



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2006 AND 2005

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to Financial Statements	15

SUPPLEMENTARY INFORMATION

District Organization	42
Schedule of Expenditures of Federal Awards	43
Schedule of Expenditures of State Awards	44
Schedule of Workload Measures for State General Apportionment	45
Schedule of Annual Apprenticeship Hours of Instruction	46
Reconciliation of Annual Financial and Budget Report with Fund Financial Statements	47
Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets	48
Note to Supplementary Information	49

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	53
Report on State Compliance	55

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	58
Financial Statement Findings and Recommendations	59
Federal Awards Findings and Questioned Costs	63
State Awards Findings and Questioned Costs	68
Summary Schedule of Prior Audit Findings	72

ADDITIONAL SUPPLEMENTARY INFORMATION

Governmental Funds	
Balance Sheets - (Unaudited)	75
Statements of Revenues, Expenditures, and Changes in Fund Balance - (Unaudited)	76
Proprietary Funds	
Balance Sheets - (Unaudited)	77
Statements of Revenues, Expenses, and Changes in Retained Earnings - (Unaudited)	78
Statements of Cash Flows - (Unaudited)	79
Fiduciary Funds	
Balance Sheets - (Unaudited)	80
Statements of Revenues, Expenditures, and Changes in Fund Balance - (Unaudited)	81
Note to Additional Supplementary Information	82

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the accompanying basic financial statements of the Peralta Community College District (the District) as of and for the years ended June 30, 2006 and 2005, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Peralta Community College District as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2007, 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, contract and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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*, is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Additional Supplementary Information on pages 74 through 82 has been presented at the request of District management for purposes of additional analysis. We have applied certain limited procedures consisting primarily of analysis and inquiry regarding presentation; however, we did not audit the information. Accordingly, we express no opinion.

Vaurinek, Irine Day & Co. LLP

Rancho Cucamonga, California

March 9, 2007



Peralta Community College District

333 East Eighth Street · Oakland, California 94606 · (510) 466-7200

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, 2006. This is prepared in compliance with the new reporting standards required for public colleges and universities. Responsibility for the completeness and accuracy of this information rests with the District management.

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 2005-2006, FTES was 18,443 (including credit and noncredit FTES), as compared to 17,775 in the fiscal year 2004-2005. This represented a 3.8 percent increase. FTES is generated at the District's four colleges: College of Alameda, Laney College, Merritt College, and Berkeley City College (formally Vista College).
- General Fund revenues for the year were \$106.9 million, an increase of five percent from prior year's revenue of \$101.8 million.
- The District ended the fiscal year 2005-2006 with a net decrease in fund balance of approximately \$270 thousand in the unrestricted General Fund leaving the ending fund reserve at \$7.0 million or 8.1 percent. The Board of Trustees has set a goal to maintain at least a five percent reserve for the unrestricted General Fund.
- Medical benefits for both employees and retirees increased at 7.6 percent over the prior year. The District continues to provide retirees with lifetime medical benefits. For employees hired after July 1, 2004, medical benefits upon retirement are provided until age 65 or Medicare eligibility. The District has accounted for retiree benefits on a "pay-as-you-go basis." The actuarial accrued liability at a 4.5 percent discount rate for the District as of November 15, 2005, is \$135.9 million. The actuarial accrued liability is comprised of \$62.2 million of liabilities for active employees expected to retire in the future and \$73.7 million for retirees. In December 2005, the District issued \$153 million in OPEB Bonds (other post employment benefits). The proceeds of the bonds have been placed in a Retiree Health Benefit internal service fund, which may be used only to pay or reimburse the District for payment of retiree health benefit costs. In January 2006, the bond proceeds were invested in a strategic allocation that mirrors the asset allocation of CalPERS. As of January 31, 2007, the investment fund had earned 10.81 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

- The District is using Measure E bonds to pay for various capital improvements to our educational facilities. They include the following:
 1. Investment in our technology infrastructure District-wide.
 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, Merritt College, and College of Alameda.
 5. Improvements in laboratories and power supplies District-wide.
 6. Cabling and power upgrade for technology.
 7. Construction of a six story urban campus for Berkeley City College in Berkeley.

- In June 2006, the voters in our six city service area approved the passage of Measure A. The \$390 million General Obligation Prop 39 Bond will be used for construction of science, math, and language labs, nurse training program classrooms and facilities, solar energy system installation and retrofitting of existing energy systems, library renovations, technology, and instructional equipment.

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 California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by private-sector institutions. Net assets, the difference between assets and liabilities, is one way to measure the financial health of the District.

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, 2006**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed financial information is as follows:

Statement of Net Assets

Net assets, the difference between assets and liabilities, is one way to measure the financial health of the District. Overall, the financial position of the District improved during the fiscal year ended June 30, 2006. Total net assets increased approximately \$24.7 million due primarily to the net increase associated with receipt of Measure E Bond proceeds.

**NET ASSETS
As of June 30,**

(Amounts in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Current Assets			
Cash and investments	\$ 274,759	\$ 82,329	\$ 96,908
Accounts receivable and other assets, net	21,707	9,945	12,180
Total Current Assets	<u>296,466</u>	<u>92,274</u>	<u>109,088</u>
Noncurrent Assets			
Capital assets (net of depreciation)	208,271	167,463	143,214
Total Assets	<u>504,737</u>	<u>259,737</u>	<u>252,302</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	19,074	10,315	8,185
Deferred revenue	2,176	1,804	1,664
Amounts held in trust for others	1,534	1,810	1,544
Current portion of long-term obligations	6,849	3,559	3,099
Total Current Liabilities	<u>29,633</u>	<u>17,488</u>	<u>14,492</u>
Long-term obligations	<u>354,724</u>	<u>146,554</u>	<u>148,690</u>
Total Liabilities	<u>384,357</u>	<u>164,042</u>	<u>163,182</u>
NET ASSETS			
Invested in capital assets	98,725	79,676	73,525
Restricted for dependable sources	16,151	11,908	9,702
Unrestricted	5,504	4,111	5,893
Total Net Assets	<u>\$ 120,380</u>	<u>\$ 95,695</u>	<u>\$ 89,120</u>

This schedule has been prepared from the District's Statement of Net Assets (page 11) which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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 13).

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.

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30,

(Amounts in thousands)

	2006	2005	2004
Operating Revenues			
Tuition and fees	\$ 8,139	\$ 8,213	\$ 7,506
Grants and contracts	29,762	25,209	29,364
Total Operating Revenues	<u>37,901</u>	<u>33,422</u>	<u>36,870</u>
Operating Expenses			
Salaries and benefits	92,070	86,426	79,778
Supplies and maintenance	42,911	40,463	34,883
Depreciation	7,061	5,775	5,775
Total Operating Expenses	<u>142,042</u>	<u>132,664</u>	<u>120,436</u>
Loss on Operations	<u>(104,141)</u>	<u>(99,242)</u>	<u>(83,566)</u>
Nonoperating Revenues and (Expenses)			
State apportionments	55,033	50,867	39,203
Property taxes	39,730	36,465	40,178
State revenues	2,890	7,415	6,973
Interest income	6,905	2,076	1,853
Interest expense	(8,490)	(8,176)	(6,177)
Other nonoperating revenues and transfers	6,534	4,122	2,714
Total Nonoperating Revenues	<u>102,602</u>	<u>92,769</u>	<u>84,744</u>
Other Revenues			
State and local capital income	26,223	13,048	653
Total Other Revenues	<u>26,223</u>	<u>13,048</u>	<u>653</u>
Net Increase in Net Assets	<u>\$ 24,684</u>	<u>\$ 6,575</u>	<u>\$ 1,831</u>

This schedule has been prepared from the Statement of Revenues, Expenses, and Changes in Net Assets presented on page 12.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

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 expenditures related to the programs.

While State apportionment and property taxes are the primary source of noncapital related revenue, the Governmental Accounting Standards Board (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.

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.

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.

Statement of Cash Flows for the Year Ended June 30,

(Amounts in thousands)

	2006	2005	2004
Cash Provided by (used in)			
Operating activities	\$ (90,218)	\$ (95,200)	\$ (78,931)
Noncapital financing activities	99,297	103,240	51,931
Capital financing activities	176,577	(24,605)	8,391
Investing activities	(145,179)	1,986	1,784
Net Increase (Decrease) in Cash	40,477	(14,579)	(16,825)
Cash, Beginning of Year	82,329	96,908	113,733
Cash, End of Year	<u>\$ 122,806</u>	<u>\$ 82,329</u>	<u>\$ 96,908</u>

The detail Statement of Cash Flows may be reviewed on page 13.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At June 30, 2006, the District had \$208.2 million in a broad range of capital assets including land, buildings, and furniture and equipment. During the year, the District added \$1.6 million in buildings, site improvements, and equipment. The District also continued to modernize and refurbish various sites within the District. Construction in progress increased \$46.2 million and totaled \$112.6 million at year end. To continue our capital asset upgrades, the District issued \$55.7 million in Measure E General Obligation Bonds in July 2005. Subsequent to year end, the District issued \$75 million in Measure A General Obligation Prop 39 Bonds.

Long-Term Obligations

At the end of 2005-2006, the District had \$361.6 million in long-term obligations. The increase in long-term obligations was primarily the result of the sale of OPEB and General Obligation Bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget as it attempted 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 result in a deficit of \$1.2 million, the actual results for the year showed a net decrease in fund balance of approximately \$394 thousand.

- Actual apportionment revenues were approximately \$1.9 million higher than budget while local taxes and other revenues were approximately \$7.0 million higher than budget.
- The actual expenditures have increased \$1.7 million due to increased costs for medical benefits.
- During the fiscal year 2005-2006, the District's contribution to Public Employees Retirement System (PERS) increased by \$6 thousand to \$1.85 million for the year.
- During the fiscal year 2005-2006, the District's contribution to the State Teachers Retirement System (STRS) increased by \$58 thousand to \$2.5 million.

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 91 percent of the total sources of revenues received by the District in the general unrestricted fund. This percentage increased over the prior year due to the one-time funding by the State in the amount of \$2 million.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

- Although the District receives local income from property tax proceeds and student enrollment fees, these local income sources are but a component of the State Based Apportionment calculation. Local income is deducted from the computed total funding level, to determine the amount of State funds necessary to fund the District's Base Apportionment. Because of this formula, the finances of the District are directly tied to the State economy, State revenues, and the State legislative process to allocate revenues for public purposes.
- Student enrollment fees will be reduced to \$20 per unit effective January 1, 2007. Enrollment is expected to be flat to slightly higher for fiscal 2006-2007 due to ongoing funding restrictions.
- Due to the current State Budget deficit, coupled with escalating costs, the Board of Trustees' goal to maintain a five percent General Fund reserve may not be achieved. However, the 2006-2007 Adopted Budget reflects the District maintaining a five percent reserve.
- The District is closely following State economic forecasts and announcements from the Governor's Office on administration spending priorities. Balancing the budget in fiscal 2006-2007 and in future years will require careful financial analysis. The District's challenge will be the development of strategic planning that continues to emphasize the community's access to higher education while controlling costs.

