



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

PERALTA COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Peralta Community College District
Oakland, California

We have audited the accompanying financial statements of the business-type activities of the Peralta Community College District, as of and for the year ended June 30, 2003 and June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Contracted District Audit Manual* issued by the California Community College Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Peralta Community College District as of June 30, 2003 and 2002, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

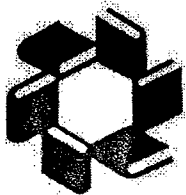
In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As a result of our tests, we noted a material weakness in internal controls with regard to the Automated Accounting System. This item is discussed in detail on page 50.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vaurinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
November 20, 2003



Peralta Community College District

333 East 8th Street • Oakland, California 94606 • (510) 466-7200

Ronald J. Temple, Ph.D.
Chancellor

This section of the Peralta Community College District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2003. This is prepared in compliance with the new reporting standards required for public colleges and universities.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the fiscal year 2002-2003, FTES was posted at 3.7 percent at 18,937, as compared to 18,266 in the fiscal year 2001-2002. Despite the reduction in total FTES generated, the District is still over the State cap on enrollment funding. FTES is generated at the District's four colleges: College of Alameda, Laney College, Merritt College, and Vista College.
- Overall revenues posted at \$99.5 million, a decline of 1.5 percent from prior year's figure of \$101.1 million.
- The District experienced a mid-year cut reduction of budget from the State Chancellor's Office. This resulted in a reduction to our General Fund appropriation of \$1.074 million.
- The District ended the fiscal year 2002-2003 with a deficit of \$2.0 million in the unrestricted General Fund leaving the general ending fund reserve level at 3.06 percent. The Board of Trustees has set a goal to maintain at least a five percent ending fund balance reserve for the General Fund.
- Medical benefits for both employees and retirees continued to increase at double digit rates. The District continues to provide retirees with lifetime medical benefits. The District has accounted for retiree benefits on a "pay-as-you-go basis." The actuarial is providing an updated liability costs and still projected to be approximately between \$130 to \$150 million. This amount represents the present value of all benefits to pay for current and future retirees. The District is currently developing strategies to obtain additional revenue streams, including setting aside dollars to cover these costs.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

- As with last year, bonds are being used to cover various District improvements to fulfill our educational missions. They include the following:
 1. Investment in our technology infrastructure Districtwide.
 2. Renovation of athletic facilities at Laney College, Merritt College, and College of Alameda.
 3. Landscape improvements at Merritt College.
 4. Renovation of student services building at Laney College and College of Alameda.
 5. Improvements in laboratories and power supplies Districtwide.
 6. Cabling and power upgrade for technology.
 7. Renovation of student services center/cafeteria at Merritt College.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), three basic financial statements that provide information on the District's activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows, and Supplementary Information.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the District. This statement combines and consolidates current financial resources (net short-term spendable resources) with capital assets and long-term obligations. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities, which are supported mainly by property taxes and by State and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to students and the public.

The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The financial statements also include Notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year.

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed financial information is as follows:

**NET ASSETS
As of June 30,**

(Amounts in thousands)

	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets		
Cash and short term receivables	\$ 116,315	\$ 105,546
Inventory and other assets	870	888
Total Current Assets	<u>117,185</u>	<u>106,434</u>
Noncurrent Assets		
Capital assets (net of depreciation)	126,706	105,342
Total Assets	<u>\$ 243,891</u>	<u>\$ 211,776</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	10,641	10,377
Deferred revenue	2,246	2,178
Amounts held in trust for others	1,136	1,036
Current portion of long-term debt	31,087	2,273
Total Current Liabilities	<u>45,110</u>	<u>15,864</u>
Long-term Debt	<u>111,492</u>	<u>113,069</u>
Total Liabilities	<u>156,602</u>	<u>128,933</u>
NET ASSETS		
Invested in capital assets	46,536	22,792
Restricted for dependable sources	35,659	49,957
Unrestricted	5,094	10,094
Total Net Assets	<u>87,289</u>	<u>82,843</u>
Total Liabilities and Net Assets	<u>\$ 243,891</u>	<u>\$ 211,776</u>

This schedule has been prepared from the District's Statement of Net Assets (page 10) which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Cash and short-term receivables consist primarily of funds held in the Alameda County Treasury. The changes in the cash position are explained in the Statement of Cash Flows (page 12).

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

Many of the unrestricted net assets have been designated by the Board or by contracts for such purposes as Federal and State grants, outstanding commitments on contracts, bookstore reserves, and general reserves for the ongoing financial health of the District.

Operating Results for the Year Ended June 30,

(Amounts in thousands)

	2003	2002
Operating Revenues		
Tuition and fees	\$ 6,901	\$ 7,412
Grants and contracts	29,390	36,873
Total Operating Revenues	<u>36,291</u>	<u>44,285</u>
Operating Expenses		
Salaries and benefits	82,774	79,163
Supplies and maintenance	31,343	34,941
Depreciation	1,528	3,532
Total Operating Expenses	<u>115,645</u>	<u>117,636</u>
Loss on Operations	<u>(79,354)</u>	<u>(73,351)</u>
Nonoperating Revenues and (Expenses)		
State apportionments	40,783	35,361
Property taxes	39,041	36,931
State revenues	2,669	2,648
Interest income	3,352	3,005
Interest expense	(5,774)	(5,155)
Other nonoperating revenues and transfers	2,586	2,283
Total Nonoperating Revenues	<u>82,657</u>	<u>75,073</u>
Other Revenues		
Federal, State, and local capital income	1,143	4,488
Total Other Revenues	<u>1,143</u>	<u>4,488</u>
Net Increase in Net Assets	<u>\$ 4,446</u>	<u>\$ 6,210</u>

This schedule has been prepared from the Statement of Revenues, Expenses, and Changes in Net Assets presented on page 11.

Grant and contract revenues relate to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs.

The interest income is primarily the result of cash held at the Alameda County Treasury which was offset by the interest expense. The interest expense relates to interest on short-term loans and notes payable.

The District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 4.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Statement of Cash Flows for the Year Ended June 30,

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

(Amounts in thousands)

	2003	2002
Cash Provided by (used in)		
Operating activities	\$ (78,441)	\$ (70,075)
Noncapital financing activities	116,886	83,284
Capital financing activities	(28,570)	(18,663)
Investing activities	3,743	31,094
Net Increase in Cash	13,618	25,640
Cash, Beginning of Year	100,115	74,475
Cash, End of Year	<u>\$ 113,733</u>	<u>\$ 100,115</u>

The primary operating receipts are student tuition and fees and Federal, State, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

While State apportionment and property taxes are the primary source of noncapital related revenue, the new GASB accounting standards require that this source of revenue is shown as nonoperating revenue as it comes from the general resources of the State and not from the primary users of the colleges' programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget as it attempts to deal with unexpected changes in revenues and expenditures.

While the District's final budget for the General Fund anticipated that revenues and expenditures would be roughly equal, the actual results for the year showed a deficit of \$2.0 million.

- Actual revenues went up by \$.925 million as compared to the budget due to increase in the property tax and other State aid.
- The actual expenditures have skyrocketed by \$4.3 million due to increase in the academic salaries and operating expenses such as fuel and electricity costs. The increase in academic salaries was due to payment of State mandated parity pay amounting to \$1.7 million.
- During the fiscal year 2002-2003, the District restored its employer's contribution to Public Employees Retirement System (PERS) of 2.89 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

- Increase in enrollment fees from \$11.00 per unit to \$18.00, effective the 2003 Fall semester, will cause a decline in the student enrollment.

ECONOMIC FACTORS AFFECTING THE FUTURE OF PERALTA COMMUNITY COLLEGE DISTRICT

- The economic position of Peralta Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 58 percent of the total sources of revenues received by the District. The District continues to increase in student enrollment; however, there is uncertainty as to the final level of funding to the District. With the current budget situation, the District continues to cut its class offerings and anticipates a decrease in student enrollment in the subsequent year.
- Overall funding of community colleges is reduced by 1.7 percent from 2002-2003 funding level of about \$86.8 million which, for the District, means a revenue decline of \$3.9 million or a four percent decline.
- Due to the current State Budget deficit, coupled with escalating costs on various categories, the Board of Trustees' goal to maintain a five percent General Fund reserve level may not be achieved.
- The District's contracts with the three unions, Peralta Federation of Teachers, Local 39, and Local 790 expired on June 30, 2003. Negotiations are still going on, and the financial impact to the District of these negotiations is still unknown.
- For the fiscal year 2003-2004, the District's contribution to PERS will be 10.42 percent compared to 2.89 percent of prior year.
- Medical costs are expected to continuously escalate as we have received notices from both Blue Cross and Kaiser Permanente's health administrators.
- Due to budget cuts, projected base for FTES for the coming year is at 16,759, and the District will make every resource available to make base given the scarce resources coming from the State.
- The proposed deferral from the State of \$150 million in general apportionment and \$50 million in Partnership for Excellence funds will mean no apportionment of about \$5.9 million will be received by the District during the coming months in May and June. This is a serious cash flow position considering that the ending fund balance for unrestricted General Funds is down to \$2.7 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need any additional financial information, contact the District at: Peralta Community College District, 333 East Eight Street, Oakland, California 94606.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30,**

