LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2017

(With Independent Auditors’ Report Thereon)
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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 Measure J 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 Measure J 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 Measure J Bond Construction Program. The accompanying unaudited 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, 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.

Date

(sign) KPMG LLP
LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM

Statement of Expenditures of Bond Proceeds
Year ended June 30, 2017

College direct costs:
  Structural and equipment costs:
    Construction (new) $ 90,161,416
    Construction (renovation) 29,578,636
    Temporary facilities 1,984,354
    Furniture, fixtures, and equipment 14,609,201
    Total structural and equipment costs 136,333,607

  Development and support costs:
    Master planning 56,153
    Predesign/programming 288,551
    Design 13,319,690
    Specialty consulting 2,996,392
    Project management 12,327,817
    Inspection and testing 3,715,704
    Construction management 58,599
    Reimbursable expenditures 376,551
    Total development and support costs 33,139,457

    Total college direct costs 169,473,064

Programwide costs:
  Program management 31,336,236
  Legal consulting fees 3,429,203
  Compliance and audit fees 570,845
  Rents and leases 1,522,011
  Total programwide costs 36,858,295

    Total college direct costs and programwide costs $ 206,331,359

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, 2017

(1) Program Background

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

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

The District’s board of trustees approved an award of the contract for program management (Program Manager) services to 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 Measure J Bond Construction Program totaled $19,492,584 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 November 4, 2008, the voters of the Los Angeles County (the County) passed Measure J, a $3.5 billion 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, $2.525 billion of the G.O. Bond measure has been issued.

On July 27, 2016, the District issued its $300,000,000 2008 Election G.O. Bonds, Series I with interest ranging from 2% to 4% maturing in August 2040.
On October 18, 2016, the District issued its $177,745,000 2016 G.O. Refunding Bonds with interest ranging from 2% to 5.00% maturing in August 2039. The net proceeds were used to refund $175,000,000 outstanding principal of the 2008 Election G.O. Bonds, 2010 Series C.

(4) Subsequent Events
The District has evaluated subsequent events from the date of the statement of expenditures through December XX, 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  
MEASURE J BOND CONSTRUCTION PROGRAM  
Unaudited Supplementary Schedule of Expenditures of Bond Proceeds  
Period from November 4, 2008 (inception) through June 30, 2017  
(Unaudited)

| Period from | Cumulative cumulative | 2017 Budget | June 30, 2017 | Reclassifications | Subtotal | as of | June 30, 2017 | period from |
| November 4, | expenditures of bond |  |  | | | |  | (inception) |
| (inception) | proceeds for the | | | | | |  | through |
| (inception) | through | | | | | | | June 30, 2017 |
| through | | | | | | | | June 30, 2017 |
| June 30, | | | | | | | | 2017 |

College direct costs:  
Structural and equipment costs:  
- Construction (new): $1,564,303,178, 905,487,508, —, 905,487,508, (17,770,270), 887,717,238  
- Hardscape/landscape: —, 193,527, —, 193,527, —, 193,527  
- Temporary facilities: 10,334,287, 10,486,712, —, 10,486,712, —, 10,486,712  
- Furniture, fixtures, and equipment: 172,477,896, 122,554,496, —, 122,554,496, (2,775,411), 119,779,085  

Total structural and equipment costs: 2,322,637,391, 1,516,673,202, 1,215,387, 1,517,888,589, (26,761,243), 1,491,127,346  

Other costs:  
- Land acquisition: 59,550,751, 82,543,820, —, 82,543,820, —, 82,543,820  

Development and support costs:  
- Master planning/EIR: 6,039,793, 5,810,233, —, 5,810,233, —, 5,810,233  
- Predesign/programming: 7,745,390, 6,446,560, —, 6,446,560, —, 6,446,560  
- Design: 264,636,692, 228,539,881, —, 228,539,881, (554,000), 227,985,881  
- Specialty consulting: 259,466,095, 228,539,881, —, 228,539,881, (554,000), 227,985,881  
- Project management: 200,935,269, 164,446,094, —, 164,446,094, —, 164,446,094  
- Construction management: —, 58,599, —, 58,599, —, 58,599  
- Reimbursable expenditures: 6,410,294, 5,228,462, —, 5,228,462, —, 5,228,462  

Total development and support costs: 811,440,639, 647,230,356, —, 647,230,356, (981,995), 646,248,361  

Total college direct costs: 3,193,628,781, 2,246,447,378, 1,215,387, 2,247,662,765, (27,743,238), 2,219,919,527  

Programwide costs:  
- Program management: 228,074,565, 199,967,593, —, 199,967,593, 30,249, 199,997,842  
- Legal consulting fees: 61,318,527, 36,613,924, —, 36,613,924, —, 36,613,924  
- Compliance and audit fees: 698,686, 6,582,814, —, 6,582,814, —, 6,582,814  
- Bond measure election costs: —, 966,188, —, 966,188, —, 966,188  
- Rents and leases: 56,729,758, 24,069,568, —, 24,069,568, —, 24,069,568  

Total programwide costs: 344,123,548, 268,200,087, —, 268,200,087, 30,249, 268,230,336  

Total college direct costs and programwide costs: 3,537,752,329, 2,514,647,465, 1,215,387, 2,515,862,852, (27,712,989), 2,488,149,863  

Unallocated interest earned: 23,283,852  

Total college direct costs, programwide costs, and unallocated interest earned: $3,561,036,181  

See accompanying notes to unaudited supplementary schedule of expenditures of bond proceeds.
(1) Background

The unaudited supplementary schedule of expenditures of bond proceeds presents expenditures for the period from November 4, 2008 (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 November 4, 2008 (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 and Other Non-Bond Sources

During the period from November 4, 2008 (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 Measure J bond proceeds were used to fund the projects. The reimbursements received by the District, totaling $27,712,989 for the period from November 4, 2008 (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 $1,215,387 were reclassified into Measure J from Proposition AA.
LOS ANGELES COMMUNITY COLLEGE DISTRICT
MEASURE J BOND CONSTRUCTION PROGRAM
Notes to Unaudited Supplementary Schedule of Expenditures of Bond Proceeds
Period from November 4, 2008 (inception) through June 30, 2017
(Unaudited)

(3) Reconciliation of Bond Proceeds
The following is a summary of total authorized and issued bond funds available at June 30, 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds authorized and issued</td>
<td>$2,525,000,000</td>
</tr>
<tr>
<td>Bonds authorized but not yet issued</td>
<td>975,000,000</td>
</tr>
<tr>
<td>Total bonds authorized</td>
<td>3,500,000,000</td>
</tr>
<tr>
<td>Other bond related source of funds:</td>
<td></td>
</tr>
<tr>
<td>Interest earned for the period from November 4, 2008 (inception) through 2017</td>
<td>42,721,317</td>
</tr>
<tr>
<td>Other</td>
<td>18,314,864</td>
</tr>
<tr>
<td>Total other bond-related sources of funds</td>
<td>3,561,036,181</td>
</tr>
<tr>
<td>Less expenditures of bond proceeds for the period from November 4, 2008 (inception) through June 30, 2017</td>
<td>(2,488,149,863)</td>
</tr>
<tr>
<td>Total authorized bond funds remaining at June 30, 2017</td>
<td>$1,072,886,318</td>
</tr>
</tbody>
</table>
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 Statement of Expenditures of Bond Proceeds Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the Measure J Bond Construction Program statement of expenditures of bond proceeds (statement of expenditures of bond proceeds) of the Los Angeles Community College District (the District), 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 $4.8 million of bond fund accruals related to Measure J 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 my 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