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

**STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,513,727	\$ 7,895,120
Investments	266,245,386	74,433,670
Accounts receivable, net	12,874,093	8,296,875
Student loans receivable, net	913,312	657,207
Prepaid expenses	2,858,911	768,437
Deferred costs on issuance	4,654,067	-
Stores inventory	225,594	221,916
Other current assets	181,057	-
Total Current Assets	<u>296,466,147</u>	<u>92,273,225</u>
NONCURRENT ASSETS		
Nondepreciable capital assets	117,209,585	71,008,869
Depreciable capital assets, net of depreciation	91,060,942	96,454,532
Total Noncurrent Assets	<u>208,270,527</u>	<u>167,463,401</u>
TOTAL ASSETS	<u>504,736,674</u>	<u>259,736,626</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	14,993,774	7,258,406
Accrued interest payable	4,081,282	3,056,048
Deferred revenue	2,175,778	1,804,017
Amounts held in trust on behalf of others	1,533,592	1,810,175
Compensated absences payable - current portion	384,000	384,000
Bonds payable - current portion	4,740,000	3,175,000
Other post employment benefit bonds - current portion	1,725,000	-
Total Current Liabilities	<u>29,633,426</u>	<u>17,487,646</u>
NONCURRENT LIABILITIES		
Claims liability	598,328	-
Compensated absences payable - noncurrent portion	2,464,061	2,828,756
Bond payable - noncurrent portion	199,636,649	143,725,000
Other post employment benefit bonds - noncurrent portion	152,024,832	-
Total Noncurrent Liabilities	<u>354,723,870</u>	<u>146,553,756</u>
TOTAL LIABILITIES	<u>384,357,296</u>	<u>164,041,402</u>
NET ASSETS		
Invested in capital assets, net of related debt	98,724,809	79,676,442
Restricted for:		
Debt service	13,791,455	8,410,979
Capital projects	209,252	184,410
Other activities	2,150,061	3,312,108
Unrestricted	5,503,801	4,111,285
TOTAL NET ASSETS	<u>\$ 120,379,378</u>	<u>\$ 95,695,224</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Student Tuition and Fees	\$ 14,138,356	\$ 13,778,874
Less: Scholarship discount and allowance	<u>(5,999,175)</u>	<u>(5,565,690)</u>
Net tuition and fees	<u>8,139,181</u>	<u>8,213,184</u>
Grants and Contracts, noncapital:		
Federal	18,183,181	17,350,812
State	<u>11,578,702</u>	<u>7,858,633</u>
TOTAL OPERATING REVENUES	<u>37,901,064</u>	<u>33,422,629</u>
OPERATING EXPENSES		
Salaries	65,425,894	61,987,711
Employee benefits	26,644,579	24,438,365
Supplies, materials, and other operating expenses and services	42,910,881	40,462,972
Depreciation	<u>7,061,182</u>	<u>5,775,181</u>
TOTAL OPERATING EXPENSES	<u>142,042,536</u>	<u>132,664,229</u>
OPERATING LOSS	<u>(104,141,472)</u>	<u>(99,241,600)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	55,032,999	50,867,180
Local property taxes	39,730,455	36,465,307
State taxes and other revenues	2,890,285	7,414,649
Investment income, net	6,774,627	1,985,799
Interest expense on capital related debt	(8,489,876)	(8,175,651)
Interest income on capital asset-related debt, net	130,237	89,944
Transfer from agency fund	-	5,000
Transfer to agency fund	(135,031)	(138,620)
Other nonoperating revenue	<u>6,668,283</u>	<u>4,255,662</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>102,601,979</u>	<u>92,769,270</u>
INCOME BEFORE OTHER REVENUES	<u>(1,539,493)</u>	<u>(6,472,330)</u>
State revenues, capital	26,223,647	12,926,604
Local revenues, capital	<u>-</u>	<u>120,966</u>
TOTAL OTHER REVENUES	<u>26,223,647</u>	<u>13,047,570</u>
INCREASE IN NET ASSETS	24,684,154	6,575,240
NET ASSETS, BEGINNING OF YEAR	<u>95,695,224</u>	<u>89,119,984</u>
NET ASSETS, END OF YEAR	<u>\$ 120,379,378</u>	<u>\$ 95,695,224</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 7,756,418	\$ 7,695,401
Federal and State grants and contracts	30,479,496	24,429,112
Payments to or on behalf of employees	(92,083,425)	(86,319,027)
Payments to vendors for supplies and services	<u>(36,370,797)</u>	<u>(41,005,534)</u>
Net Cash Flows From Operating Activities	<u>(90,218,308)</u>	<u>(95,200,048)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	56,107,600	49,772,991
Property taxes	39,730,455	36,465,307
Other State revenues	(397,874)	12,170,715
Other local revenues	<u>3,856,573</u>	<u>4,831,161</u>
Net Cash Flows From Noncapital Financing Activities	<u>99,296,754</u>	<u>103,240,174</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital apportionments	26,281,907	13,037,631
Local capital grants	-	120,966
Proceeds from bond issuance	242,927,414	7,285,000
Acquisition and construction of capital assets	(48,059,821)	(29,219,675)
Principal paid on capital debt and leases	(36,355,000)	(9,230,000)
Interest received on capital debt	130,237	89,944
Interest paid on capital debt and leases	<u>(8,347,487)</u>	<u>(6,688,551)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>176,577,250</u>	<u>(24,604,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(151,952,647)	-
Investment income	<u>6,774,627</u>	<u>1,985,799</u>
Net Cash Flows From Investing Activities	<u>(145,178,020)</u>	<u>1,985,799</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	40,477,676	(14,578,760)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>82,328,790</u>	<u>96,907,550</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 122,806,466</u>	<u>\$ 82,328,790</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTUALS		
Operating Loss	\$ (104,141,472)	\$ (99,241,600)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation expense	7,061,182	5,775,181
Changes in Assets and Liabilities:		
Receivables, net	(277,929)	(925,868)
Inventories	(3,678)	5,532
Prepaid items	(2,271,531)	(533,473)
Accounts payable and accrued liabilities	8,809,726	(685,255)
Deferred revenue	371,761	139,691
Claims liability	598,328	-
Compensated absences	(364,695)	265,744
Total Adjustments	<u>13,923,164</u>	<u>4,041,552</u>
Net Cash Used By Operating Activities	<u>\$ (90,218,308)</u>	<u>\$ (95,200,048)</u>
 CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:		
Cash in banks	8,513,727	7,895,120
Cash in county treasury	114,292,739	74,433,670
Total Cash and Cash Equivalents	<u>\$ 122,806,466</u>	<u>\$ 82,328,790</u>
 NONCASH TRANSACTIONS		
Deferred costs on issuance	4,654,067	-
On behalf payments for benefits	1,386,279	1,353,998
Total Noncash transactions	<u>\$ 6,040,346</u>	<u>\$ 1,353,998</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Peralta Community College District (the District) was established in 1964 as a political subdivision of the State of California and provides post secondary educational services to residents of Alameda County. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates four college campuses located in Alameda, Oakland, and Berkley, California. While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

Financial Reporting Entity

During the year ended June 30, 2004, the District adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consist of the primary government (the District), as well as the following component units:

- **Golden West Schools Financing Authority**

The Peralta Community College District and the Golden West Schools Financing Authority (the Authority) have financial and operational relationships which meet the reporting entity definition criteria of the GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Authority as a component unit of the District.

The Authority's financial activity is presented in the financial statements in the capital project fund. Special Tax Revenue Bonds issued by the Authority are included as long-term liabilities in the governmental-wide financial statements. Individually prepared financial statements are not prepared for the Authority.

The following entities do not meet the above criteria for inclusion as component units of the District.

- **Peralta Colleges Foundation, Inc.**

The Peralta Colleges Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization. The Foundation acts primarily as a fundraising organization to provide grants and scholarships to students and support to employees, programs, and departments of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the District by the donors. Because the amount of receipts from the Foundation is insignificant to the District as a whole, the Foundation is not considered a component unit of the District.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

- **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. 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).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency and intra-fund transactions have been eliminated.

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.

Nonexchange 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.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussions and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. The Business type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

The following is a summary of the more significant policies:

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

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 published market prices at year-end. Investments for which there are no quoted market prices are not material.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectable accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$433,980 and \$433,980 for the years ended June 30, 2006 and 2005, respectively.

Prepaid Expenditures

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

Inventory

Inventory consists primarily of supplies. Inventories are stated at cost, utilizing the weighted average method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

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, 2006 AND 2005

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. 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.

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. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as deferred revenue.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt - Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Restricted - Expendable - Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time.

Unrestricted - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating 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 (4) interest on institutional student loans.

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

Classification of Expenses - Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. 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.

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 either 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 years ended June 30, 2006 and 2005, the District distributed \$1,456,103 and \$1,073,419, respectively, 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 however the amounts are included on the Schedule of Federal Financial Assistance.

Changes in Accounting Principles

- **GASB Statement No. 42:** In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. The provisions of this statement are effective for periods beginning after December 2004 and have been implemented by the District in fiscal year 2005-2006.
- **GASB Statement No. 46:** In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB No. 34. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. Accordingly, it clarifies the determination of restricted net assets within the statement of net assets. The District has implemented this statement.
- **GASB Statement No. 47:** In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. The District has implemented this statement.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

New Accounting Pronouncements

- **GASB Statement No. 43:** In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other than Pension Plans*. The standards in this statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirements systems, or other third parties that administer them. The provisions of this statement are effective for periods beginning after December 15, 2005. The District is not a plan sponsor of an OPEB Plan.
- **GASB Statement No. 45:** In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition and display of OPEB expense, expenditures and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports of State and local governmental employers. This statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District is in the process of determining the impact the implementation of this statement will have on the government-wide statements of net assets and activities. This statement is effective for periods beginning after December 15, 2006, depending upon the size of the governmental entities' financial activity. The District will be implementing the requirements of this standard in the 2007-2008 fiscal year.