	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,639,338	\$ 4,803,460
Investments	110,094,138	95,311,218
Accounts receivable	2,397,310	5,284,159
Student loans receivable, net	184,712	147,277
Prepaid expenses	539,844	498,885
Stores inventory	330,387	294,339
Other current assets	-	94,813
Total Current Assets	<u>117,185,729</u>	<u>106,434,151</u>
Noncurrent Assets:		
Capital assets, net of depreciation	126,705,654	105,342,071
Total Noncurrent Assets	<u>126,705,654</u>	<u>105,342,071</u>
TOTAL ASSETS	<u>\$ 243,891,383</u>	<u>\$ 211,776,222</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	8,296,254	8,596,814
Accrued interest payable	2,345,021	1,780,152
Current loans	28,500,000	-
Deferred revenue	2,245,672	2,177,822
Amounts held in trust on behalf of others	1,136,414	1,036,351
Compensated absences payable - current portion	287,000	698,052
Bonds payable - current portion	2,300,000	1,575,000
Total Current Liabilities	<u>45,110,361</u>	<u>15,864,191</u>
Noncurrent Liabilities:		
Compensated absences payable - noncurrent portion	2,646,935	2,094,157
Bond payable - noncurrent portion	108,845,000	110,975,000
Total Noncurrent Liabilities	<u>111,491,935</u>	<u>113,069,157</u>
TOTAL LIABILITIES	<u>156,602,296</u>	<u>128,933,348</u>
NET ASSETS		
Invested in capital assets, net of related debt	46,535,661	22,792,071
Restricted for:		
Debt service	5,979,261	1,634,070
Capital projects	29,679,929	48,322,350
Unrestricted	5,094,236	10,094,383
Total Net Assets	<u>87,289,087</u>	<u>82,842,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 243,891,383</u>	<u>\$ 211,776,222</u>

The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,**

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Tuition and Fees	\$ 9,073,835	\$ 9,291,467
Less: Scholarship discount and allowance	<u>(2,172,503)</u>	<u>(1,879,172)</u>
Net tuition and fees	<u>6,901,332</u>	<u>7,412,295</u>
Grants and Contracts, noncapital:		
Federal	15,968,195	14,548,109
State	<u>13,421,977</u>	<u>22,324,644</u>
TOTAL OPERATING REVENUES	<u>36,291,504</u>	<u>44,285,048</u>
OPERATING EXPENSES		
Salaries	65,163,243	65,554,676
Employee benefits	17,611,023	13,609,171
Supplies, materials, and other operating expenses and services	31,294,516	34,854,495
Equipment, maintenance, and repairs	48,103	86,245
Depreciation	<u>1,528,613</u>	<u>3,531,642</u>
TOTAL OPERATING EXPENSES	<u>115,645,498</u>	<u>117,636,229</u>
OPERATING LOSS	<u>(79,353,994)</u>	<u>(73,351,181)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	40,782,900	35,361,011
Local property taxes	39,040,777	36,930,928
State taxes and other revenues	2,668,612	2,648,038
Investment income, net	3,251,196	1,243,510
Interest expense on capital related debt	(5,773,842)	(5,155,193)
Interest income on capital asset-related debt, net	101,531	1,761,656
Transfer from agency fund	(96,166)	-
Transfer to agency fund	6,634	-
Other nonoperating revenue	<u>2,675,815</u>	<u>2,282,843</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>82,657,457</u>	<u>75,072,793</u>
INCOME BEFORE OTHER REVENUES	<u>3,303,463</u>	<u>1,721,612</u>
State revenues, capital	987,079	4,488,572
Local revenues, capital	<u>155,671</u>	<u>-</u>
TOTAL OTHER REVENUES	<u>1,142,750</u>	<u>4,488,572</u>
NET INCREASE IN NET ASSETS	4,446,213	6,210,184
NET ASSETS, BEGINNING OF YEAR	<u>82,842,874</u>	<u>76,632,690</u>
NET ASSETS, END OF YEAR	<u>\$ 87,289,087</u>	<u>\$ 82,842,874</u>

The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS – DIRECT METHOD
FOR THE YEAR ENDED JUNE 30,**

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 7,357,317	\$ 7,293,300
Federal grants and contracts	16,170,578	16,633,282
State grants and contracts	13,060,565	15,095,214
Payments to/(on behalf of) employees	(82,016,053)	(80,067,639)
Payments to vendors and suppliers	(33,208,656)	(32,341,526)
Collection of loans to students	94,813	-
Other receipts	100,063	3,311,890
Net Cash Used by Operating Activities	<u>(78,441,373)</u>	<u>(70,075,479)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	43,563,909	35,794,762
Property taxes	39,040,777	36,930,928
Other State revenues	2,871,363	8,137,017
Proceeds from Bond Anticipation Note	28,700,000	-
Other local revenues	2,710,600	2,421,649
Net Cash Provided by Noncapital Financing Activities	<u>116,886,649</u>	<u>83,284,356</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital apportionments	987,079	7,033,892
Local capital grants	155,671	-
Proceeds from capital debt	280,000	-
Acquisition and construction of capital assets	(23,200,438)	(15,953,517)
Principal paid on capital debt and leases	(1,685,000)	(8,130,000)
Interest received on capital debt	101,531	1,761,656
Interest paid on capital debt and leases	(5,208,973)	(3,375,041)
Net Cash Used by Capital and Related Financing Activities	<u>(28,570,130)</u>	<u>(18,663,010)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	30,000,000
Interest paid on investments	-	(273,055)
Investment income	3,743,652	1,367,545
Net Cash Provided by Investing Activities	<u>3,743,652</u>	<u>31,094,490</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,618,798	25,640,357
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>100,114,678</u>	<u>74,474,321</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 113,733,476</u>	<u>\$ 100,114,678</u>

The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS – DIRECT METHOD, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTUALS		
Operating loss	<u>\$ (79,353,994)</u>	<u>\$ (73,351,181)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,528,613	3,531,642
Miscellaneous nonoperating income	-	1,904,522
Changes in assets and liabilities:		
Receivables, net	2,849,414	119,549
Inventories	(36,048)	11,521
Prepaid items	(40,959)	(241,539)
Notes receivables, net	94,813	212,257
Accounts payable and accrued liabilities	264,309	(4,265,485)
Deferred revenue	67,850	1,867,581
Funds held for others	100,063	-
Compensated absences	(411,052)	135,654
Total Adjustments	<u>4,417,003</u>	<u>3,275,702</u>
Net Cash Used By Operating Activities	<u><u>\$ (74,936,991)</u></u>	<u><u>\$ (70,075,479)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 3,639,338	\$ 4,803,460
Cash in county treasury	110,094,138	95,311,218
Total Cash and Cash Equivalents	<u><u>\$ 113,733,476</u></u>	<u><u>\$ 100,114,678</u></u>

The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Peralta Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the County of Alameda (County). The District consists of four college campuses located in the cities of Alameda, Oakland, and Berkley, California. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District operates under a locally elected seven-member Board of Trustees and a two-student Trustees form of government.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Peralta Community College District, this includes general operations, food services, bookstores, and student related activities of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt, or the levying of their taxes. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools - The District is associated with four joint powers agencies (JPAs). These organizations do not meet the criteria for inclusion as component units of the District. Summarized financial information is presented in Note 14 to the financial statements. The JPAs are the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), the Southern California Risk Management Association (SCRMA), and the Alameda County Schools Insurance Group (ACSIG).

C. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November 1999, respectively. These statements provide a comprehensive entity-wide perspective of the District's assets, liabilities, and cash flows and replaces the fund-group perspective previously required. The District now follows the "business-type" activities reporting requirements of the statements that provides a comprehensive "one-look" at the District's financial activities.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

D. Basis of Accounting - Measurement Focus

Entity-Wide Financial Statements - The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

Exceptions to the accrual basis of accounting are as follows:

Summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominately conducted. Summer session expenditures through June 30 are recorded as current expenses.

The entity-wide financial statement of activities presents a comparison between operating revenues and operating expenses of the District. Revenues and expenses that are not classified as operating revenues or expenses are presented as nonoperating revenues and expenses. Nonoperating revenues and expenses include State apportionments, property taxes, interest and investment income, or expenses as these sources and uses of funds are derived from the general population and not from operations.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Revenues - Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations. Revenue from State apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

Deferred Revenue - Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Certain Federal and State grants received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. Allocations of costs, such as depreciation and amortization, are recognized in the entity-wide financial statements although they are not allocated in individual funds within the District's financial records.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

E. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

F. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Investments for which there are no quoted market prices are not material.

G. Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, State, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis.

H. Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30.

I. Inventory

Inventory consists primarily of supplies held for consumption within the operations of the four campuses. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

J. Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

When purchased, such assets are recorded as expenditures in the District's governmental funds and capitalized within the entity-wide financial statements. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated cost based on replacement cost or appraised value (assessed value at July 1, 2002). Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 20 to 40 years; equipment, 5 to 20 years.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

K. Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees who have accumulated the leave are paid. The noncurrent portion of the liability is monitored but not recorded within the governmental funds.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

M. Net Assets

GASB Statements No. 34 and No. 35 reports equity as "Net Assets" rather than "Fund Balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations.

Invested in capital assets, net of related debt – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Restricted net assets – Restricted expendable net assets include resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

N. Operating Revenues and Expenses

Operating revenues include all revenues from programmatic sources. Nonoperating revenues include State apportionments, State and local tax revenues, investment income, and gifts.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

Classification of Revenues – The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, State and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as State appropriations and investment income.

Operating expenses are necessary costs to provide the services of the District. Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

O. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Alameda bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Q. Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations," and the related *Compliance Supplement*. During the year ended June 30, 2003, the District distributed \$1,073,493 in direct lending through the U.S. Department of Education. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

R. Reclassifications

Certain reclassifications were made to prior years' presentations to conform to current year.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer. In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000. *California Government Code* Sections 16520-16522 require California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits.

Under provision of the District's investment policy, and in accordance with Sections 53601 and 53602 of the *California Government Code*, the District may also make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

B. Deposits

The carrying amounts of the District's deposits were \$3,639,338 and \$4,803,460 for the years ended June 30, 2003 and 2002, respectively. The bank balances totaled \$3,473,209 and \$4,591,630, respectively. Of these balances, the amounts covered by the Federal Deposit Insurance Corporation were \$500,000 and \$428,285, respectively. The balances of \$2,973,209 and \$4,163,345 were covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, Risk Category 3).

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the county treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with the county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county.

