# PERALTA COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

**JUNE 30, 2007**

# PERALTA COMMUNITY COLLEGE DISTRICT

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# JUNE 30, 2007 AND 2006

# *FINANCIAL SECTION*

vtd

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



# 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, 2007 and 2006, 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 audits 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.

As more fully described in Note 7 to the financial statements, the District has not adequately maintained capital asset records sufficient to support the amounts reported for capital assets.

In our opinion, except for the effects of such adjustments, if any, as may be determined to be necessary to properly state the capital assets net cost, 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 on it.



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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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Additional Supplementary Information on pages 91 through 97 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 on them.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
May 8, 2008

# Peralta Community College District

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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, 2007. This is prepared in compliance with the reporting standards required for public colleges and universities. Responsibility for the completeness and accuracy of this information rests with 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 2006-2007, FTES was 19,058 (including credit and noncredit FTES), as compared to 18,443 in the fiscal year 2005-2006. This represented a 3.3 percent increase. FTES is generated at the District's four colleges: College of Alameda, Laney College, Merritt College, and Berkeley City College.

- General Fund revenues for the year were $122.4 million, an increase of 14.5 percent from prior year's revenue of $106.9 million.

- The District ended the fiscal year 2006-2007 with a net increase in fund balance of approximately $8.5 million in the unrestricted General Fund leaving the ending fund reserve at $15.6 million or 15.7 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 2.8 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 Deferred Comp Trust 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, 2008, the investment fund had earned $13.2 million or 8.82 percent.

- 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. The difference between assets and liabilities or net assets 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.

### *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, 2007. Total net assets increased approximately $33.8 million due primarily to the net increase associated with receipt of Measure A Bond proceeds.

**NET ASSETS**
**As of June 30,**

(Amounts in thousands)

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | $ 351,875 | $ 274,759 | $ 82,329 |
| Accounts receivable and other assets, net | 22,501 | 21,707 | 9,945 |
| Total Current Assets | 374,376 | 296,466 | 92,274 |
| Noncurrent Assets | | | |
| Capital assets (net of depreciation) | 239,726 | 208,271 | 167,463 |
| Total Assets | 614,102 | 504,737 | 259,737 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 16,892 | 19,074 | 10,315 |
| Deferred revenue | 3,929 | 2,176 | 1,804 |
| Amounts held in trust for others | 1,676 | 1,534 | 1,810 |
| Current portion of long-term obligations | 8,194 | 6,849 | 3,559 |
| Total Current Liabilities | 30,691 | 29,633 | 17,488 |
| Long-term obligations | 429,241 | 354,724 | 146,554 |
| Total Liabilities | 459,932 | 384,357 | 164,042 |
| NET ASSETS | | | |
| Invested in capital assets | 98,628 | 98,725 | 79,676 |
| Restricted for expendable purposes | 25,553 | 16,151 | 11,908 |
| Unrestricted | 29,989 | 5,504 | 4,111 |
| Total Net Assets | $ 154,170 | $ 120,380 | $ 95,695 |

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.

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)

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Operating Revenues | | | |
| Tuition and fees | $ 8,711 | $ 8,139 | $ 8,213 |
| Grants and contracts | 33,487 | 29,762 | 25,209 |
| Total Operating Revenues | 42,198 | 37,901 | 33,422 |
| Operating Expenses | | | |
| Salaries and benefits | 98,945 | 92,070 | 86,426 |
| Supplies and maintenance | 47,358 | 42,911 | 40,463 |
| Depreciation | 6,240 | 7,061 | 5,775 |
| Total Operating Expenses | 152,543 | 142,042 | 132,664 |
| Loss on Operations | (110,345) | (104,141) | (99,242) |
| Nonoperating Revenues and (Expenses) | | | |
| State apportionments | 68,817 | 55,033 | 50,867 |
| Property taxes | 41,726 | 39,730 | 36,465 |
| State revenues | 4,833 | 2,890 | 7,415 |
| Investment income | 35,109 | 6,905 | 2,076 |
| Interest expense | (12,908) | (8,490) | (8,176) |
| Other nonoperating revenues and transfers | 2,346 | 6,534 | 4,122 |
| Total Nonoperating Revenues | 139,923 | 102,602 | 92,769 |
| Other Revenues | | | |
| State and local capital income | 4,213 | 26,223 | 13,048 |
| Total Other Revenues | 4,213 | 26,223 | 13,048 |
| Net Increase in Net Assets | $ 33,791 | $ 24,684 | $ 6,575 |

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.

