



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2003

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows – Direct Method	12
Notes to Financial Statements	14

SUPPLEMENTARY INFORMATION

District Organization	33
Schedule of Expenditures of Federal Awards	34
Schedule of Expenditures of State Awards	35
Schedule of Workload Measures for State Apportionment Annualized Attendance and Annual Apprenticeship Hours of Instruction	36
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	37
Note to Supplementary Information	38

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	42
Report on State Compliance	44

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	49
Financial Statement Findings and Recommendations	50
Federal Awards Findings and Questioned Costs	63
State Awards Findings and Questioned Costs	64
Summary Schedule of Prior Audit Findings	65

ADDITIONAL SUPPLEMENTARY INFORMATION

Balance Sheet – Governmental Funds	72
Balance Sheet – Proprietary Funds	73
Balance Sheet – Fiduciary Funds	74
Balance Sheet Reconciliation	75
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	76
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Funds	77
Statement of Revenues, Expenditures, and Changes in Fund Balance – Fiduciary Funds	78

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.

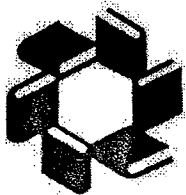
In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report 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.