The investments at June 30, 2003, are as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	<u>\$ 110,094,138</u>	<u>\$ 110,094,138</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

NOTE 3 - ACCOUNTS RECEIVABLES

Receivables at June 30, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

2003

Federal Government	
Categorical aid	\$ 544,834
State Government	
Apportionment	36,887
Categorical aid	372,719
Lottery	250,810
Other State sources	530,031
Local Government	
Personnel receivables	120,814
Other local sources	541,215
Total	<u>\$ 2,397,310</u>
Student receivables	204,712
Less allowance for bad debt	(20,000)
Student receivables, net	<u>\$ 184,712</u>

2002

Federal Government	
Categorical aid	\$ 894,368
State Government	
Apportionment	2,119,692
Categorical aid	293,178
Lottery	473,185
Other State sources	510,407
Local Government	
Interest	492,456
Personnel receivables	83,975
Other local sources	416,898
Total	<u>\$ 5,284,159</u>
Student receivables	257,277
Less allowance for bad debt	(110,000)
Student receivables, net	<u>\$ 147,277</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 4,553,284	\$ -	\$ -	\$ 4,553,284
Construction in progress	13,964,068	20,701,098	12,005,544	22,659,622
Total Capital Assets Not Being Depreciated	18,517,352	20,701,098	12,005,544	27,212,906
Capital Assets Being Depreciated				
Buildings	139,223,506	--	-	139,223,506
Site improvements	1,635,670	12,005,544	-	13,641,214
Machinery and equipment	13,499,125	2,191,098	-	15,690,223
Total Capital Assets Being Depreciated	154,358,301	14,196,642	-	168,554,943
Total Capital Assets	172,875,653	34,897,740	12,005,544	195,767,849
Less Accumulated Depreciation				
Buildings	58,427,258	48,365	-	58,475,623
Site improvements	1,605,770	300,983	-	1,906,753
Machinery and equipment	7,500,554	1,179,265	-	8,679,819
Total Accumulated Depreciation	67,533,582	1,528,613	-	69,062,195
Net Capital Assets	\$ 105,342,071	\$33,369,127	\$12,005,544	\$ 126,705,654

Depreciation expenses were \$1,528,613 and \$3,531,642 for the years ended June 30, 2003 and 2002, respectively.

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts owed between funds as a result of the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions recorded in the accounting system, and (3) payments between funds occur. These interfund transactions have been eliminated through consolidation within the entity-wide financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

B. Operating Transfers

Operating transfers between District governmental funds are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity-wide financial statements.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, consisted of the following:

2003

Accrued payroll		\$ 1,351,088
Apportionment		177,990
Construction		3,704,304
Other		3,062,872
	Total	<u>\$ 8,296,254</u>

2002

Accrued payroll		\$ 734,601
Apportionment		876,194
Construction		2,588,397
Other		4,397,622
	Total	<u>\$ 8,596,814</u>

NOTE 7 - CURRENT LOANS

The District issued \$28,500,000 in Bond Anticipation Notes on March 5, 2003. The notes were sold to provide funding for capital projects in anticipation of a future sale of general obligation bonds. The notes mature on March 4, 2004, and yield 1.09 percent interest. The cash received is held in the county treasury and has been accounted for in the Capital Outlay Projects Fund.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, consisted of the following:

2003

Federal categorical aid	\$ 170,507
State categorical aid	1,182,345
Enrollment fees	793,723
Other local	99,097
Total	<u>\$ 2,245,672</u>

2002

State categorical aid	\$ 23,356
Other State	1,464,216
Enrollment fees	300,303
Other local	389,947
Total	<u>\$ 2,177,822</u>

NOTE 9 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Beginning Balance	Additions Adjustments	Deductions	Ending Balance	Due in One Year
Bonds Payable					
General obligation bonds - 1992 Election	\$ 47,050,000	\$ 280,000	\$1,390,000	\$ 45,940,000	\$1,515,000
General obligation bonds - 1996 Election	8,000,000	-	120,000	7,880,000	190,000
General obligation bonds - 2000 Election	57,500,000	-	175,000	57,325,000	595,000
Total Bonds Payable	<u>112,550,000</u>	<u>280,000</u>	<u>1,685,000</u>	<u>111,145,000</u>	<u>2,300,000</u>
Other Liabilities					
Compensated absences	2,792,209	141,726	-	2,933,935	287,000
Total Long-term Liabilities	<u>\$115,342,209</u>	<u>\$ 421,726</u>	<u>\$1,685,000</u>	<u>\$114,078,935</u>	<u>\$2,587,000</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

B. Description of Debt

The general obligation bonds have been issued in accordance with voter-approved elections held in 1992, 1996, and 2000. The bonds have been issued to fund various capital improvements throughout the District. The bonds are repaid through tax assessments on property located within the District boundaries.

C. General Obligation Bond – 1992 Election

The 1992 general obligation bonds mature through 2026 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,515,000	\$ 2,177,021	\$ 3,692,021
2005	1,595,000	2,100,375	3,695,375
2006	1,665,000	2,026,528	3,691,528
2007	1,740,000	1,954,146	3,694,146
2008	1,830,000	1,879,215	3,709,215
2009-2013	10,520,000	8,099,245	18,619,245
2014-2018	13,225,000	5,381,338	18,606,338
2019-2023	9,790,000	2,325,135	12,115,135
2024-2026	4,060,000	275,839	4,335,839
Total	<u>\$ 45,940,000</u>	<u>\$ 26,218,842</u>	<u>\$ 72,158,842</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

D. General Obligation Bond – 1996 Election

The 1996 general obligation bonds mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 190,000	\$ 396,957	\$ 586,957
2005	210,000	383,843	593,843
2006	220,000	372,557	592,557
2007	235,000	360,612	595,612
2008	245,000	348,013	593,013
2009-2013	1,365,000	1,539,968	2,904,968
2014-2018	1,695,000	1,159,657	2,854,657
2019-2023	2,155,000	680,906	2,835,906
2024-2026	1,565,000	123,128	1,688,128
Total	<u>\$ 7,880,000</u>	<u>\$ 5,365,641</u>	<u>\$ 13,245,641</u>

E. General Obligation Bond – 2000 Election

The 2000 general obligation bonds mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 595,000	\$ 2,985,470	\$ 3,580,470
2005	910,000	2,930,032	3,840,032
2006	970,000	2,861,996	3,831,996
2007	1,030,000	2,789,607	3,819,607
2008	1,095,000	2,712,670	3,807,670
2009-2013	6,585,000	12,387,139	18,972,139
2014-2018	8,160,000	10,620,242	18,780,242
2019-2023	10,185,000	8,394,615	18,579,615
2024-2028	13,000,000	5,507,419	18,507,419
2029-2033	14,795,000	1,806,500	16,601,500
Total	<u>\$ 57,325,000</u>	<u>\$ 52,995,690</u>	<u>\$110,320,690</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirement for employees participating in PERS is a minimum age of 50 and a minimum ten years of continuous service with the District. Additional age and service criteria may be required. The eligibility requirement for employees participating in STRS is a minimum age of 55 with five years of service, or age 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from five years to ten years and varies by employee class. The District recognizes expenditures for these postemployment health benefits on a pay-as-you-go-basis. An actuarial report obtained by the District noted the future cost of this benefit will be in excess of \$150 million.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with the Alliance of Schools for Cooperative Insurance Programs (ASCIP) Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2003, the District participated in the Southern California Risk Management Association (SCRMA) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to community college districts that can meet the JPA's selection criteria.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

C. Employee Medical Benefits

The District has contracted with the Alameda County Schools Insurance Group (ACSIG) Joint Powers Authority (JPA) to provide employee medical and surgical benefits. The JPA is a shared risk pool comprised of schools in Alameda County. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

A. STRS

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRS), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

The STRS, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRS the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CD Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$2,451,263, \$2,238,420, and \$2,148,517, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

B. CalPERS

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that act as a common investment and administrative agent for participating public entities within the State of California. The Peralta Community College District is part of a "cost-sharing" pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2002-2003 was 2.894 percent beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771 percent beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42 percent beginning with the first pay period that ends in July 2003.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2003, 2002, and 2001, were \$530,685, \$0, and \$0, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25 percent investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75 percent annually; and (c) an inflation component of 3.5 percent compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

C. On Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS which amounted to \$1,329,091 (4.475 percent of salaries subject to STRS) and \$17,183 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the California Community College's Annual Financial and Budget Report (CCFS-311). These amounts also have not been recorded in these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

C. Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
CAPITAL PROJECTS		
Schedule Maintenance	\$ 1,924,256	05/01/04
Hazardous Substance	195,688	12/01/05
New Vista Facility	4,102,628	09/01/05
Measure B Projects	2,100,000	06/01/04
Measure B Projects	1,361,879	08/01/03
Measure E Projects	47,789,667	09/01/05
	<u>\$ 57,474,118</u>	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), the Southern California Risk Management Association (SCRMA), and the Alameda County Schools Insurance Group (ACSIG) Joint Powers Authorities (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPAs is such that they are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

The JPAs reported no long-term debt outstanding at June 30, 2003. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

Current year audited financial information was not available.

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2002, the District issued \$6,695,000 of Tax and Revenue Anticipation Notes bearing interest at 3.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2003. By April 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$7,560,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 30, 2004, and yield .80 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 2004 until 100 percent of principal and interest due is on account in April 2004.

