

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

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year Ended June 30, 2017

(With Independent Auditors' Report Thereon)

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

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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, 2017, 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 the statement of expenditures of bond proceeds that is 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, 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 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, 2017, in accordance with U.S. generally accepted accounting principles.

Other Matters

Purpose of Report

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 Accountability Act*.

Unaudited Supplementary Schedule of Expenditures of Bond Proceeds

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 unaudited 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, 2017, is presented for purposes of additional analysis and is not a required part of the statement of expenditures of bond proceeds.

The unaudited 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 _____, _____, 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.

[(signed) KPMG LLP]

Date

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

Statement of Expenditures of Bond Proceeds

Year ended June 30, 2017

College direct costs:

Structural and equipment costs:

Construction (new)	\$ 764,763
Construction (renovation)	2,731,176
Furniture, fixtures, and equipment	<u>24,216</u>
Total structural and equipment costs	<u>3,520,155</u>

Development and support costs:

Master planning	1,962
Design	481,894
Specialty consulting	25,244
Project management	443,807
Inspection and testing	138,478
Reimbursable expenditures	<u>8,435</u>
Total development and support costs	<u>1,099,820</u>

Total college direct costs	<u>4,619,975</u>
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Programwide costs:

Program management	739,308
Compliance and audit fees	<u>51,900</u>
Total programwide costs	<u>791,208</u>

Total college direct costs and programwide costs	<u><u>\$ 5,411,183</u></u>
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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, 2017

(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 AECOM Technical Services, Inc. (AECOM), effective April 4, 2013. Effective October 15, 2017, the Board of Trustees authorized an agreement to replace AECOM with Jacobs Project Management Company to provide program management services for the bond program for a five year period.

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. The annual contract amount paid to the Program Manager related to the Proposition AA Bond Construction Program totaled \$511,207 for the year ended June 30, 2017.

(2) Basis of Presentation

The accompanying statement of expenditures of bond proceeds for the year ended June 30, 2017, 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 May 2003, the voters of the Los Angeles County (the County) passed Proposition AA, a \$980 million General Obligation (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. As of June 30, 2017, \$980 million of the G.O. Bond measure has been issued.

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

Notes to Statement of Expenditures of Bond Proceeds

Year ended June 30, 2017

(4) Subsequent Events

The District has evaluated subsequent events from the date of the statement of expenditures through December __, 2017, the date at which the statement was available to be issued. The District is not aware of any additional subsequent events, which would require recognition or disclosure in the statement of expenditures of bond proceeds.

**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, 2017

(Unaudited)

	<u>2017 Budget</u>	<u>Period from May 20, 2003 (inception) through June 30, 2017</u>	<u>Reclassifications</u>	<u>Subtotal</u>	<u>Cumulative reimbursements from the state of California as of June 30, 2017</u>	<u>Cumulative expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2017</u>
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 356,964,584	370,749,988	318,814	371,068,802	(55,472,431)	315,596,371
Construction (renovation)	188,955,920	228,366,494	453,920	228,820,414	(46,150,113)	182,670,301
Temporary facilities	4,624,003	4,615,240	—	4,615,240	—	4,615,240
Furniture, fixtures, and equipment	35,599,987	37,789,589	—	37,789,589	(2,828,479)	34,961,110
Total structural and equipment costs	<u>586,144,494</u>	<u>641,521,311</u>	<u>772,734</u>	<u>642,294,045</u>	<u>(104,451,023)</u>	<u>537,843,022</u>
Other costs:						
Land acquisition	115,479,927	103,353,733	—	103,353,733	—	103,353,733
Building acquisition	—	19,704,402	—	19,704,402	—	19,704,402
Total other costs	<u>115,479,927</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	4,480,274	4,456,489	—	4,456,489	—	4,456,489
Predesign/programming	1,302,544	1,447,385	—	1,447,385	—	1,447,385
Design	62,959,187	72,544,247	—	72,544,247	(9,255,502)	63,288,745
Specialty consulting	30,552,909	30,850,662	—	30,850,662	(80,910)	30,769,752
Project management	73,084,811	73,831,631	—	73,831,631	—	73,831,631
Inspection and testing	22,334,731	22,382,677	—	22,382,677	(180,024)	22,202,653
Construction management	—	1,607	—	1,607	—	1,607
Reimbursable expenditures	4,786,276	2,951,763	—	2,951,763	(754,703)	2,197,060
Total development and support costs	<u>199,500,732</u>	<u>208,466,461</u>	<u>—</u>	<u>208,466,461</u>	<u>(10,271,139)</u>	<u>198,195,322</u>
Total college direct costs	<u>901,125,153</u>	<u>973,045,907</u>	<u>772,734</u>	<u>973,818,641</u>	<u>(114,722,162)</u>	<u>859,096,479</u>
Programwide costs:						
Program management	40,452,565	42,009,007	—	42,009,007	—	42,009,007
Legal consulting fees	1,272,026	1,158,475	—	1,158,475	—	1,158,475
Compliance and audit fees	1,413,809	1,311,580	—	1,311,580	—	1,311,580
Bond measure election costs	—	1,206,719	—	1,206,719	—	1,206,719
Rents and leases	6,062,391	6,062,392	—	6,062,392	—	6,062,392
Total programwide costs	<u>49,200,791</u>	<u>51,748,173</u>	<u>—</u>	<u>51,748,173</u>	<u>—</u>	<u>51,748,173</u>
Debt refinancing	<u>107,303,489</u>	<u>109,886,025</u>	<u>—</u>	<u>109,886,025</u>	<u>—</u>	<u>109,886,025</u>
Total college direct costs and programwide costs	<u>1,057,629,433</u>	<u>\$ 1,134,680,105</u>	<u>772,734</u>	<u>1,135,452,839</u>	<u>(114,722,162)</u>	<u>1,020,730,677</u>
Unallocated interest earned	<u>3,054,635</u>					
Total college direct costs, programwide costs, and unallocated interest earned	<u>\$ 1,060,684,068</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

