning	544,479
Pre-design/programming	454,875
Design	25,005,934
Specialty consulting	33,315,700
Project management	29,481,863
Inspection and testing	6,799,768
Reimbursables	1,150,515
	<u>96,753,134</u>
Total development and support costs	<u>96,753,134</u>
Total college direct costs	<u>326,252,838</u>
Programwide costs:	
Program management	19,571,885
Legal consulting fees	4,836,684
Compliance and audit fees	1,669,354
Rents and leases	3,726,508
	<u>29,804,431</u>
Total programwide costs	<u>29,804,431</u>
Total college direct costs and programwide costs	<u>\$ 356,057,269</u>

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, 2012

(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). Effective April 12, 2007, the District's board of trustees approved an award of the contract for program management (Program Manager) services to URS Corporation. 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 development.

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. The current contract between the District and Program Manager expired on April 12, 2012 and has subsequently been extended through January 2013.

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 development.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2012 has been prepared on the accrual basis of accounting. The Act requires an annual, independent financial audit of the 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, 2012

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.

**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
For the period from November 4, 2008 (inception) through June 30, 2012
(Unaudited)

	<u>2012 Budget</u>	<u>Period from November 4, 2008 (inception) through June 30, 2012</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the state of California as of June 30, 2012</u>	<u>Cumulative expenditures of bond proceeds for the period from November 4, 2008 (inception) through June 30, 2012</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 1,577,916,743	371,172,707	15,894,025	387,066,732	(6,991,104)	380,075,628
Construction (renovation)	752,796,333	245,835,721	13,642,648	259,478,369	(5,492,289)	253,986,080
Hardscape/landscape	—	193,527	—	193,527	—	193,527
Temporary facilities	8,119,720	4,385,988	—	4,385,988	—	4,385,988
Furniture, fixtures, and equipment	208,066,953	74,153,882	451,090	74,604,972	(1,986,454)	72,618,518
Total structural and equipment costs	<u>2,546,899,749</u>	<u>695,741,825</u>	<u>29,987,763</u>	<u>725,729,588</u>	<u>(14,469,847)</u>	<u>711,259,741</u>
Other costs:						
Land acquisition	59,679,219	64,579,600	12,685,000	77,264,600	—	77,264,600
Development and support costs:						
Master planning/EIR	6,970,758	4,648,969	20,445	4,669,414	—	4,669,414
Predesign/programming	5,890,744	4,020,918	—	4,020,918	—	4,020,918
Design	271,039,370	146,889,541	3,130,052	150,019,593	(635,899)	149,383,694
Specialty consulting	231,879,465	120,961,667	288,942	121,250,609	—	121,250,609
Project management	173,965,606	76,694,508	14,565	76,709,073	—	76,709,073
Inspection and testing	75,149,531	17,919,493	153,854	18,073,347	(146,535)	17,926,812
Reimbursables	6,665,312	3,529,503	24,026	3,553,529	—	3,553,529
Total development and support costs	<u>771,560,786</u>	<u>374,664,599</u>	<u>3,631,884</u>	<u>378,296,483</u>	<u>(782,434)</u>	<u>377,514,049</u>
Total college direct costs	<u>3,378,139,754</u>	<u>1,134,986,024</u>	<u>46,304,647</u>	<u>1,181,290,671</u>	<u>(15,252,281)</u>	<u>1,166,038,390</u>
Programwide costs:						
Program management	98,482,594	61,863,028	—	61,863,028	—	61,863,028
Legal consulting fees	21,101,110	11,740,021	(1,788)	11,738,233	—	11,738,233
Compliance and audit fees	—	2,689,198	75,560	2,764,758	—	2,764,758
Bond measure election costs	—	966,188	—	966,188	—	966,188
Rents and leases	28,820,069	7,467,513	—	7,467,513	—	7,467,513
Total programwide costs	<u>148,403,773</u>	<u>84,725,948</u>	<u>73,772</u>	<u>84,799,720</u>	<u>—</u>	<u>84,799,720</u>
Total college direct costs and programwide costs	<u>3,526,543,527</u>	<u>\$ 1,219,711,972</u>	<u>46,378,419</u>	<u>1,266,090,391</u>	<u>(15,252,281)</u>	<u>1,250,838,110</u>
Unallocated interest earned (note 1)	16,737,999					
Total college direct costs, programwide costs, and unallocated interest earned	<u>\$ 3,543,281,526</u>					

See 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

For the period from
November 4, 2008 (inception) through June 30, 2012

(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, 2012.

(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 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 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, 2012.

(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 November 4, 2008 (inception) through June 30, 2012, 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 \$15,252,281 for the period from November 4, 2008 (inception) through June 30, 2012, 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

For the period from
November 4, 2008 (inception) through June 30, 2012

(Unaudited)

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2012, which were related to prior years. Such amounts totaling \$1,061,150 were reclassified to Measure J funds from Proposition AA and Proposition A.