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2003

Peralta Community College District was established in 1963 by the electorates of six Alameda County school districts: Alameda, Albany, Berkeley, Emeryville, Oakland, and Piedmont. The District consists of the following two-year community colleges: College of Alameda, Laney College, Merritt College, and Vista College.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. William Riley	President	2006
Ms. Amey Stone	Vice President	2004
Mr. Lynn Baranco	Member	2004
Ms. Alona Clifton	Member	2006
Ms. Susan Duncan	Member	2004
Ms. Linda Handy	Member	2006
Mr. Darryl Moore	Member	2004
Mr. William Chapple	Student Trustee	2004
Ms. Lana Spencer	Student Trustee	2004

ADMINISTRATION

Dr. Elihu Harris	Chancellor
Dr. Charles Taylor	Senior Vice Chancellor, Administration and Chief Operations Officer
Ms. Judy Walters	Senior Vice Chancellor, Educational Services
Dr. Cecilia Cervantes	President, College of Alameda
Dr. John Garmon	President, Vista College
Dr. Evelyn Wesley	President, Merritt College
Dr. Deborah Blue	President, Laney College
Vacant	Associate Vice Chancellor, Budget and Finance
Ms. Yvonne Dorrrough	Assistant Vice Chancellor, Budget and Finance
Vacant	Interim Director, Internal Audit

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS:	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Aid Cluster [1]			
Pell Grants	84.063	[2]	\$ 11,880,117
Pell Administration	84.063	[2]	48,057
Federal Supplemental Education Opportunity Grants	84.007	[2]	916,175
Federal Work Study Program	84.033	[2]	705,852
Federal Work Study Administrative Allowance	84.033	[2]	60,130
Federal Loan Program			
Alameda College	84.032	[2]	51,312
Laney College	84.032	[2]	141,604
Vista College	84.032	[2]	880,577
Gear Up - I Have a Dream	84.334	10088	210,329
Passed through State Department of Education:			
FIPSE	84.116	[2]	7,341
Vocational and Applied Technology Education Act			
Title II-C [1]	84.048	3577	856,335
Technical Preparation [1]	84.243	3929	324,296
Passed through the State Chancellor's Office:			
Bringing the Outsiders	84.048	[2]	3,576
Passed through State of California Governor's EDD:			
School to Career Partnership Program	84.278	[2]	13,461
TOTAL DEPARTMENT OF EDUCATION			<u>16,099,162</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State Department of Education:			
Child Care Food Program	10.558	[2]	<u>74,720</u>
U.S. DEPARTMENT OF LABOR			
Passed through the Oakland Private Industry Council:			
Welfare to Work Program	17.253	[2]	6,985
Passed through the City of Alameda:			
Alameda One Stop Career	17.257	[2]	186
Alameda One Stop Career WIA Title I	17.257	[2]	195,867
TOTAL U.S. DEPARTMENT OF LABOR			<u>203,038</u>
U.S. DEPARTMENT OF COMMERCE			
Independent Living Program - CCC Foundation	11.449	[2]	<u>7,924</u>
NATIONAL SCIENCE FOUNDATION			
NSF - Biological Science	47.076	[2]	<u>199,340</u>
SMALL BUSINESS ADMINISTRATION			
Trade Commission	59.037	[2]	<u>16,234</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance for Needy Families	93.558	[2]	269,479
Retired and Senior Volunteer Program	94.002	[2]	132,578
Passed through Yosemite Community College District:			
Child Care and Development Quality Improvement Funds	93.575	[2]	<u>10,021</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>412,078</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 17,012,496</u></u>

[1] Tested as a major program.

[2] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Cooperative Agencies Resources for Education	\$ 445,382	\$ -	\$ 445,382
Disabled Students Programs and Services	1,993,679	36,663	2,030,342
Extended Opportunity Program and Services	2,321,180	-	2,321,180
Extended Opportunity Program Grants	121,620	(1,490)	120,130
Matriculation - Credit	1,002,149	-	1,002,149
Matriculation - Non-Credit	5,399	-	5,399
Workability	124,612	-	124,612
Child Care	1,200,275	-	1,200,275
Economic Development			
Nursing Program	119,402	-	119,402
Center for Interstate Trade	294,875	-	294,875
Regional Workforce	-	-	-
Small Business Development Center	286,506	-	286,506
Calworks	1,330,802	559,627	1,890,429
California Articulation Number System	20,000	2,682	22,682
Industry Driven	-	6,332	6,332
Fund for Student	17,616	-	17,616
Telecommunications/Technology Infrastructure	303,307	360,738	664,045
Staff Development	20,723	42,651	63,374
Instructional Equipment	286,226	272,121	558,347
Department of Rehabilitation	153,647	-	153,647
Advanced Transportation	15,000	-	15,000
Cal Grant B/C	1,240,674	2,316	1,242,990
CC Paraprofessional	1,500	-	1,500
Foster Care	85,865	5,392	91,257
Industry Driven	-	10,000	10,000
Integrated Waste Management	-	2,638	2,638
Lottery	302,530	-	302,530
Child Care	-	-	-
Total			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
\$ 460,999	\$ -	\$ 62,510	\$ 398,489	\$ 398,489
2,032,959	-	-	2,032,959	2,007,811
2,356,156	-	346,890	2,009,266	1,996,490
120,130	-	-	120,130	120,130
1,150,855	-	225,779	925,076	927,565
8,479	-	5,399	3,080	-
7,717	8,421	-	16,138	16,138
1,200,275	-	-	1,200,275	1,200,275
59,701	23,860	-	83,561	83,561
293,614	7,624	55,923	245,315	242,399
(18,441)	-	-	(18,441)	-
132,027	-	35,822	96,205	96,205
1,890,429	-	319,315	1,571,114	1,570,451
22,682	-	2,363	20,319	20,056
6,332	-	-	6,332	6,332
17,616	-	-	17,616	17,456
664,045	-	68,611	595,434	539,376
63,374	-	-	63,374	60,109
432,856	-	-	432,856	432,856
135,988	16,582	-	152,570	152,570
14,727	-	-	14,727	14,727
1,242,991	-	50,848	1,192,143	1,192,143
1,500	-	146	1,354	1,354
40,665	45,591	-	86,256	86,256
10,000	-	8,739	1,261	1,261
2,638	-	-	2,638	2,638
32,427	270,100	-	302,527	302,527
14,972	541	-	15,513	15,513
<u>\$ 12,397,713</u>	<u>\$ 372,719</u>	<u>\$ 1,182,345</u>	<u>\$ 11,588,087</u>	<u>\$ 11,504,688</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE APPORTIONMENT
ANNUALIZED ATTENDANCE AND ANNUAL APPRENTICESHIP HOURS
OF INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2003**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. <u>Credit Full-Time Equivalent Student (FTES)</u>			
1. Summer	1,997	-	1,997
2. Weekly census	14,827	-	14,827
3. Daily census	803	-	803
4. Actual hours of attendance	590	-	590
5. Independent study/work experience	490	-	490
Subtotal	18,707	-	18,707
B. <u>Noncredit FTES</u>			
1. Summer	23	-	23
2. Actual hours of attendance	255	-	255
Subtotal	278	-	278
Total FTES	18,985	-	18,985
C. <u>Basic Skills Courses</u>			
Credit			1,345
D. <u>FTES Generated in Leased Space</u>			
			1,119
E. <u>Gross Square Footage</u>			
Existing facilities			1,307,643

Schedule of Annual Apprenticeship Hours of Instruction

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
July 1 - December 31, 2002	7,651	-	7,651
January 1 - April 15, 2003	-	-	-
April 16 - June 30, 2003	9,029	-	9,029
Total	16,680	-	16,680

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements.

	<u>Capital Projects</u>
FUND BALANCE	
Balance, June 30, 2003, (CCFS-311)	\$ 61,362,579
Increase in:	
Accounts payable	<u>(707,643)</u>
Balance, June 30, 2003, Audited Financial Statement	<u>\$ 60,654,936</u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2003

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

B. Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

C. Schedule of Workload Measures for Program-Based Funding

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the audited financial statements.

INDEPENDENT AUDITORS' REPORTS



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Peralta Community College District
Oakland, California

We have audited the basic financial statements of Peralta Community College District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Peralta Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Peralta Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Peralta Community College District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2003-1 through 2003-22.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, a certain item is identified as a material weakness in the findings and questioned costs section of this report as item 2003-1.

This report is intended for the information of the Governing Board, District Management, the California State Chancellor's Office, and District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Waurinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
November 20, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Peralta Community College District
Oakland, California

Compliance

We have audited the compliance of Peralta Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2003. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Peralta Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as item 2003-23.

Internal Control Over Compliance

The management of Peralta Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Peralta Community College District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Governing Board, Management, the California State Chancellor's Office, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wawinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
November 20, 2003



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Peralta Community College District
Oakland, California

We have audited the financial statements of the Peralta Community College District for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted Audit Manual (CDAM)*.

General Directives

MIS Implementation - Required Data Elements

Compliance Requirement

Each district shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

- Credit Full-Time Equivalent Student (FTES) is weekly census, daily census, actual hour of attendance, and apprenticeship courses.
- Noncredit FTES in actual hours of attendance courses.
- Credit Student Headcount Data.
- Gross square footage and FTES growth in leased facilities.

Administrative

Fiscal Operations - Salaries of Classroom Instructors (50 Percent Law)

Compliance Requirement

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with Section 84362 of the *California Education Code*.

Fiscal Operation - Gann Limit Calculation

Compliance Requirement

Each district shall calculate and adopt an appropriation limit annually in a public meeting. The calculation and adoption shall be verified by certified public accountants as part of the annual audit of financial statements.

Apportionments - Students Actively Enrolled

Compliance Requirement

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

Apportionments - Enrollment Fees

Compliance Requirement

Community colleges are required to report the total amount students should have paid for enrollment fees for the purpose of determining each district's share of apportionment revenue.

Apportionment - Instructional Service Agreements/Contracts

Compliance Requirement

Community colleges may claim FTES for classes given at a contractor's site and use the contractor's employees as instructors for the classes if the following requirements are met:

- Programs must be approved by the State Chancellor's Office and courses must be part of those approved programs, or the District must have received delegated authority to separately approve those courses.
- Courses must be open to the general public.
- Students must be under the immediate supervision of a District employee.
- The District employee must possess valid credentials or meet the minimum qualifications required for the assignment.

Apportionment – Residency Determination for Credit Classes

Compliance Requirement

District internal fiscal controls should ensure that State apportionment for credit course is only claimed for student attendance allowed by statute and regulation. Student residence at the time of registration is a major factor for allowing Districts to claim State apportionment for credit courses.

Apportionment – Concurrent Enrollment of K-12 Students in Community College Courses

Compliance Requirement

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with all related California Education Code sections.

Open Enrollment

Compliance Requirement

Community colleges shall comply with Title 5 provisions of the *California Code of Regulations* related to open enrollment by the general public for all courses being submitted for State apportionment funding.

Student Services

Uses of Matriculation Funds

Compliance Requirement

The District is required to use local funds to support at least 75 percent of the matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and locally funded portions, must be consistent with the District's State-approved matriculation plan and identifiable as matriculation related activities as authorized by the Seymour-Campbell Matriculation Act of 1986.