Period from May 20, 2003 (inception) through June 30, 2017

(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, 2017.

(2) Basis of Presentation

The accompanying unaudited schedule of expenditures of bond proceeds has been prepared on the accrual basis of accounting and 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, 2017.

(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, 2017, 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 \$114,722,162 for period from May 20, 2003 (inception) through June 30, 2017, 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.

(e) Reclassifications

Certain adjustments and reclassifications were made between the District's various Proposition 39 bond programs during the year ended June 30, 2017, which were related to prior years. Such amounts totaling \$772,734 were reclassified from Proposition AA to Proposition A.

**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, 2017

(Unaudited)

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2017:

	\$ 980,000,000
Other bond related sources of funds:	
Interest earned from May 20, 2003 (inception) through June 30, 2017	46,343,706
Proceeds from sale of property purchased with bond funds	29,974,680
Other income	<u>4,365,682</u>
Total other bond related sources of funds	1,060,684,068
Less expenditures of bonds proceeds for the period from May 20, 2003 (inception) through June 30, 2017	<u>(1,020,730,677)</u>
Total authorized and issued bond funds available at June 30, 2017	<u>\$ 39,953,391</u>

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 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), for the year ended June 30, 2017, and have issued our report thereon dated _____.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of expenditures of bond proceeds, we considered 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 a 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. We consider the deficiency described below to be a significant deficiency.

Bond Program Expenditures

As of June 30, 2017, the District's bond program had expenditures under three separate bond measures (A, AA, and J) which in total are expected to exceed \$6 billion when complete. We performed testwork over each of these measures separately, which in total represent \$215 million in expenditures for the year ended June 30, 2017. Our testwork over the expenditures made with the use of bond proceeds for these three measures for the year ended June 30, 2017, comprised a sample of 232 items and totaled \$51.5 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 Principles (GAAP).

Criteria

GAAP requires that expenditures be reported on an accrual basis and the District should have appropriate controls in place to ensure that each of the bond funds are appropriately reporting expenditures of a particular bond fund in the year to which such expenditures relate.

Condition and Context

Within the District's bond program, certain expenditures, such as claims, stop notices, and retentions are accrued and not always paid during the following year. Because the service provider accounts for the expenditures on a cash basis through the year and only accrues at year end, their process includes analyzing the total amount of the liabilities due at the end of each fiscal year. Several of these expenditures had been recognized in prior years, however, not yet paid, therefore, they would need to be removed from the current year statement of expenditures, or all prior accruals should have been reversed from the prior year. We noted approximately \$169 thousand of bond fund accruals related to Proposition AA that were previously recorded in the prior year that had not been reversed out of the current year accruals.

Cause and possible asserted effect

The service provider manually gathers the information to prepare the statement of expenditures of bond proceeds. There was not a compensating review control in place at June 30, 2017, to ensure these expenditures were accurately recorded in the proper accounting period.

Recommendations

We recommend that there be a process implemented to ensure that accruals are properly reported in the appropriate year.

View of Responsible Officials and Planned Corrective Action

Management agrees that there were expenditures included in the current year statement of expenditures of bond proceeds that had already been recognized in prior years. The cause of the error was due to manually gathering the information to prepare the statements of expenditures of bond proceeds and a lack of a timely review of the financial statements by members of management. Once the statements had been prepared and provided to the auditors and samples had been selected, we informed KPMG of the error and corrected the error by reversing out the prior year expenditure amounts. Management will implement the appropriate process to ensure that expenditures are properly reported in the correct year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's statement of expenditures of bond proceeds are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Findings

The District's response to the findings identified in our audit is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the statement of expenditures of bond proceeds 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.

[(signed) KPMG LLP]

DATE