Comparative Financial Information

Comparative financial information for the prior year has been presented for additional analysis; certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - CASH AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to 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.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 8,458,727
Cash in revolving	55,000
Investments	266,245,386
Total Deposits and Investments	<u>\$ 274,759,113</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
County Pool - Alameda	\$ 114,205,254	365 days *
First American Treasury Obligations - Money Market Funds	867,506	10 days *
Highmark Money Market Funds	3,598,677	62 days *
Common Stock	65,813,259	N/A
Nueberger and Berman Equity International Institutional Fund	31,134,231	N/A
U.S. Governmental Securities	15,955,331	N/A
Corporate Debt Instruments	34,619,364	N/A
	\$ 266,193,622	

* Weighted average days to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County pool is not required to be rated, nor has it been rated as of June 30, 2006. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating June 30, 2006
County Pool - Alameda	\$114,205,254	Not required	Not rated
First American Treasury Obligations - Money Market Funds	867,506	Not required	AAA
Highmark Money Market Funds	3,598,677	Not required	Not rated
Common Stock	65,813,259	Not required	N/A
Nueberger and Berman Equity International Institutional Fund	31,134,231	Not required	Not rated
U.S. Governmental Securities	15,955,331	Not required	AAA/Aaa
Corporate Debt Instruments	34,619,364	Not required	AAA/Aaa
	\$266,193,622		

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, the District's bank balance of \$7,914,739 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

	<u>2006</u>	<u>2005</u>
Federal Government		
Categorical aid	\$ 1,090,799	\$ 1,039,145
State Government		
Apportionment	4,117,744	5,192,345
Categorical aid	89,159	147,419
Lottery	662,675	635,828
Other State sources	3,429,371	168,059
Local Government		
Other local sources	3,484,345	1,114,079
Total	<u>\$ 12,874,093</u>	<u>\$ 8,296,875</u>
Student receivables	1,347,292	1,091,187
Less allowance for bad debt	<u>(433,980)</u>	<u>(433,980)</u>
Student receivables, net	<u>\$ 913,312</u>	<u>\$ 657,207</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2006, 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	66,455,585	46,706,618	505,902	112,656,301
Total Capital Assets Not Being Depreciated	<u>71,008,869</u>	<u>46,706,618</u>	<u>505,902</u>	<u>117,209,585</u>
Capital Assets Being Depreciated				
Buildings	140,113,411	505,902	-	140,619,313
Site improvements	13,641,214	965,285	-	14,606,499
Machinery and equipment	23,312,464	196,405	-	23,508,869
Total Capital Assets Being Depreciated	<u>177,067,089</u>	<u>1,667,592</u>	<u>-</u>	<u>178,734,681</u>
Total Capital Assets	<u>248,075,958</u>	<u>48,374,210</u>	<u>505,902</u>	<u>295,944,266</u>
Less Accumulated Depreciation				
Buildings	64,028,559	2,804,459	-	66,833,018
Site improvements	3,173,755	597,279	-	3,771,034
Machinery and equipment	13,410,243	3,659,444	-	17,069,687
Total Accumulated Depreciation	<u>80,612,557</u>	<u>7,061,182</u>	<u>-</u>	<u>87,673,739</u>
Net Capital Assets	<u>\$ 167,463,401</u>	<u>\$ 41,313,028</u>	<u>\$ 505,902</u>	<u>\$ 208,270,527</u>

Depreciation expense for the year was \$7,061,182.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

Capital asset activity for the District for the fiscal year ended June 30, 2005, 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	38,054,977	28,400,608	-	66,455,585
Total Capital Assets Not Being Depreciated	<u>42,608,261</u>	<u>28,400,608</u>	<u>-</u>	<u>71,008,869</u>
Capital Assets Being Depreciated				
Buildings	140,113,411	-	-	140,113,411
Site improvements	13,641,214	-	-	13,641,214
Machinery and equipment	21,688,095	1,624,369	-	23,312,464
Total Capital Assets Being Depreciated	<u>175,442,720</u>	<u>1,624,369</u>	<u>-</u>	<u>177,067,089</u>
Total Capital Assets	<u>218,050,981</u>	<u>30,024,977</u>	<u>-</u>	<u>248,075,958</u>
Less Accumulated Depreciation				
Buildings	61,252,091	2,776,468	-	64,028,559
Site improvements	2,540,254	633,501	-	3,173,755
Machinery and equipment	11,045,031	2,365,212	-	13,410,243
Total Accumulated Depreciation	<u>74,837,376</u>	<u>5,775,181</u>	<u>-</u>	<u>80,612,557</u>
Net Capital Assets	<u>\$ 143,213,605</u>	<u>\$24,249,796</u>	<u>\$ -</u>	<u>\$ 167,463,401</u>

Depreciation expense for the year was \$5,775,181.

NOTE 5 - INTERFUND TRANSACTIONS

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, 2006 AND 2005

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 for the District consisted of the following:

	2006	2005
Accrued payroll and benefits	\$ 348,913	\$ 595,498
ERAF allocation	-	882,845
Construction	3,927,396	4,118,909
Other	10,717,465	1,661,154
Total	<u>\$ 14,993,774</u>	<u>\$ 7,258,406</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

	2006	2005
Federal categorical aid	\$ 12,793	\$ -
State categorical aid	1,527,627	771,153
Enrollment fees	446,361	717,209
Other local	188,997	315,655
Total	<u>\$ 2,175,778</u>	<u>\$ 1,804,017</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the fiscal year 2006 consisted of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Due in One Year
Bonds Payable					
General obligation bonds - 1992 Election	\$ 36,315,000	\$ -	\$ 20,970,000	\$ 15,345,000	\$1,485,000
General obligation bonds - 1996 Election	7,480,000	-	6,485,000	995,000	235,000
General obligation bonds - 2000 Election	95,820,000	55,700,000	8,130,000	143,390,000	2,565,000
Premium on debt	-	3,525,876	-	3,525,876	-
General obligation revenue bonds					
- 2005 Refunding	7,285,000	32,975,000	770,000	39,490,000	455,000
Premium on debt	-	1,630,773	-	1,630,773	-
Other postemployment benefit bonds	-	153,749,832	-	153,749,832	1,725,000
Total Bonds Payable	146,900,000	247,581,481	36,355,000	358,126,481	6,465,000
Other Liabilities					
Claims liability	-	598,328	-	598,328	-
Compensated absences	3,212,756	-	364,695	2,848,061	384,000
Total Long-Term Obligations	\$150,112,756	\$248,179,809	\$36,719,695	\$361,572,870	\$6,849,000

The changes in the District's long-term obligations during the fiscal year 2005 consisted of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Due in One Year
Bonds Payable					
General obligation bonds - 1992 Election	\$ 44,425,000	\$ -	\$ 8,110,000	\$ 36,315,000	\$ 1,665,000
General obligation bonds - 1996 Election	7,690,000	-	210,000	7,480,000	220,000
General obligation bonds - 2000 Election	96,730,000	-	910,000	95,820,000	1,290,000
General obligation revenue bonds					
- 2005 Refunding	-	7,285,000	-	7,285,000	-
Total Bonds Payable	148,845,000	7,285,000	9,230,000	146,900,000	3,175,000
Other Liabilities					
Compensated absences	2,943,848	268,908	-	3,212,756	384,000
Total Long-Term Obligations	\$151,788,848	\$7,553,908	\$9,230,000	\$ 150,112,756	\$3,559,000

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Description of Obligations

Payments on the general obligation bonds are made by the bond interest and redemption fund with local tax collections. Payments on the Other Postemployment Benefit (OPEB) Bonds will be made from the Unrestricted General Fund. The compensated absences will be paid by the fund for which the employee worked.

Bonded Debt

2002 Refunding General Obligation Bonds

In October 2002, the District issued, in the amount of \$7,310,000, the 2002 Refunding General Obligation Bonds to refund the Peralta Community College District, General Obligation Bonds, Election of 1992, Series A (the "1993 Bonds"). The bonds mature beginning February 1, 2003 through August 1, 2017, with interest rates ranging from 2.00 to 4.00 percent. The 1993 Bonds were issued on May 24, 1993, in the original par amount of \$9,000,000. The 1993 Bonds were issued to finance the acquisition, construction, and rehabilitation of school facilities. The 1993 Bonds were redeemed in full in November 2002.

2001 Refunding General Obligation Bonds

In April 2001, the District issued, in the amount of \$8,770,000, the 2001 Refunding General Obligation Bonds to advance refund the Peralta Community College District, General Obligation Bonds, Election of 1992, Series B (the "Series B Bonds"). The bonds mature beginning August 1, 2001 through August 1, 2018, with interest rates ranging from 4.00 to 5.00 percent. The Series B Bonds were issued on February 2, 1995, in the original par amount of \$9,000,000. The Series B Bonds were issued to finance the acquisition, construction, and rehabilitation of school facilities. The Series B Bonds were redeemed in August 2003 and, as a result, the Series B Bonds were fully discharged and defeased.

General Obligation Bonds, Election 1992, Series D

In April 2000, the District issued, in the amount of \$13,500,000, the Peralta Community College District General Obligation Bonds, Election 1992, Series D (the "1992 Series D Bonds") to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2001 through August 1, 2024, with interest yield rates ranging from 4.30 to 5.60 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of the callable 1992 Series D Bonds. The remaining bonds mature through 2019, with interest yield rates ranging from 2.62 to 4.52 percent.

General Obligation Bonds, Election 1992, Series E

In May 2001, the District issued, in the amount of \$10,500,000, the Peralta Community College District General Obligation Bonds, Election 1992, Series E (the "1992 Series E Bonds") to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2002 through August 1, 2025, with interest yield rates ranging from 3.25 to 5.12 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of the callable 1992 Series E Bonds. The remaining bonds mature through 2019, with interest yield rates ranging from 2.62 to 4.52 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

General Obligation Bonds, Election 1996, Series A

In May 2001, the District issued, in the amount of \$8,000,000, the Peralta Community College District General Obligation Bonds, Election 1996, Series A (the "1996 Series A Bonds") to finance the acquisition, construction and rehabilitation of school facilities at the Vista Campus (Berkeley). The bonds mature beginning August 1, 2002 through August 1, 2025, with interest yield rates ranging from 3.30 to 5.23 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of the callable 1996 Series A Bonds. The remaining bonds mature through August 1, 2009, with interest yield rates ranging from 2.62 to 4.52 percent.

General Obligation Bonds, Election 2000, Series A

In May 2001, the District issued, in the amount of \$27,500,000, the Peralta Community College District General Obligation Bonds, Election 2000, Series A (the "2000 Series A Bonds") to finance the acquisition, construction and rehabilitation of school facilities. The bonds mature beginning August 1, 2002 through August 1, 2031, with interest yield rates ranging from 3.25 to 5.25 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of a portion of the callable 2000 Series A Bonds. The remaining bonds mature through August 1, 2031, with interest yield rates ranging from 2.62 to 4.52 percent.