Special Programs

Extended Opportunity Programs and Services - (EOP&S) - Allocation of Costs

Compliance Requirement

Salaries of instructors teaching FTES generating classes, school counselors providing academic advisement, Student Services at the Dean level or above, and financial aid officers conducting need analysis are not considered supportable charges against EOP&S accounts unless their activities require them to perform additional functions for the EOP&S program that are beyond the scope of services provided to all students in the normal performance of the regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S.

Extended Opportunity Programs and Services (EOP&S) - Administrator/Director Requirements

Compliance Requirement

Districts accepting EOP&S funds are required to contribute from non-EOP&S sources the salary of the EOP&S administrator/director at the rate of 100 percent of salary and benefits for formal program activities associated with the implementation and operation of EOP&S specific activities over and above general supervision of EOP&S activities.

Facilities Program

Scheduled Maintenance Program

Compliance Requirement

Funds provided by the State must be used to supplement, not supplant, District deferred maintenance funds. This is defined as the amount spent in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and District's match for the Scheduled Maintenance Program for the year being audited.

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for finding 2003-24 described in the accompanying Schedule of State Awards Findings and Questioned Costs, the Peralta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2003.

This report is intended solely for the information of the District's Management, Governing Board, audit committee, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Dawinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
November 20, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2003**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>Yes</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.007, 84.033, 84.032	Student Financial Aid Cluster
84.048	Title II-C
84.243	Technical Preparation

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 510,375</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

MATERIAL WEAKNESSES

AUTOMATED ADMINISTRATIVE/ACCOUNTING SYSTEM

2003-1 Finding

As noted in the past years' audit reports, the administrative and financial accounting software system utilized by the District does not contain a self-balancing chart of accounts. As a result, it is necessary for the accounting staff to maintain a separate QuickBooks system to provide a balanced set of financial statements for review, analysis, and presentation to the Board of Trustees. The use of a separate system for the financial accounting leaves open the ability for errors and omissions to be made in the reporting of the financial activity. Neither the current accounting system nor the QuickBooks accounting system is integrated with the Human Resources Department or the student accounting system. Again, the ability for errors to occur and not be detected within these areas is high without the intensive staff time needed to analyze these accounts.

The current system does not provide a crossover analysis to either employee records within the Human Resources Department or to student records, financial aid, or admissions and records. Each of these areas must be manually reconciled in order to determine that all transactions have been properly posted.

The current system is unique to Peralta Community College District. In the event of a disaster, the ability of the District to recover financial and administrative data is negatively impacted by this situation.

Recommendation

Obtaining and utilizing a fully integrated accounting software package must be the highest priority of the District. The system considered and selected should include a fully integrated accounting chart of accounts for all assets, liabilities revenues, and expenditures of the District and be integrated to the Human Resources Department and the student accounting system. Until the system can be upgraded, the analysis, reconciling, and reporting of financial information must be closely monitored and reviewed to ensure accuracy and completeness.

District Response

This has been, and continues to be, one of the District's priorities; however, the selection process for the infrastructure upgrade, the change in administration over the last five years, and the controversy over the use of an outside vendor as its project manager has continued to slow down the implementation of this project. The infrastructure project upgrade and the cabling and electrical project are on schedule and due to be completed in March 2004, with the above recommendations to be implemented as soon as possible thereafter. It will take at least two years to fully implement all of the administrative systems for Financial, Human Resources, Student Affairs, etc.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

REPORTABLE CONDITIONS

DISTRICT FINANCIAL CONDITION

2003-2 **Finding**

The District's Unrestricted General Fund has incurred approximately \$3.7 million more in costs than available revenues. This deficit spending has caused the Unrestricted General Fund ending balance to decrease from \$7.4 million to \$3.6 million. Part of this ending balance has been restricted by Federal or State program funding sources or designated by the Board for specific activities with approximately \$1.4 million being specifically reserved for economic uncertainties. The State Chancellor's Office recommends a reserve level be maintained for economic uncertainties of at least five percent of the General Fund expenditures. At June 30, 2003, the District's ending balance reserves as calculated utilizing the State Chancellor's Office criteria had fallen to less than five percent. The financial stability of the District is directly dependent upon maintaining adequate reserves to weather the Statewide economic conditions that are reducing the funds available to community college districts.

Recommendation

The District and the Board must monitor the budgeted expenditures for the 2003-04 fiscal year and review monthly financial statements to ensure this trend of deficit spending does not continue. A plan to bring the available reserves back to the minimum level recommended by the State Chancellor's Office should be developed and implemented as soon as possible.

District Response

The District keeps the Board of Trustees well informed about the status of budgeted expenditures. The District is continuing to monitor its budget expenditures. Several steps have been put in place, and additional steps are planned, to bring the reserve level back to the five percent level. The District reported an ending fund balance of 4.79 percent, which fell short of the State's requirement of five percent; therefore, the District missed the State's reserve by .21 percent.

DISTRICT BUSINESS OFFICE STAFFING

2003-3 **Finding**

Near the close of the financial reporting for the 2002-03 fiscal year, the District had vacancies in the following key positions: Chief Business Officer, Director of Purchasing, Director of Human Resources, Director of Plant Services, and Internal Auditor. With these key positions open during the closing process, the primary responsibility for posting closing entries and analyzing accounts for all funds fell to one person. As noted in the previous comments, the District's financial accounting software requires a great deal of manual reconciliation and analysis in order to provide proper reporting of the activity with all funds. Reconciliations of the official accounting records to the Annual Financial and Budget Report (CCFS-311) for audit purposes were provided on December 22, 2003. The vacancies noted negatively impacted the timeliness of closing the accounting reports and left no one to provide a separate analysis of the transactions.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation

The filling of these key positions should be a high priority of the District. Alternative procedures to ensure the proper reconciliation and analysis of all accounts should be put into place in the event future vacancies occur.

District Response

The District did not have vacancies in the key positions at the end of the 2002-03 fiscal year as listed in the findings. The District did have a vacancy in the Director of Internal Auditor's position. Some of these positions were vacant during the closing process. The District underwent a massive reorganization during the 2002-03 fiscal year and did not renew contracts of several administrators named above, with one retired administrator (Director of Internal Audit). Since that time, measures have been taken to fill those vacancies: Associate Vice Chancellor for Human Resources, Director of Internal Audits, and Director of Physical Plant have been filled. Additionally, the District is currently in the process of recruiting and interviewing candidates for the Director of Purchasing and the Associate Vice Chancellor for Budget and Finance. A separate analysis of the CCFS-311 was done by the Senior Vice Chancellor. The primary administrator for the District's Finance Division is the Senior Vice Chancellor as the executive manager and Chief Financial Officer (CFO). The District has remedied the situation by filling vacancies and anticipates full hires by February 2004.

BUSINESS OFFICE PROCEDURES

2003-4 Finding

The District Office has not developed standardized written procedures to formalize the duties within the Business Office. A concise operating procedure manual with recommended procedures for such areas as bank account reconciliations, accounts payable processing, authorization of journal entries, and account analysis, as well as proper accounting and internal control and Board policies is an essential tool to ensure all operations of the Business Office continue in the event individuals are out for extended periods of time. Currently, there is little cross-training of the Business Office staff, which does not allow for proper internal controls.

Recommendation

A procedure manual for the Business Office should be developed and implemented to serve as a guide for recommended procedures, as well as a resource and training manual. In the event individuals are out for any length of time, others can then step in to perform the functions without loss of valuable time or oversight for the accounting records. The manual can also be a tool to cross-train the Business Office staff in a variety of duties to ensure rotation and oversight of the various functions. As the automated administrative and accounting system is brought on-line, the procedure manual should be updated to take into account the necessary changes in procedures.

PERALTA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2003**

District Response

The District concurs with the audit findings and intends to prioritize the development of a procedures manual for resource and training once the position for the Associate Vice Chancellor for Budget and Finance has been filled. There was an intentional delay in implementing a complete comprehensive manual because of the planned change in systems. The District will make every effort to prepare a procedures manual that will be updated as we move to a new system.

DISTRICT WAREHOUSE

2003-5 Finding

The security of the District warehouse appears to be lax. During our physical inspection of warehouse procedures, we noted open access to the warehouse was available to anyone entering the building. The warehouse dock had equipment that had been delivered, but was not checked in. This equipment was in public view and unattended. We also noted computer equipment that had been delivered as early as May 2003, yet had not been put into place for use during our tour in November 2003.

Recommendation

Access to the District warehouse should be strictly limited to warehouse employees and District employees with proper authorization. All equipment should be checked in immediately in order to ensure items ordered are what has actually been delivered. All computer equipment and other small items should be maintained in a locked and secure area until delivered to the proper department or location.

District Response

With the retirement of the Warehouse Supervisor during June 2003, this caused a slow-down of processes in the inventorying and delivery of equipment and merchandise; however, a new Warehouse Supervisor has been hired effective November 2003. The processing is currently up to date. The District is presently recruiting two additional classified positions to address this issue. The District also has taken active steps to gain an assessment of security needs for the warehouse in that access measures will be limited to authorized personnel. Additionally, with the new hire of a Director of Purchasing, plans will be implemented to assure stricter security measures.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

FIXED ASSET ACCOUNTING

2003-6 Finding

The District is now required to capitalize equipment purchased over a certain dollar amount. The Business Office provided the accounting for the purchase of any additions to the capitalized equipment and the related depreciation; however, there is no current fixed asset accounting system in place to maintain the recording of capitalization and depreciation of the capital assets of the District. We also noted a backlog of invoices received that had not been properly tagged with the District name and asset number. Additionally, a physical inspection of items purchased in past years had not been performed to ensure to equipment was still in use by the District.

Recommendation

The District should obtain a fixed asset accounting system, or ensure that a module to account for the capitalization and depreciation of all capital assets is included in the accounting software package noted in the first recommendation. This will allow for the automated tracking of all assets purchased by the District. On an annual basis the District should make a physical inspection of equipment purchased by the District to ensure that all items purchased remain on site for the District's intended purpose.