In addition, during the ordinary course of operations, management decisions were made to reallocate expenditures to one or more of the bond programs for budgetary purposes. Expenditure transfers from other bond programs were made resulting in a net increase in Measure J expenditures of \$47,439,569.

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2012:

Bonds authorized and issued	\$ 1,625,000,000
Bonds authorized but not yet issued	<u>1,875,000,000</u>
Total bonds authorized	3,500,000,000
Interest earned for the period from November 4, 2008 (inception) through June 30, 2012	28,385,436
Additional proceeds from other income	<u>14,896,090</u>
Total bonds authorized and interest earned	3,543,281,526
Less expenditures of bond proceeds for the period from November 4, 2008 (inception) through June 30, 2012	(1,250,838,110)
Less unissued bonds at June 30, 2012	<u>(1,875,000,000)</u>
Total authorized and issued bond funds available at June 30, 2012	<u><u>\$ 417,443,416</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 the 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 the Measure J Bond Construction Program statement of expenditures of bond proceeds of the Los Angeles Community College District (the District) for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control over financial reporting to be a material weakness.

Bond Program Expenditures

The District's bond program (measures A, AA, and J) is currently the largest nonoperating financial activity being undertaken by the District, with total expenditures expected to exceed \$6 billion, and currently representing over \$550 million in annual expenditures. We performed testwork over the



expenditures made with the use of bond proceeds for the year ended June 30, 2012, using a sample of 942 items and representing \$271.7 million in expenditures for the combined measures. The District engages a service provider to manage, process, and account for the bond proceeds. The District separately records in its financial statements the expenditures processed by its service provider, and other entries as required by U.S. Generally Accepted Accounting Policies (GAAP). The following findings address the controls and process activities at both the service provider and the District.

Criteria

Given the size and magnitude of the bond program, management of the District should have adequate controls in place over bond expenditures such that they are recorded regularly and accurately, and no less than monthly, in the financial statements of the District and the individual bond expenditure reports, and be subject to an independent review.

Observations and Recommendations

The service provider accounts for expenditures on a cash basis. As a result, expenditures are frequently reported in the wrong period. We noted approximately \$2.75 million and \$14 million, for 2012 and 2011, respectively, of bond expenditures that were not recorded in the financial statements of the District or the individual bond reports in the proper period. While there may be system limitations, the service provider, along with the District, should develop and enforce control processes that would ensure all expenditures are reported timely and accurately in the financial statements of the District and the separate bond expenditure reports.

Amounts expended and provided to the District by the service provider are reported in the financial records of the District as expended. During the 2011 audit, we identified control weaknesses in the bond expenditure reconciliations and recommended that the District implement a documented reconciliation process. The District has developed a written monthly reconciliation process that was implemented in 2012. However, we believe the process needs to be enhanced as reconciliations between amounts recorded by the service provider and amounts recorded by the District are not prepared properly, and do not identify adjustments that need to be made to the financial statements of the District or the separate bond expenditure reports. Additionally, we did not identify a process whereby an individual, separate from the preparer of such information, performs a formal monthly and documented review of the reconciliation or an evaluation that the amounts are reported completely, accurately, or timely. As a result, other accounting entries required under GAAP, including the allocation of program management fees, are not properly recorded throughout the year, causing undue inefficiencies and inaccuracies in the preparation of the financial records of the District.

We recommend that there be a District employee dedicated to accounting for the expenditures of bond funds and that these types of control activities occur monthly and are properly reconciled to amounts provided by the service provider. Additionally, we recommend that the controls and processes in place to reconcile bond expenditures in the financial statements of the District to those provided by the service provider be available, such that other District employees would have sufficient information to perform this function during periods of employee transition.

Cause

The procedures in place for the recording and review of bond expenditures in the financial statements of the District or the separate bond expenditure reports require enhancement to include a proper reconciliation and review process. The service provider recording expenditures on a cash basis without a strong trail of contemporaneously prepared documentation for nonroutine transactions, coupled with a lack of timely



coordination and reconciliation of amounts expended between the District and the service provider contribute to the issues noted.

Views of Responsible Officials

All financial statements are currently reported on accrual basis and comply with U.S. Generally Accepted Accounting Policies (GAAP). The amount of \$2.75 million for 2012 of bond expenditures has been recorded in the current financial statements of the District and the individual bond expenditure reports. Management agrees that certain amounts were not recorded in the proper period due to the nature of estimating the accrued amounts by campus project management staff and other vendors on the program. Further improvements will be implemented to include additional training to campus project management staff and other vendors on the program and an increase in oversight by BuildLACCD.

The District will continue to work on the implementation of its newly developed monthly reconciliation process and provide additional training to enhance the process to ensure reconciliations are prepared timely and properly and that any adjustments that need to be made to the financial statements are made. We will also add a procedure to the process that will more clearly identify that an individual, separate from the preparer of such reconciliations, performs a formal monthly and documented review of the reconciliation as required in the written procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure J Bond Construction Program statement of expenditures of bond proceeds is free of 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 financial 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 findings 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.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 19, 2012

