



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

Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from May 20, 2003 (inception) through June 30, 2005

(With Independent Auditors' Report Thereon)

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION AA 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 AA 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 May 20, 2003 (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 Accountability Act*.

In our opinion, the statements of expenditures of bond proceeds referred to above present fairly, in all material respects, the actual expenditures of bond proceeds of the Proposition AA Bond Construction Program for the years ended June 30, 2007 and 2006 and the period from May 20, 2003 (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 AA BOND CONSTRUCTION PROGRAM**

Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from May 20, 2003 (inception) through June 30, 2005

	Budget (Unaudited)	Actual expenditures				Reimbursements from State (note 4)	Cumulative total
		Period from May 20, 2003 (inception) through June 30, 2005	Year ended June 30				
			2006	2007			
College direct costs:							
Structural and equipment costs:							
Construction (new)	\$ 354,381,246	6,973,633	16,644,118	22,389,251	(340,414)	45,666,588	
Construction (renovation)	220,477,159	5,490,263	4,169,330	10,436,795	—	20,096,388	
Temporary facilities	1,261,102	15,726	690,958	420,047	—	1,126,731	
Furniture, fixtures, and equipment	41,903,220	801,517	252,972	1,956,764	—	3,011,253	
Total structural and equipment costs	<u>618,022,727</u>	<u>13,281,139</u>	<u>21,757,378</u>	<u>35,202,857</u>	<u>(340,414)</u>	<u>69,900,960</u>	
Other costs:							
Land acquisition	103,575,794	1,114	25,386,598	4,141,798	—	29,529,510	
Building acquisition	—	19,704,402	—	—	—	19,704,402	
Total other costs	<u>103,575,794</u>	<u>19,705,516</u>	<u>25,386,598</u>	<u>4,141,798</u>	<u>—</u>	<u>49,233,912</u>	
Development and support costs:							
Master planning/EIR	2,878,043	883,372	224,763	573,594	—	1,681,729	
Predesign/programming	1,786,891	193,512	321,574	232,223	—	747,309	
Design	67,398,581	4,910,205	7,296,594	13,086,414	(198,000)	25,095,213	
Specialty consulting	18,122,507	1,602,409	1,522,934	2,032,722	(2,000)	5,156,065	
Project management	47,094,155	10,770,980	7,931,594	8,775,611	—	27,478,185	
Inspection and testing	20,823,350	382,644	321,670	1,037,729	—	1,742,043	
Construction management	—	1,607	—	—	—	1,607	
Total development and support costs	<u>158,103,527</u>	<u>18,744,729</u>	<u>17,619,129</u>	<u>25,738,293</u>	<u>(200,000)</u>	<u>61,902,151</u>	
Total college direct costs	<u>879,702,048</u>	<u>51,731,384</u>	<u>64,763,105</u>	<u>65,082,948</u>	<u>(540,414)</u>	<u>181,037,023</u>	
Program-wide costs:							
Program management	30,743,087	7,590,527	6,915,633	7,880,905	—	22,387,065	
Legal consulting fees	4,090,691	363,201	127,618	41,060	—	531,879	
Compliance and audit fees	2,620,560	81,468	85,830	141,858	—	309,156	
Bond measure election costs	443,880	1,124,162	—	—	—	1,124,162	
Rents and leases	319,805	50,000	218,850	465,627	—	734,477	
Total program-wide costs	<u>38,218,023</u>	<u>9,209,358</u>	<u>7,347,931</u>	<u>8,529,450</u>	<u>—</u>	<u>25,086,739</u>	
Debt refinancing	<u>75,100,000</u>	<u>79,851,451</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,851,451</u>	
Total college direct costs, program-wide costs, and debt refinancing	<u>993,020,071</u>	<u>\$ 140,792,193</u>	<u>72,111,036</u>	<u>73,612,398</u>	<u>(540,414)</u>	<u>285,975,213</u>	
Unallocated interest earned	11,207,565						
Unallocated budget	24,609,522						
Total	<u>\$ 1,028,837,158</u>						

See accompanying notes to statements of expenditures of bond proceeds.

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

Notes to Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
from May 20, 2003 (inception) through June 30, 2005

(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 timeline for addressing those needs within the next ten years.

The Program is intended to prepare students for jobs and four-year colleges; train nurses, police, firefighters, emergency medical personnel, improve health, safety, 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, libraries; expand educational centers in underserved communities; upgrade heating, plumbing, wiring, roofs, sewers, energy efficiency, water conservation; improve campus environmental standards, safety, lighting, fire alarms, sprinklers, intercoms, 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 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 has been prepared on the accrual basis of accounting. The State of California (the State), under Proposition 39, *Smaller Classes, Safer Schools, and Financial Accountability 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, expenditures for capital outlay and debt repayment are included in the accompanying statements of expenditures of bond proceeds.

(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 from bond proceeds.

(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 expenditures paid and/or incurred from

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
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Notes to Statements of Expenditures of Bond Proceeds

Years ended June 30, 2007 and 2006 and the period
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bond proceeds by the Los Angeles Community College District for the years ended June 30, 2007 and 2006 and the period from May 20, 2003 (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 college presidents. Interest earned which has not yet been approved for specific projects is included in unallocated interest earned.

(d) Unallocated Budget (Unaudited)

Amounts included in the unallocated budget have been earmarked for specified campus projects, but are pending final approval of detailed line-item budgets by the College presidents.

(3) Reconciliation of Bond Proceeds

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

	Total
Bonds authorized and issued	\$ 615,085,000
Bonds authorized but not yet issued	364,915,000
Total bonds authorized	980,000,000
Interest earned for the period from May 20, 2003 (inception) through June 30, 2007	18,862,478
Total bonds authorized and interest earned	998,862,478
 Proceeds from sale of property purchased with bond funds	 29,974,680
Total bonds authorized and interest earned, and proceeds from sale of property	1,028,837,158
Less expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2007	(285,975,213)
Total authorized and issued bond funds available at June 30, 2007	\$ 742,861,945

**LOS ANGELES COMMUNITY COLLEGE DISTRICT
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Notes to Statements of Expenditures of Bond Proceeds

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(4) Reimbursements from State

During the years ended June 30, 2007, the District received \$540,414 from the State 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.



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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Proposition AA 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 AA 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 May 20, 2003 (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 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 AA 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 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 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 AA BOND CONSTRUCTION PROGRAM**

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
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F-07-01 – Expenditure Accruals

Condition and Context

The District's Program Manager over the Proposition AA 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 \$1.7 million of unrecorded expenditures. These expenditures were not remitted by vendors 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 actual expenditures reported in the 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.

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PROPOSITION AA BOND CONSTRUCTION PROGRAM**

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
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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 AA 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 AA 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 AA BOND CONSTRUCTION PROGRAM**

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
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F-07-03 – Reconciliation and Review of Program Expenditures

Condition and Context

We noted that the reconciliation of Proposition AA 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.
- A vendor invoice in the amount of \$127,000 was booked twice 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 AA was approximately \$540,000 for the fiscal year ended June 30, 2007.

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 AA BOND CONSTRUCTION PROGRAM**

Schedule of Findings and Responses

Years ended June 30, 2007 and 2006 and the period
from May 20, 2003 (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.