District Response

The hiring of the Director of Purchasing will ensure the inspection process is adequately done. The prior incumbent, along with Purchasing staff, developed a fixed asset system to account for District threshold assets over \$5,000 per item. Inventory of items over \$200, but less than \$5,000, will be done in an integrated manner. This will improve also when the new mainframe financial system is installed. A template system is in place and has been implemented. It will be more solidified with the hire of a new Director of Purchasing. The District has made physical inspections of equipment purchased by the colleges and departments and is checking inventory. This process will be emphasized and will continue to be tracked in the future.

RETIREE HEALTH CARE COSTS

2003-7 Finding

The District provides health care benefits to retirees in accordance with negotiated contracts. The benefits are provided for the time of retirement until death for the employee and qualifying dependents. The District had obtained an actuarial analysis during the 2001-02 fiscal year of the future liability the District will incur related to the obligation. The results of this study noted the future cost was estimated to be in excess of \$150 million. The District has not adopted a formal plan for the funding of this liability. Current accounting standards are being updated to require the District account for the obligation and develop a funding plan. These standards are anticipated to take effect with the 2005-06 fiscal year.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation

The District should develop a plan to begin the annual funding of this liability to ensure the financial stability of the District. This will also ensure that funds are available to the retirees to pay this obligation.

District Response

The District has actually set aside some funds for future liability, but due to the current State economy and the need to restore an adequate fund balance, funding this future cost is slow. The District is currently reviewing all medical plans and working with its union representatives to determine what modifications can be done that will be mutually agreeable to all parties involved in negotiations. Some of the modifications and options, if adopted, will lessen the District's future medical liability costs. The District intends to comply with updated accounting standards and develop a funding plan, which is anticipated to take effect during the 2005-06 fiscal year.

BANK RECONCILIATIONS

2003-8 Finding

Bank reconciliations have not been performed on a timely basis for the District's cash account and the college campus' site clearing accounts. Due to this delay, the District is not notified of the interest earnings or various service fees on a consistent monthly basis and cannot properly record these items in the proper accounts of the District.

Recommendation

All bank reconciliations should be prepared on a consistent monthly basis and sent to the District Business Office for review. All outstanding items, such as interest earnings and service fees, should be reconciled and posted to the proper accounts within the District's general ledger.

District Response

The County of Alameda is officially the District's fiscal agent and due to its accounting standards and timetables, the District is not always given timely statements as recommended in the audit findings. Campus bank reconciliations are, in fact, required to be sent to the District Office. The District will communicate with County of Alameda as to the earliest possible times that the District could receive the statements. Additionally, the District Office will communicate to the college campuses the importance of clearing accounts. The District Office will also make every effort to comply with these audit findings.

PERALTA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2003**

OUTSTANDING CHECKS

2003-9 Finding

It was noted during testing that the Student Financial Aid wire transfer account had outstanding checks that were stale-dated. These checks were written as far back as June 2002, and remain on the reconciling items list for the bank reconciliation.

Recommendation

All checks over six months old should be reviewed and adjusted off the District books by crediting back the appropriate account.

District Response

This account is linked to the Student Financial Aid file and cannot be changed at the District level. Each college site has received notification to respond to these stale-dated items, since this means either a new student check or a return of funds to the granting entity. The District will be returning funds to the granting entity if the items are not addressed.

2003-10 Finding

It was noted during testing that the Blue Cross wire transfer account had outstanding checks that were stale-dated. These checks were written as far back as June 2000, and remain on the reconciling items list for the bank reconciliation.

Recommendation

All checks over six months old should be reviewed and adjusted off the District books by crediting back the appropriate account.

District Response

District Business Office will correct these few items immediately.

CASH ACCOUNT BALANCES

2003-11 Finding

The amount kept on the books for the payroll imprest account and the wire tax account is unusually high. Interest earnings are very limited within these checking accounts.

Recommendation

The account balance within these accounts should be maintained at a minimum amount and replenished right before a payroll run or tax deposit is due. The balance of the funds should be transferred to the County where the interest can be accumulated at a high rate.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

District Response

The District has already reduced the amount in the wire tax account/payroll accounts. The imprest account is high on the last day of the year because of the interest on the Trans funds; otherwise the fund is at \$30,000. The District did not transfer the Trans interest because it arrived in the District too late.

PAYROLL LIABILITY ACCOUNT

2003-12 Finding

The payroll liability account had not been reconciled or reviewed as of June 30, 2003. It was also noted that journal postings had been recorded erroneously and had not been corrected.

Recommendation

It is imperative that management reconciles all accounts and reviews all journal entries within each of the balance sheet accounts. A supervisor within the Business Department should properly approve any items that require a correcting entry or additional reconciliation.

District Response

With the integration of the new accounting system, the Payroll Liability Accountant can easily reconcile journal entries requiring corrections without involving too many hours. The Payroll Division has been understaffed; however, the division recently reinstated a prior employee, which will offset the staffing hours needed by the Payroll Supervisor to complete the reconciliation and approvals. Also, the hiring of the Associate Vice Chancellor for Budget and Finance will ensure proper approval of items.

PAYROLL

2003-13 Finding

The Payroll Department is currently responsible for inputting salary placements authorized by Human Resources Department into the Human Resources Department system. There is not a reconciliation or review of these entries by the Human Resources Department to ensure all entries are properly posted and authorized.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation

Proper segregation of duties requires the authorization of payroll entries be separated from the recording functions of payroll. Therefore, only the Human Resources Department should have access to make changes to employee pay in the Human Resources Department system. Within the current systems available to the District, if the Payroll Department must be responsible for the data entry, the Human Resources Department should receive a report with all changes made and reconcile to the authorized payroll change data. This will provide a compensating control that will help ensure that all changes have been properly authorized.

District Response

With the hiring of the Associate Vice Chancellor for Human Resources and the Human Resources Manager, the above measures will be implemented.

PERSONNEL RECEIVABLES

2003-14 Finding

As noted in the prior year audit report, amounts are owed to the District for payroll overpayments and prepayments. These amounts have not been reconciled, nor is there a listing of the individuals and the actual amounts they owe maintained. A formal payment schedule has not been prepared for the repayment. The records between the Payroll Office and the Business Office have not been updated or formalized to ensure all amounts received as repayment are properly credited to the employee account.

Recommendation

The amounts owed from employees should be researched and a formal repayment schedule should be prepared for each employee. When payment is made, the accounting records between the Payroll Office and the Business Office should be updated and reconciled.

District Response

The repayment schedule and actual payments agreed upon by the Payroll Department and employees is given to the Accounting Department for posting. With the implementation of an integrated accounting system, this will allow the Payroll Department the ability to reconcile this data. Until such a system is in place, this will continue to be handled manually with limited staff. Cross-training of staff will be implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

2003-15 Finding

During our analysis of the above noted receivables from employees, we noted one of the primary causes for the over payments to employees is that information regarding employee status has not been forwarded to the Payroll or Human Resources Departments from the College Business Offices in a timely manner. As a result, individuals that may have a reduced workload are paid at their full workload rate for a period of time and then must repay the District once this is discovered.

Recommendation

All changes in employee status must be forwarded to the Payroll and Human Resources Departments at the time of the status change. This will allow the changes to be updated on the employee record and will reduce the number and amount of any overpayments.

District Response

The District will over-emphasize to the colleges and their Business Offices that they must forward to the Payroll and/or Human Resources Departments information regarding employee status in a timely manner. The District will implement procedures that will assist the colleges and their Business Offices in processing the appropriate forms more quickly and efficiently.

CATEGORICAL PROGRAM ACCOUNTING

2003-16 Finding

We were unable to reconcile the balances carried forward from prior year for several categorical programs. Upon further analysis of the variances, it was noted that differences were the primary result of incorrect budgets in current fiscal year and possible overspending of grants.

Recommendation

Grant carryovers should be maintained from year to year and reconciled to the audit schedule. Proper coordination between the Business Office, which is responsible for recording expenditures, and the Educational Services Office, which is responsible for budgeting, should be reviewed. Any variances between the records of the two departments should be analyzed, and any adjustments necessary should be recorded within the proper accounts.

District Response

Educational Services has already revised their procedures.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

COLLEGE PURCHASING PROCEDURES

2003-17 Finding

The college Business Offices maintain their budgets for expenditures within various categories. We noted equipment that had been purchased and delivered to the warehouse prior to budgets being available to have the equipment properly installed at the college. This has resulted in several purchases being made for equipment that is not being properly utilized.

Recommendation

Purchases for equipment that must be specially installed should be matched against the budgets for any special construction or installation and delivery needs prior to the purchase actually taking place.

District Response

There are only a few items not delivered to the campuses. Approximately 96 percent of all items ordered are immediately delivered to the colleges and District Offices. There are times when equipment is ordered or installation and special construction costs are not identified and cause delay in delivery and installation at the colleges. This will be addressed with the colleges and their respective Business Offices. Steps have been taken to review the delivery process and direct delivery of supplies and equipment to the colleges.

ASSOCIATED STUDENT GOVERNMENT (ASG)

Merritt College

2003-18 Finding

Deposits are not accompanied by a recap of the total receipts issued which pertain to the cash amount forwarded. One out of five disbursements tested lacked supporting documentation. It appears an "honor system" was used and employees would be reimbursed without submitting supporting documentation such as an invoice or receipt.

Recommendation

The District Business Office should assist the Associated Student Government in implementing proper internal controls over cash collections and deposits, as well as proper internal controls related to the purchasing or reimbursement functions.

District Response

Working with the Associate Student Government is a college responsibility. The college Business Office and the District Budget and Finance Division will work together to make the appropriate corrections.

PERALTA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2003**

College of Alameda

2003-19 Finding

The Associated Student Government is not making timely bank deposits of cash collected. Audit testing showed a time lag of up to three months between the receipt of cash and the actual deposit to the bank.

Recommendation

The District Business Office should assist the Associated Student Government in implementing proper internal controls over cash collections and deposits. All deposits should be made on a weekly basis, or more often if the deposit is large.

District Response

The college Business Office will be working to make the appropriate corrections.

