



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

Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District:

We have audited the accompanying statements of expenditures of bond proceeds of the Proposition A Bond Construction Program of the Los Angeles Community College District (the District) for the years ended June 30, 2007 and 2006, and the period from April 10, 2001 (inception) through June 30, 2005, as listed in the accompanying table of contents. Such statements of expenditures of bond proceeds are the responsibility of the District's management. Our responsibility is to express an opinion on the accompanying statements of expenditures of bond proceeds based on our audits.

We conducted our audits 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 statements of expenditures of bond proceeds are 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 statements of expenditures of bond proceeds, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the statements of expenditures of bond proceeds referred to above presents fairly, in all material respects, the actual expenditures of bond proceeds of the Proposition A Bond Construction Program for the years ended June 30, 2007 and 2006, and the period from April 10, 2001 (inception) through June 30, 2005 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008 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.

KPMG LLP

February 28, 2008

LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM

Statements of Expenditures of Bond Proceeds
Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

	Budget (Unaudited)	Actual expenditures				Reimbursements from State (note 4)	Cumulative total
		April 10, 2001 (inception) through June 30, 2005	Year ended				
			June 30, 2006	June 30, 2007			
College direct costs:							
Structural and equipment costs:							
Construction (new)	\$ 618,662,842	26,165,585	43,955,931	92,808,519	(12,921,038)	150,008,997	
Construction (renovation)	237,080,911	32,864,738	24,148,116	30,985,358	(1,691,129)	86,307,083	
Hardscape/landscape	22,855	115,771	10,000	-----	-----	125,771	
Temporary facilities	12,048,636	6,125,755	1,836,635	3,370,553	-----	11,332,943	
Furniture, fixtures, and equipment	37,016,223	3,099,660	1,399,108	1,989,771	-----	6,488,539	
Total structural and equipment costs	904,831,467	68,371,509	71,349,790	129,154,201	(14,612,167)	254,263,333	
Other costs:							
Land acquisition	32,259,466	20,238,680	39,860,644	3,584,068	-----	63,683,392	
Development and support costs:							
Master planning/EIR	6,133,350	8,005,092	340,113	4,978,042	-----	13,323,247	
Predesign/programming	8,191,121	7,496,403	323,347	91,770	-----	7,911,520	
Design	141,590,165	50,096,450	19,474,115	15,551,563	(611,599)	84,510,529	
Specialty consulting	36,775,999	11,460,746	3,053,740	3,979,995	(3,409)	18,491,072	
Project management	76,145,111	46,661,084	12,339,992	12,027,768	-----	71,028,844	
Inspection and testing	26,439,624	2,449,672	2,021,146	4,842,652	-----	9,313,470	
Construction management	507,407	507,406	-----	-----	-----	507,406	
Reimbursables	642,206	2,881,854	-----	-----	-----	2,881,854	
Total development and support costs	296,424,983	129,558,707	37,552,453	41,471,790	(615,008)	207,967,942	
Total college direct costs	1,233,515,916	218,168,896	148,762,887	174,210,059	(15,227,175)	525,914,667	
Program-wide costs:							
Program management	49,694,773	36,213,308	9,784,760	11,195,431	-----	57,193,499	
Legal consulting fees	10,094,437	2,931,848	1,142,661	766,539	-----	4,841,048	
Compliance and audit fees	4,253,179	1,637,441	237,543	130,574	-----	2,005,558	
Bond measure election costs	392,491	523,742	-----	-----	-----	523,742	
Rents and leases	144,000	28,667	78,000	558,980	-----	665,647	
Total program-wide costs	64,578,880	41,335,006	11,242,964	12,651,524	-----	65,229,494	
Total college direct costs and program-wide costs, net of reimbursements	1,298,094,796	\$ 259,503,902	160,005,851	186,861,583	(15,227,175)	591,144,161	
Unallocated interest earned	27,183,005						
Unallocated budget	108,523						
Bond refund amount	12,330,000						
Total college direct costs, program-wide costs, and unallocated interest earned	\$ 1,337,716,324						

See accompanying notes to statements of expenditures of bond proceeds.

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

Notes to Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

(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 July 1, 2007, DMJM/JGM was replaced by a new Program Manager, Build-LACCD.