General Obligation Bonds, Election 2000, Series B

In May 2002, the District issued, in the amount of \$30,000,000, the Peralta Community College District General Obligation Bonds, Election 2000, Series B (the "2000 Series B Bonds") to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2003 through August 1, 2032, with interest yield rates ranging from 2.00 to 5.32 percent.

General Obligation Bonds, Election 2000, Series C

In May 2004, the District issued, in the amount of \$40,000,000, the Peralta Community College District General Obligation Bonds, Election 2000, Series C (the "2000 Series C Bonds") to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2005 through August 1, 2034, with interest yield rates ranging from 1.60 to 5.20 percent.

General Obligation Bonds, Election 2000, Series D

In July 2005, the District issued, in the amount of \$55,700,000, the Peralta Community College District General Obligation Bonds, Election 2000, Series D (the "2000 Series D Bonds") to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2006 through August 1, 2035, with interest yield rates ranging from 2.51 to 4.18 percent.

2005 General Obligation Revenue Bonds, Series A

In June 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series A (Peralta Community College District Refunding) to finance the acquisition of the outstanding Peralta Community College District General Obligation Bonds, Election of 1992, Series C, in the amount of \$8,000,000. The bonds are repaid through tax assessments on property located within the District boundaries. The interest rates for the 2005 General Obligation Revenue Bonds, Series A range from 2.55 percent to 4.0 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

2005 General Obligation Revenue Bonds, Series B

In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B (Peralta Community College District Refunding) to finance the acquisition of the callable Peralta Community College District General Obligation Bonds, Election of 1992, (the "1992D Bonds"), the callable General Obligation Bonds, Election 1992, Series E, (the "1992E Bonds"), the callable General Obligation Bonds, Election 1996, Series A, (the "1996A Bonds"), and a portion of the callable General Obligation Bonds, Election 2000, Series A (the "2000A Bonds") in the amount of \$32,410,000. Concurrent with the issuance of the bonds, the District will issue its 2005 General Obligation Refunding Bonds. The bonds are repaid through tax assessments on property located within the District boundaries. The bonds mature beginning on August 1, 2006 through August 1, 2025, with interest yields ranging from 2.62 to 4.52 percent.

The outstanding general obligation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2005	Issued	Redeemed	Outstanding June 30, 2006
10/24/2002	8/01/2017	2.00%-4.00%	\$ 7,310,000	\$ 6,420,000	\$ -	\$ 400,000	\$ 6,020,000
4/15/2001	8/01/2018	4.00%-5.00%	8,770,000	7,260,000	-	400,000	6,860,000
4/15/2000	8/01/2008	2.62%-4.52%	13,500,000	12,580,000	-	11,395,000	1,185,000
5/30/2001	8/01/2009	2.62%-4.52%	10,500,000	9,815,000	-	8,535,000	1,280,000
5/30/2001	8/01/2009	2.62%-4.52%	8,000,000	7,480,000	-	6,485,000	995,000
5/30/2001	8/01/2031	2.62%-4.52%	27,500,000	26,455,000	-	7,320,000	19,135,000
5/30/2002	8/01/2032	2.00%-5.32%	30,000,000	29,365,000	-	490,000	28,875,000
5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	40,000,000	-	320,000	39,680,000
7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	-	55,700,000	-	55,700,000
6/01/1997	8/01/2021	2.55%-4.25%	8,000,000	6,755,000	-	240,000	6,515,000
8/17/2005	8/01/2025	2.62%-4.52%	32,975,000	-	32,975,000	-	32,975,000
				<u>\$146,130,000</u>	<u>\$88,675,000</u>	<u>\$35,585,000</u>	<u>\$199,220,000</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

General Obligation Bond - 1992 Election

The 1992 general obligation bonds mature through 2019 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,485,000	\$ 610,442	\$ 2,095,442
2008	1,560,000	548,248	2,108,248
2009	1,625,000	482,622	2,107,622
2010	1,255,000	423,336	1,678,336
2011	955,000	380,592	1,335,592
2012-2016	5,345,000	1,297,305	6,642,305
2017-2019	3,120,000	194,133	3,314,133
Total	<u>\$ 15,345,000</u>	<u>\$ 3,936,678</u>	<u>\$ 19,281,678</u>

General Obligation Bond - 1996 Election

The 1996 general obligation bonds mature through 2010 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 235,000	\$ 45,406	\$ 280,406
2008	245,000	32,806	277,806
2009	250,000	19,813	269,813
2010	265,000	6,625	271,625
Total	<u>\$ 995,000</u>	<u>\$ 104,650</u>	<u>\$ 1,099,650</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

General Obligation Bond - 2000 Election

The 2000 general obligation bonds were issued as follows: Series A \$27,500,000, Series B \$30,000,000, Series C \$40,000,000, and Series D \$55,700,000. The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 2,565,000	\$ 7,033,336	\$ 9,598,336
2008	2,765,000	6,890,036	9,655,036
2009	2,925,000	6,737,098	9,662,098
2010	3,085,000	6,574,849	9,659,849
2011	3,220,000	6,419,595	9,639,595
2012-2016	16,060,000	29,952,657	46,012,657
2017-2021	18,025,000	26,172,936	44,197,936
2022-2026	28,565,000	20,432,053	48,997,053
2027-2031	36,335,000	12,269,669	48,604,669
2032-2036	29,845,000	3,175,062	33,020,062
Total	<u>\$ 143,390,000</u>	<u>\$ 125,657,291</u>	<u>\$ 269,047,291</u>

General Obligation Revenue Bonds - 2005 Refunding

The general obligation revenue bonds mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 455,000	\$ 1,986,866	\$ 2,441,866
2008	290,000	1,966,431	2,256,431
2009	310,000	1,951,166	2,261,166
2010	780,000	1,926,689	2,706,689
2011	1,435,000	1,875,533	3,310,533
2012-2016	10,650,000	8,046,483	18,696,483
2017-2021	15,340,000	4,674,843	20,014,843
2022-2026	10,230,000	1,139,801	11,369,801
Total	<u>\$ 39,490,000</u>	<u>\$ 23,567,812</u>	<u>\$ 63,057,812</u>

2005 Other Postemployment Benefit Bonds

In December 2005, the District issued the 2005 Other Postemployment Benefit Bonds in the amount of \$153,749,832 to refinance the District's obligation to pay certain health care benefits for certain retired District employees and pay certain costs.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

The OPEB bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2007	\$ 1,725,000	\$ -	\$ 1,025,365	\$ 2,750,365
2008	3,180,000	-	818,593	3,998,593
2009	4,110,000	-	641,876	4,751,876
2010	5,340,000	-	410,701	5,750,701
2011	5,660,000	-	1,681,556	7,341,556
2012-2016	27,090,742	6,859,258	5,678,311	39,628,311
2017-2021	23,633,293	14,816,707	6,418,598	44,868,598
2022-2026	19,866,112	23,308,888	7,567,305	50,742,305
2027-2031	17,162,316	32,137,684	8,148,534	57,448,534
2032-2036	12,447,282	34,377,718	17,729,376	64,554,376
2037-2041	13,348,159	43,526,841	16,358,617	73,233,617
2042-2046	9,185,735	47,989,265	25,453,412	82,628,412
2047-2050	11,001,193	57,473,807	6,137,827	74,612,827
Total	<u>\$ 153,749,832</u>	<u>\$ 260,490,168</u>	<u>\$ 98,070,071</u>	<u>\$ 512,310,071</u>

Compensated Absences

At June 30, 2006, the liability for compensated absences was \$2,848,061.

NOTE 9 - 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 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 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 \$135.9 million.

In December 2005, the District issued \$153,749,835 of Taxable 2005 Limited Obligation OPEB (Other Post-Employment Benefit) Bonds to refinance the District's obligation to pay certain health care benefits for certain retired District employees and pay certain costs. The bonds mature beginning on August 1, 2006 through August 1, 2049, with interest rates ranging from 4.71 percent to 5.51 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 10 - RISK MANAGEMENT

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, 2006, 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.

Workers' Compensation

For fiscal year 2006, 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 ensures 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.

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 11 - 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).

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

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 System, 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.

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 CB 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 2005-2006 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$2,535,930, \$2,477,473, and \$2,375,424, respectively, and equal 100 percent of the required contributions for each year.

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. 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 2005-2006 was 9.116 percent of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2006, 2005, and 2004, were \$1,863,352, \$1,857,446, and \$1,889,135, respectively, and equaled 100 percent of the required contributions for each year.

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 \$1,386,279 (4.517 percent of salaries subject to STRS). A contribution to CalPERS was not required for the year ended June 30, 2006. These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its plan. Contributions made by the District and an employee vest immediately. The District contributes 3.75 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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, 2006.

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, 2006.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2007	\$ 659,706
2008	597,744
2009	597,744
2010	597,744
Total	<u>\$ 2,452,938</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Asbestos Abatement, Building F	\$ 26,760	07/01/06
Asbestos Abatement, Building A	9,000	07/01/06
Asbestos Abatement, Building R	3,190	05/15/08
New Vista Building	3,049,783	03/31/07
Replace Boiler #1	49,350	07/01/06
Install New Boiler Controls and Equipment	23,444	07/01/06
Measure B, Miscellaneous Projects	66,684	Ongoing
Physical Plant Program Support	84,186	Ongoing
DAC Remodel, (Human Resources and Finance Buildings)	164,347	04/30/07
Beginner's Inn Remodel	63,318	07/01/06
COA ASTI High School Project	34,808	07/01/06
Laney Renovation of Lecture Room	293,547	03/31/07
Laney, Athletic Fields	1,828,331	TBD
Network Upgrades, District-wide	1,767,597	TBD
Network Upgrades - PeopleSoft	884,801	TBD
Merritt Building, Student Center Renovation	6,661,579	TBD
District-wide Irrigation Controller	71,050	TBD
One Stop Career Center	95,411	TBD
Laney Building A Deck	28,300	TBD
Student Services, Laney	449,419	TBD
COA Building A, Admissions and Records	536,464	TBD
Laney New Art Building Project	2,893,090	01/31/07
Miscellaneous projects	2,873	TBD
	<u>\$ 19,087,332</u>	

The projects are funded through a combination of general obligation bonds and capital project apportionments from the State Chancellor's Office.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 13 - 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, dental, 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.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2006, the District made payments of \$100,154, \$748,974, \$0, and \$908,899 to 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), respectively.

NOTE 14 - SUBSEQUENT EVENTS

In August 2006, the District issued General Obligation Bonds Election 2006, Series A in the amount of \$75,000,000. The bonds were issued to finance the acquisition, construction, and rehabilitation of school facilities. The bonds were issued with yields ranging from 3.4 to 4.4 percent.