ASG FUNDS – CLUB ACCOUNTS

2003-20 Finding

The current accounting records do not provide adequate detail as to the revenue and expense activity for each of the on-campus student clubs. This information is necessary to ensure that all revenues are deposited to the proper club account general ledger and that the club officers have properly authorized all expenditures.

Recommendation

The District Business Office should assist the Associated Student Government in implementing proper internal controls over accounting and reporting of financial activity within the campus club accounts. Monthly accounting summaries should be provided to each club to ensure proper posting and authorization of all activity.

District Response

The college and the college Business Office will be working to make the appropriate corrections and put the procedures in place.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2003

TRUST AND AGENCY FUNDS

Merritt College

2003-21 **Finding**

Bank statements have not been reconciled timely during the year. At June 30, 2003, an adjusting entry was made to account for all reconciling items, including interest and bank charges, for the prior six months. Additionally, stale-dated checks in excess of one year old have been maintained as reconciling items.

Recommendation

Bank accounts should be reconciled monthly as soon as the bank statements are received. Any interest earned or charges should be posted to the accounting records at the time the reconciliation is completed. The District Business Office should assist the College Business Office in implementing proper internal controls over the account reconciliation process.

District Response

The new college Business Officers will be working with their staff to correct these items. The District Budget and Finance Division will continue to work with the colleges to address this issue.

Vista College

2003-22 **Finding**

The bank account has not been properly reconciled. A variance between the book balance and the bank account balance of over \$3,000 could not be explained and had remained on the books as a continuing item.

Recommendation

All bank accounts should be reconciled on a monthly basis as soon as the bank statement is received. Any variances should be investigated and reconciled to ensure the bank balances and the book balances are the same. The District Business Office should assist the College Business Office in implementing proper internal controls over the account reconciliation process.

District Response

The college Business Officers will be working with their staff to correct their procedures. The District Budget and Finance Division will continue to work with the college Business Office.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003

The following finding represents reportable conditions, material weaknesses, and/or instances of noncompliance, including questioned costs, that are required to be reported by OMB Circular A-133.

FEDERAL COMPLIANCE

VATEA

2003-23 Finding

Documentation supporting salaries paid to employees charged to Federal Programs as described in the OMB A-21 cost circular has not been maintained.

Recommendation

The District should evaluate the different methods of supporting salary charges to Federal programs described in OMB A-21 to ascertain the most efficient method to meet this compliance requirement and implement the proper accounting of these charges during the current fiscal year.

District Response

The District has received clarification and will develop new procedures for compliance.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

STATE COMPLIANCE CONCURRENT ENROLLMENT

OPEN ENROLLMENT

2003-24 **Finding**

Title 5 of the California Code of Regulations (CCR) specifies that the Governing Board of the District must adopt by resolution a policy on open enrollment as specified in CCR Section 51005. Additionally, a statement of this policy must be printed in each college's official catalog, schedule of classes, and any addenda to the schedule of classes. Courses that qualify for State apportionment must be open to enrollment by the general public unless specifically exempted by statute.

We noted that the class schedule for Vista College did not contain a copy of the District's open enrollment policy as required by the above regulations. Additional testing at the three other colleges of the District (Laney, Merritt, and Alameda) noted proper language in the class schedules.

Recommendation

The process for approving the content of the colleges' class schedule should include a checklist of required information such as the open enrollment policy. The class schedules for upcoming semesters should include the proper verbiage required by this regulation.

District Response

The college will review its procedures for publications and a process will be set up so that class schedules will be reviewed by the Marketing and Public Relations and Communications Office.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

MATERIAL WEAKNESS

AUTOMATED ACCOUNTING SYSTEM

2002-1 Finding

The District has been working with a financial software system that does not contain a self-balancing chart of accounts. It is necessary for the accounting staff to maintain a separate QuickBooks accounting package to provide a balanced set of financial statements for review and analysis. Additionally, the system is not fully integrated with the student accounting system and the human resource system. This results in the possibility of errors and/or irregularities occurring within the financial records and not being found and corrected by District staff in a timely and efficient manner.

Detailed subsidiary reports for accounts payable and receivable must be manually prepared and reconciled. The ability of the District to perform timely analysis of the accounts is compromised by the system.

The software does not provide crossover analysis to student records, financial aid, or admissions and records. These areas receive revenues and pay expenditures, but must be manually reconciled to the current accounting records.

Recommendation

Obtaining and utilizing a fully integrated accounting software package must be the highest priority of the District. The District should continue the research alternative software accounting systems that will provide detail reporting and analysis capabilities. The systems considered should include an integrated accounting chart of accounts that will provide a basis for the assets and liabilities of the District, in addition to the revenues and expenditures. The system selected should also integrate with student records, admissions and records, and financial aid. Until the system can be upgraded, continued efforts with reporting and reconciling of financial information must be monitored and reviewed to ensure accuracy and completeness.

Current Status

Not implemented. See current year financial statement finding 2003-1.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

2002-2 Finding

The current financial accounting software package is unique to Peralta Community College District. There are no sources to serve as an offsite back-up system for the District. As a result, if the system were to "crash," the information systems staff would not have access to previously backed-up financial information. This puts the District at a high risk of not properly safeguarding the integrity of the financial accounting information that is necessary for reporting to Federal and State agencies, as well as to the Board of Trustees.

Recommendation

Obtaining and utilizing a fully integrated accounting software package that will provide stability against unforeseen disasters must be the highest priority of the District. The District should continue the research alternative software accounting systems that will provide detail reporting and analysis capabilities. The systems considered should include an integrated accounting chart of accounts that will provide a basis for the assets and liabilities of the District, in addition to the revenues and expenditures. The system selected should also integrate with student records, admissions and records, and financial aid. Until the system can be upgraded, continued efforts with reporting and reconciling of financial information must be monitored and reviewed to ensure accuracy and completeness.

Current Status

Not implemented. See current year financial statement finding 2003-1.

REPORTABLE CONDITIONS

INTERNAL CONTROLS

INFORMATION SYSTEMS

2002-3 Finding

The District has not conducted an information systems disaster recovery test. Information systems disaster recovery testing helps to ensure that all staff understands their role and the required procedures when faced with an interruption of service. Testing is an effective method to verify that not only policies and procedures are in place, but also that staff have been trained on their specific responsibilities and that they can efficiently perform these procedures.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

2002-4 Finding

The District has not assigned an Information Systems Security Officer. The role of computer security has become more complex, as the District has extended administrative and instructional services throughout the Wide Area Network (WAN). The Information Systems Department has implemented security procedures to provide access to administrative users. In addition, the internal audit department has completed an audit of computer accessing for individuals. The department is currently implementing tools throughout the system to provide more effective management of computer access controls.

2002-5 Finding

Standard user policies related to information accessible through the District's WAN have not been developed. The District has hired a Director of Technology, who is in the process of standardizing user policies at the colleges, as well as in the District Office. Written user policies help to ensure that students, faculty, and staff are aware of proper computer use and procedures. These areas include such issues as software licensing, downloading files, virus protection, and access controls.

Recommendation

The needs of the Information Systems Management Department noted above need to be addressed as soon as possible. The current systems used are under stress due to the age and limitations noted above. As more stress is placed upon the system, the possibility for a disaster happening within the Information Systems is increased.

The security of the system is necessary to protect the confidentiality of personnel, as well as students and to ensure the integrity of financial information. The development of a standardized user policy, complete with security parameters, should remain a high priority of the District and in the Information Systems Management Department.

Current Status

Areas improved and continue to be monitored.

PERSONNEL RECEIVABLES

2002-6 Finding

During the review and testing of personnel receivables, we noted that this account increased \$18,923 from the prior year. There was not a current listing available from the Payroll Department with the details of the personnel borrowing funds, individual amounts owed, how old these receivables are, or formal repayment schedules.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Recommendation

The personnel receivables should be researched and identified as to the employees that owes the District the reimbursement and determine the aging of these receivables. Every attempt needs to be made to recover all amounts owed by employees. Future loans or advances to employees should be approved by the Chief Financial Officer and should include a repayment schedule.

Current Status

Not implemented. See current year financial statement finding 2003-14.

DISTRICT CREDIT CARDS

2002-7 Finding

It was noted that although procedures over this area have improved, actual receipts and justifications for travel and other expenses incurred through the use of the District's credit cards were not always available to support payments. In many cases, payments were made based upon the monthly statement only.

Recommendation

All receipts and invoices to support charges incurred through use of a District credit card should be forwarded to the accounts payable department prior to payment being made. In this way, the District can ensure all expenses are for approved District costs.

Current Status

Implemented.

PAYROLL IMPREST BANK ACCOUNT

2002-8 Finding

The monthly reconciliation from the bank account balance to the book balance contains adjustments primarily for interest revenue earned from the financial institution that are not posted to the District's accounts. As a result, these revenues have not been reported within the District's financial statements.

Recommendation

The process of reconciling the bank balance to the book balance on a monthly basis should include a procedure that posts any difference noted during the reconciliation process to the District's financial records.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Current Status

Implemented.

RETIREE HEALTH CARE BENEFITS

2002-9 Finding

The District provides health care benefits to retirees in accordance with negotiated contracts. The benefits are provided from the time of retirement until death. The District has obtained an actuarial analysis of the future liability costs that the District will incur related to this obligation to retirees. The results of this study noted the future cost will be in excess of \$150 million. The District has not adopted a formal plan for the funding of this liability to District employees. Current accounting standards do not require the recognition of this liability on the District's annual financial statements; however, the Governmental Accounting Standards Board (GASB) is in the process of developing requirements for the recognition of the liability in future financial statements.

Recommendation

The District should develop a plan to begin the annual funding of this liability to ensure the financial stability of the District and to ensure funds will be available to pay this obligation to the retirees.

Current Status

Not implemented. See current year financial statement finding 2003-7.

OPEN ENROLLMENT

Vista College

2002-10 Finding

Title 5 of the California Code of Regulations (CCR) specifies that the Governing Board of the District must adopt by resolution a policy on open courses as specified in the CDR Section 51006. Additionally, a statement of this policy must be printed in each college's official catalog, schedule of classes, and any addenda to the schedule of classes. Courses that qualify for State apportionment must be open to enrollment by the general public unless specifically exempted by statute.