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 statements of expenditures of bond proceeds have 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 statements of expenditures of bond proceeds include amounts expended for capital outlay.

The statements of expenditures of bond proceeds present expenditures on both a cumulative basis and for the years ended June 30, 2007 and 2006, and the period from April 10, 2001 (inception) through June 30, 2005.

(a) Budget (Unaudited)

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

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

Notes to Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

(b) Total Actual Expenditures

The amounts included within the actual expenditures cumulative total column in the accompanying statements of expenditures of bond proceeds represent actual cumulative expenditures paid and/or incurred from Proposition A bond proceeds by the District for the years ended June 30, 2007 and 2006, and the period from April 10, 2001 (inception) through June 30, 2005.

(c) Interest Earned

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

(3) Reconciliation of Bond Proceeds

The following is a summary of total authorized and issued bond funds available at June 30, 2007:

Bonds authorized and issued	\$ 553,500,000
Bonds authorized but not yet issued	<u>691,500,000</u>
Total bonds authorized	1,245,000,000
Additional proceeds from General Obligation Refunding Bond, 2005 Series A	12,330,000
Additional proceeds from surplus equipment sales	108,523
Interest earned for the period from April 10, 2001 (inception) through June 30, 2007	<u>80,277,801</u>
Total bonds authorized and interest earned	1,337,716,324
Less expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2007	<u>(591,144,161)</u>
Total authorized and issued bond funds available at June 30, 2007	<u><u>\$ 746,572,163</u></u>

Advance Refunding Bonds

During 2005, the District issued \$437,450,000 of 2005 Series A, aggregate principal amount of its General Obligation Refunding Bonds, 2001 Election to advance refunding of the District's General Obligation Bonds, 2001 Election, Series A (Refunded Bonds).

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

Notes to Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

The net proceeds from the sale of the 2005 Series A General Obligation Refunding Bonds in the amount of \$437,450,000 plus the original issue premium of \$34,870,965 will be applied to the advance refunding of the refunded bonds of \$456,743,623, to make a deposit into the District's Building Fund, related to Proposition A, of \$12,330,000, to make a deposit into the District's Debt Service Fund of \$220,000 and to pay the cost of issuance for these bonds in the amount of \$3,027,341.

(4) Reimbursements from State

During the years ended June 30, 2007 and June 30, 2006, the District received \$6,566,691 and \$8,660,484, respectively, 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 bond proceeds were used to fund the projects. The reimbursements received by the District have been reflected in the accompanying statements of expenditures of bond proceeds as a reduction of expenditures made with bond proceeds by cost classification on a cumulative basis.

(5) Subsequent Events

On October 23, 2007, the District issued \$400,000,000 aggregate principal amount in General Obligation Bonds, 2001 Election (Proposition A) 2007 Series A.



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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Proposition A
Bond Construction Program Statements of Expenditures of
Bond Proceeds Performed in Accordance with *Government Auditing Standards***

The Honorable Board of Trustees
Los Angeles Community College District:

We have audited the statements of expenditures of bond proceeds of the Proposition A Bond Construction Program of the Los Angeles Community College District (the District) for the years ended June 30, 2007 and 2006, and the period from April 10, 2001 (inception) through June 30, 2005, and have issued our report thereon dated February 28, 2008. 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

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 an opinion on the statements of expenditures of bond proceeds, 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: F-07-01, F-07-02, and F-07-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be

material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statements of expenditures of bond proceeds of the Proposition A Bond Construction Program of the District are free of 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 amounts included in the statements of expenditures of bond proceeds. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's board of trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 28, 2008

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

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

F-07-01 – Expenditure Accruals

Condition and Context

The District's Program Manager over the Proposition A Bond Construction Program requests Campus Project Managers to review all open invoices through July 2007 that relate to the fiscal year ended June 30, 2007 and recommend the amount that should be accrued by the District.

However, during our procedures to ascertain that all expenditures incurred during the year were properly captured on the statements of expenditures of bond proceeds for the year under audit, we noted approximately \$3.7 million of unrecorded expenditures. These expenditures were not remitted by vendor until several months following year-end.

Cause and Effect

The District's procedure to review open invoices through July 2007 was not adequate to ensure the completeness of the actual expenditures reported in statements of expenditures of bond proceeds for the fiscal year ended June 30, 2007.