In November 2006, the District executed an interest rate swap (floating interest rate option to a fixed rate interest option) in regards with the Series 2005 OPEB Bonds which included six series of Convertible Auction Rate Securities. The terms and conditions of the swap transaction entered into between the Peralta Community College District and Morgan Stanley Capital Services, Inc. is as follows: Fixed interest rate of 4.900 percent will accrue from the date of delivery to and including September 9, 2010, with respect to the Series B-1; fixed interest rate of 5.158 percent to and including September 9, 2015, with respect to Series B-2; fixed interest rate of 5.279 percent to and including September 9, 2020, with respect to Series B-3; fixed interest rate of 5.207 percent to and including September 9, 2025, with respect to Series B-4; fixed interest rate of 5.055 percent to and including September 9, 2031, with respect to Series B-5; and fixed interest rate of 4.935 percent to and including September 9, 2039, with respect to Series B-6.

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2006

Peralta Community College District was established in 1964 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 Berkeley City College.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Linda Handy	President	2006
Mr. Bill Withrow	Vice President	2008
Ms. Alona Clifton	Member	2006
Mr. Nicky Gonzalez-Yuen	Member	2008
Mr. Cy Gulassa	Member	2008
Ms. Marcie Hodge	Member	2008
Dr. William Riley	Member	2006
Mr. Rashad Andrews	Student Trustee	2006
Ms. Lisa Watkins-Tanner	Student Trustee	2006

ADMINISTRATION

Mr. Elihu Harris, Esq.	Chancellor
Ms. Thuy Nguyen, Esq.	General Counsel
Dr. Margaret Haig	Vice Chancellor, Educational Services
Mr. Tom Smith, Esq.	Vice Chancellor, Finance and Administration
Dr. Cecilia Cervantes	President, College of Alameda
Dr. Judy Walters	President, Berkeley City College
Dr. Evelyn Wesley	President, Merritt College
Mr. Odell Johnson	President, Laney College
Ms. Yvonne Dorrrough	Associate Vice Chancellor, Budget and Finance

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS		
Student Financial Aid Cluster [1]		
Pell Grants	84.063	\$ 13,508,847
Federal Supplemental Education Opportunity Grants	84.007	1,075,215
Federal Work Study Program	84.033	683,799
Federal Work Study Administrative Allowance	84.033	96,208
Federal Family Education Loans	84.032	1,456,103
Gear Up - I Have a Dream	84.334	54,223
Institutional Development	84.031	19,329
PASSED THROUGH STATE DEPARTMENT OF EDUCATION		
Workability	84.126A	247,237
Vocational and Applied Technology Education Act		
Title II-C [1]	84.048	726,466
Tech Prep	84.243	140,027
Bay Area Consortium	84.048	450
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>18,007,904</u>
U.S. DEPARTMENT OF AGRICULTURE		
PASSED THROUGH STATE DEPARTMENT OF EDUCATION		
Adult and Child Care Food Program	10.533	<u>50,811</u>
U.S. DEPARTMENT OF LABOR		
PASSED THROUGH CITY OF ALAMEDA		
WIA Grant Program One Stop Career Center Operation	17.257	259,540
WIA Grant Program Youth Services	17.259	137,046
TOTAL U.S. DEPARTMENT OF LABOR		<u>396,586</u>
NATIONAL SCIENCE FOUNDATION		
Environmental Control Technology Education	47.076	<u>237,478</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Retired and Senior Volunteer Program	94.002	<u>136,186</u>
PASSED THROUGH STATE DEPARTMENT OF EDUCATION		
Temporary Assistance for Needy Families	93.558	264,084
Child Development Block Grant	93.575	503,700
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>767,784</u>
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 19,596,749</u></u>

[1] Tested as a major program.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Program</u>	<u>Program Entitlements</u>		
	<u>Current Year</u>	<u>Prior Year</u>	<u>Total Entitlement</u>
Cooperative Agencies Resources for Education	\$ 602,673	\$ 27,636	\$ 630,309
Disabled Students Programs and Services	2,146,250	125,459	2,271,709
Extended Opportunity Program and Services	2,652,952	-	2,652,952
Matriculation - Credit	1,166,448	56,457	1,222,905
Matriculation - Non-Credit	10,617	10,533	21,150
Nursing Care	479,487	-	479,487
Child Development	93,243	-	93,243
Economic Development			
Nursing Program	-	58,823	-
Centers for International Trade	178,875	-	178,875
CalWORKs (including Child Care)	1,109,261	47,801	1,157,062
California Articulation Number System	-	20,000	20,000
Closed Caption - DSPS	-	26,136	26,136
Telecommunications/Technology Infrastructure	224,963	218,403	443,366
Staff Diversity	21,357	12,876	34,233
Instructional Equipment	425,854	32,358	458,212
Foster Care	91,722	86,741	178,463
Child Care Tax Bailout	682,262	-	682,262
Board of Financial Assistance Program	1,109,422	33,084	1,142,506
Foundation for Community College	100,000	100,000	200,000
ESL Ecommerce	11,000	-	11,000
Total			

See accompanying note to supplementary information.

Program Revenues				
Cash	Accounts	Deferred	Total	Program
Received	Receivable	Revenue	Revenue	Expenditures
\$ 630,309	\$ -	\$ 38,876	\$ 591,433	\$ 591,433
2,271,709	-	277,212	1,994,497	1,994,497
2,520,399	19,263	-	2,539,662	2,539,662
1,222,705	-	91,038	1,131,667	1,131,667
21,150	-	21,150	-	-
479,487	-	475,251	4,236	4,236
37,810	37,048	-	74,858	74,858
45,684	-	24,556	21,128	21,128
150,255	28,620	-	178,875	178,875
1,089,480	-	75,205	1,014,275	1,014,275
3,485	-	1,754	1,731	1,731
26,136	-	-	26,136	26,136
443,366	-	291,332	152,034	152,034
34,233	-	22,082	12,151	12,151
458,212	-	131,707	326,505	326,505
70,305	4,228	-	74,533	74,533
682,262	-	-	682,262	682,262
1,142,506	-	21,499	1,121,007	1,121,007
145,428	-	55,605	89,823	89,823
8,000	-	-	8,000	8,000
\$ 11,482,921	\$ 89,159	\$ 1,527,267	\$ 10,044,813	\$ 10,044,813

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT
 FOR THE YEAR ENDED JUNE 30, 2006**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
<u>Credit Full-Time Equivalent Student (FTES)</u>			
1. Summer	1,958	-	1,958
2. Weekly census	13,847	-	13,847
3. Daily census	1,389	-	1,389
4. Actual hours of attendance	413	-	413
5. Independent study/work experience	444	-	444
Subtotal	<u>18,051</u>	<u>-</u>	<u>18,051</u>
<u>Noncredit FTES</u>			
1. Summer	30	-	30
2. Actual hours of attendance	362	-	362
Subtotal	<u>392</u>	<u>-</u>	<u>392</u>
Total FTES	<u>18,443</u>	<u>-</u>	<u>18,443</u>
<u>Basic Skills Courses</u>			
Credit			<u>1,233</u>
<u>FTES Generated in Leased Space</u>			
			<u>886</u>
<u>Gross Square Footage</u>			
Existing facilities			<u>1,310,785</u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF ANNUAL APPRENTICESHIP HOURS OF INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
July 1 - December 31, 2005	6,890	-	6,890
January 1 - April 15, 2006	7,148	-	7,148
April 16 - June 30, 2006	421	-	421
Total	<u>14,459</u>	<u>-</u>	<u>14,459</u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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

	General Fund	Child Development	Revenue Bond Project	Capital Outlay Projects
FUND BALANCE				
Balance, June 30, 2006, (CCFS-311)	\$ 10,456,693	\$ 301,451	\$ 210,521	\$ 95,056,440
Increase in:				
Cash with fiscal agent	-	-	-	831,785
Accounts receivable	67,212	-	-	-
Accounts payable	(264,398)	-	-	(1,057,294)
Deferred revenue	(606,221)	-	-	-
Decrease in:				
Cash in county treasury	(538,454)	(32,786)	(1,269)	-
Balance, June 30, 2006, Fund Financial Statement	<u>\$ 9,114,832</u>	<u>\$ 268,665</u>	<u>\$ 209,252</u>	<u>\$ 94,830,931</u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET ASSETS JUNE 30, 2006

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

Total Fund Balance, Retained Earnings, and Due to Student Groups:

General Funds	\$ 9,114,832
Special Revenue Funds	2,150,061
Debt Service Fund	13,791,455
Capital Projects Funds	95,040,183
Internal Service Fund	2,105,222
Fiduciary Funds	<u>1,533,592</u>

Total Fund Balance and Retained Earnings -

All District Funds

\$ 123,735,345

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	295,944,266	
Accumulated depreciation is	(87,673,739)	
Less fixed assets in fiduciary funds	<u>(5,025)</u>	208,265,502

Governmental funds report cost of issuance associated with the issuance of debt when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

Cost of issuance at year end (less Retiree Benefits Fund) amounted to :	1,432,443
---	-----------

Amounts held in trust on behalf of others (Trust and Agency Funds)	(1,533,592)
--	-------------

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(4,081,282)
--	-------------

Long-term liabilities at year-end consist of:

General obligation bonds payable	199,220,000	
Premium on debt	5,156,649	
Claims liability	598,328	
Compensated absences (vacations) - less current portion	<u>2,464,061</u>	(207,439,038)

Total Net Assets

\$ 120,379,378

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

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.

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.

Schedule of Workload Measures for State General Apportionment and Schedule of Annual Apprenticeship Hours of Instruction

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. These schedules provide information regarding the attendance of students throughout the District.

Reconciliation of Annual Financial and Budget Report with Fund Financial Statements

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

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's fund financial statements, prepared on a modified accrual basis, to the accrual basis required under GASB Statement No. 35.

INDEPENDENT AUDITORS' REPORTS



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

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the financial statements of Peralta Community College District (the District) as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion 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 2006-1 through 2006-7. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Peralta Community College District in a separate letter dated March 9, 2007.

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 caused by error or fraud 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, findings 2006-1 and 2006-2 are identified as material weaknesses in the Findings and Questioned Costs section of this report.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the 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.

Vaurinek, Irene Day : Co. UP

Rancho Cucamonga, California
March 9, 2007



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

Board of Trustees
Peralta Community College District
Oakland, California

Compliance

We have audited the compliance of Peralta Community College District (the 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, 2006. 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, except for findings 2006-8 through 2006-11 as described in the accompanying Schedule of Federal Awards Findings and Questioned Costs, 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, 2006.

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 Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the 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.