We noted the Spring 2002 class schedule for Vista College did not contain a copy of the District's open enrollment policy. Additional testing at the three other colleges of the District (Alameda, Laney, and Merritt) noted proper language in the class schedules.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Recommendation

The process for approving the content of the colleges' class schedules should include a checklist of required information such as the open enrollment policy. The class schedules for upcoming semesters should include the proper verbiage required by this regulation.

Current Status

Not implemented. See current year financial statement finding 2003-24.

ADDITIONAL SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
ASSETS			
Cash and cash equivalents	\$ 1,474,090	\$ -	\$ -
Investments	35,565,749	743,682	3,634,326
Accounts receivable	2,203,475	6,787	-
Student loans receivable, net	184,712	-	-
Due from other funds	200,000	-	-
Prepaid expenses	539,844	-	-
Stores inventory	330,387	-	-
Total Assets	<u>\$ 40,498,257</u>	<u>\$ 750,469</u>	<u>\$ 3,634,326</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	4,820,402	1,176	-
Other current liabilities	28,500,000	-	-
Deferred revenue	2,229,250	-	-
Total Liabilities	<u>35,549,652</u>	<u>1,176</u>	<u>-</u>
FUND EQUITY			
Fund Balances			
Reserved	870,231	-	-
Unreserved			
Designated	2,809,410	749,293	3,634,326
Undesignated	1,268,964	-	-
Total Fund Equity	<u>4,948,605</u>	<u>749,293</u>	<u>3,634,326</u>
Total Liabilities and Fund Equity	<u>\$ 40,498,257</u>	<u>\$ 750,469</u>	<u>\$ 3,634,326</u>

Revenue Bond Project	Bond Interest and Redemption	Capital Outlay Projects	Total
\$ -	\$ -	\$ 1,075,834	\$ 2,549,924
289,122	5,979,261	63,246,950	109,459,090
-	-	52,878	2,263,140
-	-	-	184,712
-	-	-	200,000
-	-	-	539,844
-	-	-	330,387
<u>\$ 289,122</u>	<u>\$ 5,979,261</u>	<u>\$ 64,375,662</u>	<u>\$ 115,527,097</u>
-	-	3,704,304	8,525,882
-	-	-	28,500,000
-	-	16,422	2,245,672
-	-	<u>3,720,726</u>	<u>39,271,554</u>
-	-	-	870,231
289,122	5,979,261	60,654,936	74,116,348
-	-	-	1,268,964
<u>289,122</u>	<u>5,979,261</u>	<u>60,654,936</u>	<u>76,255,543</u>
<u>\$ 289,122</u>	<u>\$ 5,979,261</u>	<u>\$ 64,375,662</u>	<u>\$ 115,527,097</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2003**

	<u>Internal Service Fund</u>
ASSETS	
Investments	\$ 475,637
Total Assets	<u>\$ 475,637</u>
 FUND EQUITY	
Retained earnings	<u>475,637</u>
Total Liabilities and Fund Equity	<u><u>\$ 475,637</u></u>

PERALTA COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
FIDUCIARY FUNDS
JUNE 30, 2003**

	<u>Associated Students Trust</u>	<u>Student Financial Aid</u>	<u>Scholarship and Loan</u>	<u>Other Trust</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 191,805	\$ 52,622	\$ 10,802	\$ 834,185	\$ 1,089,414
Investments	-	159,411	-	-	159,411
Accounts receivable	83,623	45,339	2,850	2,358	134,170
Fixed assets	10,791	-	-	-	10,791
Total Assets	<u>\$ 286,219</u>	<u>\$ 257,372</u>	<u>\$ 13,652</u>	<u>\$ 836,543</u>	<u>\$ 1,393,786</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	-	57,372	-	-	57,372
Due to other funds	-	200,000	-	-	200,000
Due to student groups	68,845	-	-	836,543	905,388
Total Liabilities	<u>68,845</u>	<u>257,372</u>	<u>-</u>	<u>\$ 836,543</u>	<u>1,162,760</u>
FUND EQUITY					
Fund Balances					
Unreserved					
Designated	217,374	-	13,652		231,026
Total Fund Equity	<u>217,374</u>	<u>-</u>	<u>13,652</u>		<u>231,026</u>
Total Liabilities and Fund Equity	<u>\$ 286,219</u>	<u>\$ 257,372</u>	<u>\$ 13,652</u>		<u>\$ 1,393,786</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET RECONCILIATION
JUNE 30, 2003**

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance and Retained Earnings:

General Fund	\$ 4,948,605
Child Development Fund	749,293
Special Reserve Fund	3,634,326
Revenue Bond Project Fund	289,122
Bond Interest and Redemption Fund	5,979,261
Capital Outlay Projects Fund	60,654,936
Internal Service Fund	475,637
Fiduciary Funds and due to student groups	<u>1,136,414</u>

**Total Fund Balance and Retained Earnings -
All District Funds**

\$ 77,867,594

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.

The cost of capital assets is	195,767,849	
Accumulated depreciation is	(69,062,195)	
Less fixed assets in fiduciary funds	<u>(10,791)</u>	126,694,863

Amounts held in trust on behalf of others (Trust and Agency Funds)

(1,136,414)

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term debt is recognized when it is incurred.

(2,345,021)

Long-term liabilities at year end consist of:

Bonds payable	111,145,000	
Compensated absences (vacations) - less current portion	<u>2,646,935</u>	<u>(113,791,935)</u>
Total Net Assets		<u><u>\$ 87,289,087</u></u>

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
REVENUES			
Federal revenues	\$ 3,098,483	\$ 74,720	\$ -
State revenues	54,252,061	1,215,788	-
Local revenues	41,054,871	44,962	86,009
Total Revenues	<u>98,405,415</u>	<u>1,335,470</u>	<u>86,009</u>
EXPENDITURES			
Current Expenditures			
Academic salaries	40,354,800	-	-
Classified salaries	23,915,780	969,244	-
Employee benefits	17,270,587	333,828	-
Books and supplies	2,452,762	36,153	-
Services and operating expenditures	14,590,718	26,634	-
Capital outlay	1,817,917	255	-
Debt service - principal	-	-	-
Debt service - interest and other	-	-	-
Total Expenditures	<u>100,402,564</u>	<u>1,366,114</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,997,149)</u>	<u>(30,644)</u>	<u>86,009</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	6,634	-	700,000
Operating transfers out	(796,166)	-	-
Other uses	(896,578)	-	-
Total Other Financing Sources (Uses)	<u>(1,686,110)</u>	<u>-</u>	<u>700,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(3,683,259)</u>	<u>(30,644)</u>	<u>786,009</u>
FUND BALANCE, BEGINNING OF YEAR	<u>8,631,864</u>	<u>779,937</u>	<u>2,848,317</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,948,605</u>	<u>\$ 749,293</u>	<u>\$ 3,634,326</u>

Revenue Bond Project	Bond Interest and Redemption	Capital Outlay Projects	Total
\$ -	\$ -	\$ -	\$ 3,173,203
-	-	987,079	56,454,928
91,118	8,433,832	2,400,041	52,110,833
<u>91,118</u>	<u>8,433,832</u>	<u>3,387,120</u>	<u>111,738,964</u>
-	-	-	40,354,800
-	-	68,693	24,953,717
-	-	6,608	17,611,023
-	-	-	2,488,915
23,196	-	3,473,608	18,114,156
47,848	-	16,287,235	18,153,255
-	1,685,000	-	1,685,000
-	5,208,973	-	5,208,973
<u>71,044</u>	<u>6,893,973</u>	<u>19,836,144</u>	<u>128,569,839</u>
<u>20,074</u>	<u>1,539,859</u>	<u>(16,449,024)</u>	<u>(16,830,875)</u>
-	-	1,226,144	1,932,778
-	-	(1,226,144)	(2,022,310)
-	-	(70,051)	(966,629)
-	-	(70,051)	(1,056,161)
20,074	1,539,859	(16,519,075)	(17,887,036)
269,048	4,439,402	77,174,011	94,142,579
<u>\$ 289,122</u>	<u>\$ 5,979,261</u>	<u>\$ 60,654,936</u>	<u>\$ 76,255,543</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	Internal Service Fund
NONOPERATING REVENUES	
Interest income	\$ 15,489
Total Nonoperating Revenues	<u>15,489</u>
NET INCOME	15,489
RETAINED EARNINGS, BEGINNING OF YEAR	<u>460,148</u>
RETAINED EARNINGS, END OF YEAR	<u><u>\$ 475,637</u></u>

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	Associated Students Trust	Student Financial Aid	Scholarship and Loan	Total
REVENUES				
Federal revenues	\$ -	\$ 12,794,992	\$ -	\$ 12,794,992
State revenues	-	1,405,640	-	1,405,640
Local revenues	148,531	-	104	148,635
Total Revenues	<u>148,531</u>	<u>14,200,632</u>	<u>104</u>	<u>14,349,267</u>
EXPENDITURES				
Current Expenditures				
Services and operating expenditures	281,023	- -	1,002	282,025
Total Expenditures	<u>281,023</u>	<u>-</u>	<u>1,002</u>	<u>282,025</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(132,492)</u>	<u>14,200,632</u>	<u>(898)</u>	<u>14,067,242</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	96,166	-	-	96,166
Operating transfers out	(6,634)	-	-	(6,634)
Other uses	-	(14,200,632)	-	(14,200,632)
Total Other Financing Sources (Uses)	<u>89,532</u>	<u>(14,200,632)</u>	<u>-</u>	<u>(14,111,100)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(42,960)</u>	<u>-</u>	<u>(898)</u>	<u>(43,858)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>260,334</u>	<u>-</u>	<u>14,550</u>	<u>274,884</u>
FUND BALANCE, END OF YEAR	<u>\$ 217,374</u>	<u>\$ -</u>	<u>\$ 13,652</u>	<u>\$ 231,026</u>