Criteria

A significant deficiency in internal controls over financial reporting is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represent a significant deficiency in internal controls.

Recommendation

We recommend that the District extend the period over which invoices and payments are reviewed for possible accrual or develop stronger estimating procedures to ensure all of the appropriate information is captured in the accounting records and/or reflected in the financial statements at the end of reporting periods.

Views of Responsible Officials and Planned Corrective Action

The District has strict guidelines related to the deadlines for year-end closing. There are current procedures in place to obtain all vendor invoices prior to final year-end closing; however, the District along with the program management team and college project managers will continue to implement additional procedures to ensure recording of all outstanding invoices.

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

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

F-07-02 – Expenditure Budgeting

Condition and Context

During our review of the statements of expenditures of bond proceeds, we noted several instances where expenditures were made for which no amounts were budgeted or such expenditures exceeded the original budgeted amounts. An expenditure budget is a strong management control to ensure that the types and amounts of expenditures are in agreement with the District's plans. To the extent that budgets are outdated or not updated for changes in plans or circumstances, such control becomes ineffective.

Cause and Effect

The District's budget for Proposition A bond proceeds is not prepared or monitored in the same classification of expenditures noted on the statements of expenditures of bond proceeds. Rather, the District budgets the Proposition A bond proceeds on an overall project basis. As a result, the budgeting control is not designed appropriately for monitoring expenditures noted on the statements of expenditures of bond proceeds.

Criteria

A significant deficiency in internal controls over financial reporting is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represent a significant deficiency in internal controls.

Recommendation

We recommend that the District regularly review actual expenditures compared to expected amounts and, if necessary, revise the estimated budgets on a regular basis. Original budgets can be maintained and presented for information purposes and changes should be tracked to understand what caused variances between the original budget and actual expenditures; however, once differences are known, they should be recognized in budgets currently used to monitor performance and compliance with management's plans.

Views of Responsible Officials and Planned Corrective Action

The District, program management team, and college project managers will implement additional procedures to ensure that all expenditures are adequately covered with approved budgets. This will also include regular comparisons between expenditures, commitments, and related budgets.

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

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

F-07-03 – Reconciliation and Review of Program Expenditures

Condition and Context

We noted that the reconciliation of Proposition A expenditures between the District and the Program Manager for the year ended June 30, 2007 was not completed until 5 months subsequent to their fiscal year end. In addition, we noted that an appropriate management review of the statements of expenditures of bond proceeds, in relation to the amounts recorded in the financial statements of the District, was not performed. As a result, the following audit adjustments were noted during our audit:

- An audit adjustment relating to the prior year in the amount of \$918,000 was incorrectly included in the statements of expenditures of bond proceeds for the fiscal year ended June 30, 2007.
- Reimbursements from the State should be separately presented in the statements of expenditures of bond proceeds as the amounts relate to prior year expenditures. The amounts reimbursed from the State relating to Proposition A is \$6.6 million for the fiscal year ended June 30, 2007.
- An audit adjustment in the amount of \$4.5 million was recorded by the District but not by the District's Program Manager.

Cause and Effect

Information presented in the financial statements was not reviewed by management prior to inclusion in the statements of expenditures of bond proceeds. As a result the expenditures were incorrectly presented.

Further, the District reconciled the financial records between their Program Manager and the District before the books were closed in August, 2007; however, the District failed to ensure that the Program Manager made the appropriate adjustments in their books in a timely manner.

Criteria

A significant deficiency in internal controls over financial reporting is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

Recommendation

We recommend that the District perform reconciliations on a timely and regular basis to ensure all of the expenditures paid directly by the District and reimbursements are appropriately included in the Program Manager's accounting records and that such amounts are consistent with those reported in the financial statements of the District.

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

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
from April 10, 2001 (inception) through June 30, 2005

Views of Responsible Officials and Planned Corrective Action

The District will develop additional year-end closing procedures to ensure that expenses are properly recorded on both the Program Manager and the District's books. Further, the District along with the program management team will implement additional procedures to strengthen the review process of all program expenditures. The teams will ensure that all reasonable steps are taken to accurately record expenditures.