Vaurinek, Irine, Day & Co. LLP

Rancho Cucamonga, California
March 9, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the financial statements of the Peralta Community College District (the District) for the years ended June 30, 2006 and 2005, and have issued our report thereon dated March 9, 2007.

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 Directive

- MIS Implementation - Required Data Elements

Administration

- Open Enrollment
- Minimum Conditions - Standards of Scholarship
- Student Fee - Instructional Materials and Health Fees
- Apportionment of Instructional Service Agreements/Contracts
- Residency Determination for Credit Courses
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Enrollment Fee
- Students Actively Enrolled
- Salaries of Classroom Instructors (50% Law)
- Use of Matriculation Funds
- CalWORKs - Use of State and Federal TANF Funding
- Allocation of Costs (DSPS and EOPS)
- Non Credit Courses

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 findings 2006-12 through 2006-17 as described in the accompanying Schedule of State Awards Findings and Questioned Costs, Peralta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006.

This report is intended solely for the information of the Board of Trustees, District Management, 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.

Vaurineh, Irine, Day & Co. LLP

Rancho Cucamonga, California
March 9, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2006**

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)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.032, 84.033, 84.063, 84.007</u>	<u>Student Financial Aid Cluster</u>
<u>84.048</u>	<u>Vocational and Applied Technology Education Act Title II-C</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 587,902</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, 2006

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 WEAKNESS

PEOPLESOFT ACCOUNTING SOFTWARE

2006-1 Finding

As a response to prior year comments regarding the inadequacies of the financial accounting software system utilized by the District, implementation of the PeopleSoft Accounting Software system (the SYSTEM) was commenced on July 1, 2005. The implementation encompassed a complete change in the processes, procedures, and functionality of the accounting system.

Inadequate support and training from the software vendor, as well as delays in the implementation of certain modules of the system, created the need for certain established internal controls to be set aside during the year. The following items have been noted:

- Payroll – Although employee payroll was processed and employees paid in accordance with District timelines, the payroll transactions for the 2005-2006 fiscal year were not posted to the general ledger system until December 2006.
- Cash Accounts – Reconciliations of the cash held in the county treasury to the general ledger was not completed on a monthly basis during the 2005-2006 fiscal year and ultimately was not completed until March 2007.
- Supervisory Approvals – In order to process transactions, the primary approval, posting, and reconciliation of activity was accomplished by one individual.
- Information Systems – Approval and posting of activity was, at times, granted to the information systems personnel.
- Reporting – Review of activity generated at the college campuses, particularly in the area of grants and programs, was not available. Reporting of financial activity to the Management, the Board of Trustees, and the Audit Committee during the year was not complete.

Each of these areas has also been addressed in specific comments within this document. While it is understood that some internal controls may be circumvented during a conversion process, the above items have created the situation that errors and irregularities may have occurred and not been detected by Management.

Recommendation

Continued training of staff at all appropriate levels of the District must occur. Access by the Information Systems department to process activity must be eliminated as soon as possible. Reconciling controls must be reinstated to ensure that all transactions occurring during the accounting period have been properly posted in a timely manner to the proper account and program.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

District Response

The District will implement this recommendation.

INFORMATION SYSTEMS

2006-2 Finding

The PeopleSoft Accounting Software operates and provides the following services through the Information Systems:

- Accounting – The SYSTEM is an integrated financial, accounting, and budgeting system that processes all transactions for the District.
- Purchasing – Vendor files and payment information are maintained within the SYSTEM.
- Payroll and Human Resources – The Position Control system is maintained within the SYSTEM, as are personnel files.

With the implementation of the SYSTEM, these key areas have not been independently evaluated or tested to ensure the controls, approvals, procedures, and processes have been appropriately set up and are functioning properly.

Recommendation

The controls in place within the SYSTEM should be reviewed and tested by an independent service provider and evaluated to ensure the adequacy. This review should encompass the controls specific for the transactions processed through the SYSTEM and should include the security settings of the SYSTEM. As an example, the District should request a SAS 70 review to be performed over the SYSTEM. Specifically a SAS 70 - Type 2 level report that will indicate if the controls tested are functioning properly, as well as address any weaknesses in the internal control environment.

District Response

The District will implement this recommendation.

REPORTABLE CONDITIONS

POLICIES AND PROCEDURES

2006-3 Finding

With the implementation of the new software accounting system, many procedures and functions within the accounting, payroll, purchasing, and business office have significantly changed, and prior practices and procedures are no longer valid. This creates the possibility that controls are circumvented, and errors or irregularities could occur that are not detected by management in a timely manner.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

In order to ensure that all transactions are being processed in accordance with sound internal controls, Board Policies, and the Education Code, written procedures manuals should be developed and provided to all employees in the above departments.

District Response

The District will implement this recommendation.

SEGREGATION OF DUTIES

2006-4 Finding

Controls specifically over transfers between funds and journal entries are currently not in place. One individual has the ability and the authority to create, process, approve, and reconcile transactions that are posted through journal entries and transfers between funds. This creates the possibility that errors or irregularities could be processed and not be detected in a timely manner.

Recommendation

All transfers between funds should be reviewed and approved by someone at a higher level than the individual processing the transaction prior to posting to the general ledger. All journal entries should be supported by the original entry and the reason for the journal entry. The transaction should be reviewed and approved by someone at a higher level than the individual processing the transaction prior to posting to the general ledger.

District Response

The District will implement this recommendation.

2006-5 Finding

There appears to be a lack of segregation of duties between the Purchasing Department and the Facilities Department. One individual has the ability and the authority to requisition, approve, and receive goods and merchandise. This creates the possibility that irregularities could be processed and not detected in a timely manner.

Recommendation

In order to strengthen internal controls over the requisition, approval, and receipt of goods and merchandise, there should be a distinct segregation of duties between the Purchasing Department and the Facilities Department. This will help mitigate the possibility of irregularities occurring.

District Response

The District will review the recommendation to determine if changes are required.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2006

PAYROLL PROCESSING

2006-6 Finding

As noted in finding 2006-1, the payroll transactions for fiscal year ended June 30, 2006, were not posted to the general ledger until December 2006. This was a direct result of the implementation of the SYSTEM and the account coding requirements of the SYSTEM. While the payments to employees were processed for each pay period and employees were paid, the ability of program and budget managers to monitor their program, and for an analysis of the District budget and transactions, was severely hampered during the year. This creates the possibility that errors or irregularities could be processed and not be detected in a timely manner.

Recommendation

As the full implementation process is finalized, the posting of payroll is anticipated to be performed on a current basis. Until this occurs, compensating procedures should be established to allow for the full analysis and reconciliation of the program budgets to the actual expenditure activity related to payroll.

District Response

Until posting is made possible within PeopleSoft, managers are monitoring their budgets manually.

CONTRACTS

2006-7 Finding

Current Board Policy states that contracts with vendors in excess of \$25,000 are to be brought to the Board for approval. We noted contracts may be written at different times for less than the \$25,000 threshold; but when aggregated together, the total amount paid to the vendor exceeded the approved amount. We also noted individual contracts that were written at exactly \$25,000 that were not brought to the Board for approval. The requirement to bring these contracts to the Board is a good internal control to ensure proper bidding requirements are adhered to, as well as providing additional authorization and reporting at the Board level.

Recommendation

Controls should be evaluated to ensure that all contracts to an individual are monitored, and if the threshold established by the Board is met or exceeded, the contract is placed on the Board agenda for review and approval.

District Response

The District will implement this recommendation.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

The following findings represent reportable conditions and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

ELIGIBILITY DETERMINATION

Federal Programs Affected – Student Financial Aid Cluster – US Department of Education (DOE), Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA# 84.007), Federal Pell Grant Program (CFDA #84.063), Federal Work Study Program (CFDA #84.033), Federal Family Educational Loans (CFDA #84.032)

2006-8 Finding

Internal controls over eligibility and verification of student financial aid files were not in place or functioning properly at Berkeley City College. The financial aid supervisor has the responsibility for packaging student financial aid, reviewing eligibility and student financial aid files, and approving adjustments to the awards. The information included within the financial aid files did not consistently provide adequate documentation regarding the student history, approved and accepted award letters, citizenship status documentation, and loan documents or exit interviews for students with loans outstanding. Additionally, the following specific areas were noted:

- We noted student budgets had been changed from dependent status to independent status in 2 of the 25 files reviewed with no supporting documentation.
- From this review of 25 files, we noted the following over and under awarded amounts to students with no documented explanation for the variance:
 - One student was eligible to receive \$2,625 and was awarded and paid \$3,062.
 - One student was eligible to receive \$2,682 and was awarded and paid \$2,762.50.
 - One student was eligible to receive \$1,800 and was awarded and paid \$900.
 - One student was eligible to receive \$2,800 and was awarded and paid \$1,800.
 - One student was eligible to receive \$3,063 and was awarded and paid \$2,700.
- We also noted the student attendance system was not consistently verified to the SAFE Financial Aid system for reporting and verifying the number of units a student was enrolled in prior to disbursing the financial aid funds.
- The financial aid office does not consistently utilize the standard PELL Grant Program Disbursement Schedule which resulted in several instances of rounding variances for awards.

Impact

The lack of proper internal controls and documentation of procedures has resulted in the over and under awarding of student financial aid. Additional noncompliance with the applicable Federal regulations could result in additional questioned costs related to the student financial aid program.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Criteria

OMB Circular A-133, Subpart C, Section 300 part b. The auditee is responsible for "Maintaining internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and their provision of contracts or grant agreements that could have a material affect on each of its federal programs."

Questioned Costs

Based upon our specific testing, the College has over awarded students \$514.50 and under awarded students \$2,263.

Recommendation

The College should immediately incorporate the appropriate internal controls and procedures for the awarding and disbursing of Federal student financial aid. The procedures should be documented in a procedure manual for all financial aid personnel to follow. Reasonable internal controls should include: documentation of all changes to student financial aid files, supervisory review of the award and disbursement amounts prior to paying the financial aid award, verification of student enrollment status prior to disbursing funds, and proper training on the compliance requirements for all student financial aid personnel.

District Response

The Associate Vice Chancellor for Educational Services will conduct a review to determine process changes.

CASH MANAGEMENT

Federal Programs Affected – Student Financial Aid Cluster – US Department of Education (DOE), Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA# 84.007), Federal Pell Grant Program (CFDA #84.063), Federal Work Study Program (CFDA #84.033), Federal Family Educational Loans (CFDA #84.032)

2006-9 Finding

The District has not documented the procedures related to the cash management of Student Financial Aid Funds. Additionally, the funds disbursed to the District through the GAPS system are not segregated in an interest bearing account.

Impact

The District is at risk on noncompliance with the Cash Management criteria.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Criteria

Code of Federal Regulations (CFR) 34 CFR 668.163 (c). All entities receiving Federal financial aid funds must maintain an interest bearing account into which the Department transfers, or the entity deposits, the funds. The entity has a fiduciary responsibility to segregate Federal funds from all other funds and to ensure that Federal funds are only used for the benefit of eligible students.

The requirements for an interest bearing account may be waived if one of the following criteria are met: (a) the District is drawing less than \$3 million annually; (b) the District can document and demonstrate that \$250 in interest would not be earned in the account or (c) the District formally requests the funds be made available utilizing the "just-in-time" payment method.

Questioned Costs

None

Recommendation

The District should establish a segregated interest bearing account to accept the deposit of funds through the GAPS drawdown system for student financial aid. If the District chooses not to maintain an interest bearing account for the student financial aid funds, one of the above criteria should be documented and maintained as the methodology the District is utilizing.

District Response

The District is always fronting the financial aid dollars and, therefore, has a receivable from the Federal Government. It is the District that is losing the interest.

EQUIPMENT PURCHASE

**Federal Program Affected – Vocational and Technology Educational Act (VATEA)
(CFDA #84.048) – US Department of Education**

2006-10 Finding

An inventory control system has not been implemented to properly identify and monitor equipment purchased with Federal funds. Equipment purchased with VATEA funds has not been tagged or inventoried with a physical inventory during the past two years.

Impact

The lack of proper inventory controls could result in noncompliance with the program requirements. Equipment purchased with Federal funds may be used in general operations or non-Federally funded programs.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Criteria

OMB Circular A-110 Subpart C, Section 32 (3) and (4) requires a verification of the existence, current utilization, and continued need for equipment purchased with Federal funds. A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. A physical inventory of equipment shall be taken, and the results reconciled with the equipment records at least every two years.

Questioned Costs

None

Recommendation

An inventory control system should be implemented to properly safeguard the equipment purchased and utilized by the District. The control system should include the ability to identify and monitor equipment that has been purchased specifically with Federal dollars. At least bi-annually, a physical inventory of the equipment on site and in use within the program should be taken and reconciled to the control system.

District Response

The District is in the process of implementing the PeopleSoft asset management software which will correct this deficiency.

REPORTING

**Federal Program Affected – Vocational and Technology Educational Act (VATEA)
(CFDA #84.048) – US Department of Education**

2006-11 Finding

Quarterly interim expenditure reports for the VATEA Title 1-C program were not submitted by the filing deadlines during the year. Additionally, the reports prepared were not based upon actual expenditures or reconciled to the accounting records. The reports were submitted based upon estimated expenditures and budgets. The final report of all funds expended as of June 30, 2006, was supported by the accounting records and reconciled.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Impact

By not adequately reporting the actual expenditures during the year, the risk of over or under expending program funds is heightened and could result in disallowed costs. The final expenditures within the program, by College, are noted below to note the actual amount of under utilized funds:

<u>College</u>	<u>Allocation</u>	<u>Expenditures</u>	<u>Under Utilized Funds</u>
Alameda College	\$168,856	\$163,466	\$ 5,390
Laney College	\$379,701	\$361,353	\$ 18,350
Merritt College	\$234,075	\$206,242	\$ 27,833
Berkeley City College	\$110,784	\$ 62,764	\$ 48,020
District Office	\$ 47,022	\$ 39,692	\$ 7,330

Criteria

The California State Systems Office (oversight monitoring agency) requires quarterly reporting of expenditures of VTEA funds.

Questioned Costs

None

Recommendation

Expenditures related to VATEA should be posted to the general ledger as incurred, reviewed, reconciled, and reported to the oversight agency as required.

District Response

The problems with PeopleSoft prevented the District from reconciling the reports. The software has been fixed and the problem corrected.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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

NONCREDIT COURSES – SELF ASSESSMENT – LANEY COLLEGE

2006-12 Finding

The California State Systems Office issued a memo (*Requirements for Claiming Apportionment for Noncredit Courses – Self-Assessment Checklist*) requiring a self assessment of the Non-Credit Courses offered at the District. The District was required to submit their self-assessment for computer/library courses by April 18, 2005, to the Systems Office and maintain all other checklists for further review. Laney College did not maintain the additional assessment checklists for their non-credit courses other than computer/library courses. We were unable to determine compliance with this memo.

Recommendation

The Laney College Instructional Office should complete the self-assessment checklists for all non-credit courses. These checklists should be reviewed and maintained for future audit purposes as required by the Systems Office.

District Response

The College will implement this recommendation.

CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES

2006-13 Finding

Community college districts are authorized to enroll and admit K-12 students who would benefit from advanced scholastic or vocational work. This admittance is dependant on both the parental approval and recommendation of the principal of the pupil's school of attendance. Of the 25 K-12 students selected for testing, enrollment forms for seven students could not be located. For those students missing the required documentation, we were unable to verify the requirements for enrollment had been met.

Recommendation

The District should establish written procedures over the retention of documents related to student enrollment – particularly K-12 students enrolling in academic or vocational courses. Enrollment forms should be maintained as part of the District's record retention policies.

District Response

The District will implement this recommendation.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

EXPENDITURE REPORTS FOR STATE CATEGORICAL PROGRAMS

2006-14 Finding

The audited expenditures for some of the categorical programs tested did not agree to the total expenditures reported on the final program expenditure reports and the amounts posted in the general ledger. Additionally, detailed expenditure reports to support the total expenditures reported on the annual reports was not consistently available. It was also noted that some of these reports were not totaled correctly. A significant contributing factor to these errors appears to be the lack of detailed reports currently available within the newly implemented PeopleSoft Accounting Software, and training to utilize the reports that are available. Additionally, as noted elsewhere in these recommendations, payroll activity was not posted to the general ledger during the year, also contributing to the variance in reporting.

The following is a sample of identified variances:

<u>Program Tested</u>	<u>Total Per Audit</u>	<u>Total Per Annual Report</u>	<u>Footing Errors</u>
Cal Works	\$1,014,275	\$1,053,249	Yes
Matriculation	\$1,181,667	\$1,152,646	None
EOPS	\$2,539,662	Unable to locate final expenditure report	
DSPS	\$1,994,497	\$3,289,262	Yes

Recommendation

The District should continue its efforts to better utilize the PeopleSoft Accounting Software to provide the necessary reports, both at the District and College level, to properly review program expenditures and to prepare the necessary and required reporting of activity within the program. All financial activity should be posted to the general ledger in a timely manner and reconciled to the detail reports maintained at the College campuses.

District Response

The PeopleSoft software has been fixed, which now allows the District to review and reconcile the reports.

STANDARDS OF SCHOLARSHIP

2006-15 Finding

The District is required to adopt procedures or regulations for the repetition of courses. These requirements must be communicated to students and presented in the college catalog. The District's Catalog of Courses for the 2005-2006 academic year did not include the requirements for the repetition of courses for which substandard work has not been recorded.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

The course catalogs should be reviewed each year to ensure that all required disclosures to students are included within the catalog.

District Response

The District will implement this recommendation.

CalWORKS STATE PROGRAM

2006-16 Finding

Supporting documentation identifying compliance for eligibility of students referred by the County Welfare Department must be received and reviewed at the beginning of each term. We reviewed 25 student files at each college campus. The following specific items were noted at the college campuses:

- College of Alameda – 16 CalWORKS recipient files did not contain proper eligibility documentation.
- Laney College – 16 CalWORKS recipient files did not contain proper eligibility documentation.
- Merritt College – 21 CalWORKS recipient files did not contain proper eligibility documentation.
- Berkeley City College – 20 CalWORKS recipient files did not contain proper eligibility documentation.

Recommendation

The District should assist the Colleges in developing an independent internal tracking mechanism to ensure all students receiving services and aid through the CalWORKS program maintain their eligibility. The CalWORKS Program Handbook contains several examples of forms and process that may be used to maintain the required compliance.

District Response

The District is in the process of implementing the second phase of software for student accounting. This issue will be addressed in the new software.

SALARIES OF CLASSROOM INSTRUCTORS (50% LAW CALCULATION)

2006-17 Finding

The District noted unposted payroll transactions during the subsequent reconciliation of the Cash Accounts. These reconciliations and the related posting of the transactions to the general ledger have resulted in significant changes to the 50% Law calculation. At this time, we have been unable to review the supporting documentation to ensure continued compliance with the requirements of the Salaries of Classroom Instructors.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

The District should prepare a complete recalculation of the Salaries of Classroom Instructors calculation, submit the calculation to the State Systems Office, and provide for the related audit of the calculation.

District Response

The District will complete the recalculation of the 50% Law by month end and provide to the auditors for verification.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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.

FEDERAL AWARDS FINDINGS

STUDENT RECEIVABLES - BERKELEY CITY COLLEGE RETURN TO TITLE IV

2005-1 Finding

Accounts receivable have been set up at the Berkeley City College business office for the students that owe back funds to the campus as a result of overpayments of Title IV Financial Aid funds. Currently, there is not a system set up to track and/or monitor the collection of these amounts. Additionally, the campus must also notify the Department of Education of the return of these funds.

Recommendation

The Berkeley City College business office should work with the Financial Aid office to set up a system to monitor and collect these overpayments from students. As the funds are returned, the proper notifications to the Department of Education should be sent out.

Current Status

Implemented.

STATE AWARDS FINDINGS

CONCURRENT ENROLLMENT OF HIGH SCHOOL STUDENTS

2005-2 Finding

The District does not have a procedure in place to verify for summer session attendance that the K-12 principals are certifying that they have not recommended more than five percent of the total number of students who completed the grade immediately prior to the time of recommendation.

Recommendation

The District should update the contract used to enroll high school students in the summer session classes to provide a certification that they have complied with the requirements of Ed. Code 48800(b)(2).

Current Status

Not implemented. See current year finding 2006-13.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOP&S)

2005-3 Finding

Districts accepting EOP&S funds are required to contribute a minimum amount to the program from non-EOP&S sources. This amount is set as the three-year average reported by the District as its contributions on its final EOP&S budget report or 15 percent of the average EOP&S allocation over that same period, whichever is greater. (CCR section: 56208, 56210, 56230, 56270, 56293, 56292, and 56296). Also, the District is required to have an annual EOP&S Advisory Committee meeting. Currently, Alameda College did not have an Advisory Committee meeting during the 2004-2005 fiscal year. Laney College was not in compliance with the required District contribution for the 2004-2005 fiscal year – under contributing by \$1,368. This amount can be made up in future years.

Recommendation

The Advisory Committee is a key component in ensuring compliance with the plan for spending EOP&S funds within each year. The EOP&S Director should work closely with the District Office to make sure they are in compliance with the State requirements by convening the Advisory Committee. The calculation for the matching funds requirement should be verified by the program administrator and monitored during the year to ensure the proper support is provided to the program.

Current Status

Not implemented. See current year finding 2006-14.

ADDITIONAL SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEETS - (UNAUDITED)
JUNE 30, 2006**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
ASSETS			
Cash and cash equivalents	\$ 2,914,166	\$ -	\$ -
Investments	12,304,306	253,693	1,353,796
Accounts receivable	8,654,704	14,972	527,600
Student loans receivable, net	913,312	-	-
Due from other funds	417,708	-	-
Prepaid expenses	1,858,911	-	-
Stores inventory	225,594	-	-
Other current assets	181,057	-	-
Total Assets	<u><u>\$ 27,469,758</u></u>	<u><u>\$ 268,665</u></u>	<u><u>\$ 1,881,396</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	14,158,273	-	-
Due to other funds	2,020,875	-	-
Deferred revenue	2,175,778	-	-
Total Liabilities	<u><u>18,354,926</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
FUND EQUITY			
Fund Balances			
Reserved	2,084,505	-	-
Unreserved			
Designated	3,999,806	268,665	1,881,396
Undesignated	3,030,521	-	-
Total Fund Equity	<u><u>9,114,832</u></u>	<u><u>268,665</u></u>	<u><u>1,881,396</u></u>
Total Liabilities and Fund Equity	<u><u>\$ 27,469,758</u></u>	<u><u>\$ 268,665</u></u>	<u><u>\$ 1,881,396</u></u>

See accompanying note to additional supplementary information.

<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>		
<u>Bond Interest and Redemption</u>	<u>Revenue Bond Project</u>	<u>Capital Outlay Projects</u>	<u>Total</u>
\$ -	\$ -	\$ 3,775,367	\$ 6,689,533
13,791,455	209,252	86,683,487	114,595,989
-	-	3,429,371	12,626,647
-	-	-	913,312
-	-	2,000,000	2,417,708
-	-	-	1,858,911
-	-	-	225,594
-	-	-	181,057
<u>\$ 13,791,455</u>	<u>\$ 209,252</u>	<u>\$ 95,888,225</u>	<u>\$ 139,508,751</u>
-	-	1,057,294	15,215,567
-	-	-	2,020,875
-	-	-	2,175,778
<u>-</u>	<u>-</u>	<u>1,057,294</u>	<u>19,412,220</u>
-	-	-	2,084,505
13,791,455	209,252	94,830,931	114,981,505
-	-	-	3,030,521
<u>13,791,455</u>	<u>209,252</u>	<u>94,830,931</u>	<u>120,096,531</u>
<u>\$ 13,791,455</u>	<u>\$ 209,252</u>	<u>\$ 95,888,225</u>	<u>\$ 139,508,751</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
REVENUES			
Federal revenues	\$ 3,054,008	\$ 545,110	\$ -
State revenues	67,048,520	696,913	-
Local revenues	36,856,475	79,536	602,102
Total Revenues	<u>106,959,003</u>	<u>1,321,559</u>	<u>602,102</u>
EXPENDITURES			
Current Expenditures			
Academic salaries	40,469,460	-	-
Classified salaries	24,315,357	996,516	-
Employee benefits	24,197,194	462,778	-
Books and supplies	1,790,744	32,105	-
Services and operating expenditures	15,166,215	4,309	-
Capital outlay	1,447,116	-	-
Debt service - principal	-	-	-
Debt service - interest and other	-	-	-
Total Expenditures	<u>107,386,086</u>	<u>1,495,708</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(427,083)</u>	<u>(174,149)</u>	<u>602,102</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,590,000	-	-
Operating transfers out	(135,031)	-	(1,590,000)
Other sources	-	-	-
Other uses	(1,422,035)	-	-
Total Other Financing Sources (Uses)	<u>32,934</u>	<u>-</u>	<u>(1,590,000)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(394,149)</u>	<u>(174,149)</u>	<u>(987,898)</u>
FUND BALANCE, BEGINNING OF YEAR	9,508,981	442,814	2,869,294
FUND BALANCE, END OF YEAR	<u>\$ 9,114,832</u>	<u>\$ 268,665</u>	<u>\$ 1,881,396</u>

See accompanying note to additional supplementary information.

Debt Service Fund	Capital Project Funds		
Bond Interest and Redemption	Revenue Bond Project	Capital Outlay Projects	Total
\$ -	\$ -	\$ -	\$ 3,599,118
-	-	26,223,647	93,969,080
13,146,702	72,277	5,031,754	55,788,846
<u>13,146,702</u>	<u>72,277</u>	<u>31,255,401</u>	<u>153,357,044</u>
-	-	-	40,469,460
-	9,256	-	25,321,129
-	-	-	24,659,972
-	7,245	22,837	1,852,931
-	8,496	4,699,735	19,878,755
-	22,438	47,865,172	49,334,726
3,175,000	-	-	3,175,000
7,249,937	-	214,705	7,464,642
<u>10,424,937</u>	<u>47,435</u>	<u>52,802,449</u>	<u>172,156,615</u>
<u>2,721,765</u>	<u>24,842</u>	<u>(21,547,048)</u>	<u>(18,799,571)</u>
-	-	-	1,590,000
-	-	-	(1,725,031)
2,658,711	-	93,831,649	96,490,360
-	-	(36,566,711)	(37,988,746)
<u>2,658,711</u>	<u>-</u>	<u>57,264,938</u>	<u>58,366,583</u>
5,380,476	24,842	35,717,890	39,567,012
8,410,979	184,410	59,113,041	80,529,519
<u>\$ 13,791,455</u>	<u>\$ 209,252</u>	<u>\$ 94,830,931</u>	<u>\$ 120,096,531</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEETS - (UNAUDITED)
JUNE 30, 2006**

	Retiree Health Benefit Fund	Internal Service Fund	Total
ASSETS			
Investments	\$ 151,120,862	\$ 512,568	\$ 151,633,430
Prepaid expenses	1,000,000	-	1,000,000
Deferred costs on issuance	3,221,624	-	3,221,624
Total Assets	\$ 155,342,486	\$ 512,568	\$ 155,855,054
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Other postemployment benefit bonds	153,749,832	-	153,749,832
Total Liabilities	153,749,832	-	153,749,832
FUND EQUITY			
Retained earnings	1,592,654	512,568	2,105,222
Total Liabilities and Fund Equity	\$ 155,342,486	\$ 512,568	\$ 155,855,054

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2006**

	Retiree Health Benefit Fund	Internal Service Fund	Total
NONOPERATING REVENUES			
Interest income	\$ 1,592,654	\$ 16,293	\$ 1,608,947
NET INCOME	1,592,654	16,293	1,608,947
RETAINED EARNINGS, BEGINNING OF YEAR	-	496,275	496,275
RETAINED EARNINGS, END OF YEAR	<u>\$ 1,592,654</u>	<u>\$ 512,568</u>	<u>\$ 2,105,222</u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2006**

	Retiree Health Benefit Fund	Internal Service Fund	Total
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	\$ 149,528,208	\$ -	\$149,528,208
Net Cash Provided from Capital and Related Financing Activities	149,528,208	-	149,528,208
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	1,592,654	16,293	1,608,947
Net Cash Provided from Investing Activities	1,592,654	16,293	1,608,947
Net increase in cash and cash equivalents	151,120,862	16,293	151,137,155
Cash and cash equivalents - Beginning	-	496,275	496,275
Cash and cash equivalents - Ending	\$ 151,120,862	\$ 512,568	\$151,633,430

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEETS - (UNAUDITED)
JUNE 30, 2006**

	<u>Trust Funds</u>			<u>Agency Fund</u>	<u>Total</u>
	<u>Associated Students Trust</u>	<u>Student Financial Aid</u>	<u>Scholarship and Loan</u>	<u>Other Trust</u>	
ASSETS					
Cash and cash equivalents	\$ 284,574	\$ 167,866	\$ 9,316	\$ 1,362,438	\$ 1,824,194
Investments	-	15,967	-	-	15,967
Accounts receivable	72,490	172,454	-	2,502	247,446
Due from other funds	20,875	-	-	-	20,875
Fixed assets	5,025	-	-	-	5,025
Total Assets	<u>\$ 382,964</u>	<u>\$ 356,287</u>	<u>\$ 9,316</u>	<u>\$ 1,364,940</u>	<u>\$ 2,113,507</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	5,920	156,287	-	-	162,207
Due to other funds	-	200,000	-	217,708	417,708
Due to student groups	106,767	-	-	1,147,232	1,253,999
Total Liabilities	<u>112,687</u>	<u>356,287</u>	<u>-</u>	<u>\$ 1,364,940</u>	<u>1,833,914</u>
FUND EQUITY					
Fund Balances					
Unreserved					
Designated	270,277	-	-		270,277
Undesignated	-	-	9,316		9,316
Total Fund Equity	<u>270,277</u>	<u>-</u>	<u>9,316</u>		<u>279,593</u>
Total Liabilities and Fund Equity	<u>\$ 382,964</u>	<u>\$ 356,287</u>	<u>\$ 9,316</u>		<u>\$ 2,113,507</u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Trust Funds</u>			<u>Total</u>
	<u>Associated Students Trust</u>	<u>Student Financial Aid</u>	<u>Scholarship and Loan</u>	
REVENUES				
Federal revenues	\$ -	\$14,584,063	\$ -	\$14,584,063
State revenues	-	1,756,553	-	1,756,553
Local revenues	82,857	-	803	83,660
Total Revenues	<u>82,857</u>	<u>16,340,616</u>	<u>803</u>	<u>16,424,276</u>
EXPENDITURES				
Current Expenditures				
Services and operating expenditures	294,910	-	4,587	299,497
Total Expenditures	<u>294,910</u>	<u>-</u>	<u>4,587</u>	<u>299,497</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(212,053)</u>	<u>16,340,616</u>	<u>(3,784)</u>	<u>16,124,779</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	135,031	-	-	135,031
Other uses	-	(16,340,616)	-	(16,340,616)
Total Other Financing Sources (Uses)	<u>135,031</u>	<u>(16,340,616)</u>	<u>-</u>	<u>(16,205,585)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(77,022)</u>	<u>-</u>	<u>(3,784)</u>	<u>(80,806)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>347,299</u>	<u>-</u>	<u>13,100</u>	<u>360,399</u>
FUND BALANCE, END OF YEAR	<u>\$ 270,277</u>	<u>\$ -</u>	<u>\$ 9,316</u>	<u>\$ 279,593</u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of Peralta Community College District and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the financial statements. The information is unaudited and is presented at the request of the District management.