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 non-capital related revenue, the Governmental Accounting Standards Board (GASB) accounting standards require that this source of revenue is shown as non-operating 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 and investments for Retiree Benefits which was offset by the interest expense. The interest expense relates to interest on short-term loans and bonds 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 7.

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)

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cash Provided by (Used in) | | | |
| Operating activities | $ (104,482) | $ (90,218) | $ (95,200) |
| Noncapital financing activities | 116,058 | 99,297 | 103,240 |
| Capital financing activities | 31,493 | 176,577 | (24,605) |
| Investing activities | 34,047 | (145,179) | 1,986 |
| Net Increase (Decrease) in Cash | 77,116 | 40,477 | (14,579) |
| Cash, Beginning of Year | 122,806 | 82,329 | 96,908 |
| Cash, End of Year | $ 199,922 | $ 122,806 | $ 82,329 |

A detailed Statement of Cash Flows may be reviewed on page 13.

## *CAPITAL ASSETS AND LONG-TERM OBLIGATIONS*

### Capital Assets

At June 30, 2007, the District had $239.7 million in a broad range of capital assets including land, buildings, and furniture and equipment. During the year, the District added $11.5 million in buildings and site improvements. The District also continued to modernize and refurbish various sites within the District. Construction in progress increased $37.7 million and totaled $138.8 million at year end. To continue our capital asset upgrades, the District issued $75 million in Measure A General Obligation Prop 39 Bonds.

### Long-Term Obligations

At the end of 2006-2007, the District had $437.4 million in long-term obligations. The increase in long-term obligations was primarily the result of the sale of and General Obligation Bonds noted above.

## *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 $1.6 million, the actual results for the year showed a net increase in fund balance of approximately $7.5 million, primarily attributed to OPEB investments paying for retiree medical benefits and the District decision to not spend one-time funds from the State.

- Actual apportionment revenues were approximately $9 million higher than budget while local taxes and other revenues were approximately $1.4 million higher than budget.

- The actual expenditures have decreased $139 thousand due to increased salary costs being offset by the OPEB investments paying for retiree medical benefits.

- During the fiscal year 2006-2007, the District's contribution to Public Employees Retirement System (PERS) increased by $209 thousand to $2.1 million for the year.

- During the fiscal year 2006-2007, the District's contribution to the State Teachers Retirement System (STRS) increased by $363 thousand to $2.9 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 95 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 $2.6 million.

- 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 were reduced to $20 per unit effective January 1, 2007. Enrollment is expected to be flat to slightly higher for fiscal 2007-2008 due to ongoing funding restrictions.

- Due to the current State Budget deficit, coupled with escalating costs, a 2007-2008 deficit is anticipated as the District will use reserves to continue to serve students. However, the 2007-2008 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 2007-2008 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 8th Street, Oakland, California 94606.

## PERALTA COMMUNITY COLLEGE DISTRICT

## STATEMENTS OF NET ASSETS
## JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 8,368,184 | $ 8,513,727 |
| Investments | 343,507,065 | 266,245,386 |
| Accounts receivable, net | 14,752,631 | 12,874,093 |
| Student loans receivable, net | 1,039,959 | 913,312 |
| Prepaid expenses | 709,063 | 2,858,911 |
| Deferred costs on issuance | 5,522,393 | 4,654,067 |
| Stores inventory | 296,169 | 225,594 |
| Other current assets | 181,057 | 181,057 |
| **Total Current Assets** | 374,376,521 | 296,466,147 |
| **NONCURRENT ASSETS** | | |
| Nondepreciable capital assets | 143,365,107 | 117,209,585 |
| Depreciable capital assets, net of depreciation | 96,361,027 | 91,060,942 |
| **Total Noncurrent Assets** | 239,726,134 | 208,270,527 |
| **TOTAL ASSETS** | 614,102,655 | 504,736,674 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | 11,293,241 | 14,993,774 |
| Accrued interest payable | 5,598,540 | 4,081,282 |
| Deferred revenue | 3,929,209 | 2,175,778 |
| Amounts held in trust on behalf of others | 1,675,741 | 1,533,592 |
| Compensated absences payable - current portion | 384,000 | 384,000 |
| Bonds payable - current portion | 7,810,000 | 4,740,000 |
| **Total Current Liabilities** | 30,690,731 | 27,908,426 |
| **NONCURRENT LIABILITIES** | | |
| Claims liability | 1,392,000 | 598,328 |
| Compensated absences payable - noncurrent portion | 3,124,165 | 2,464,061 |
| Bond payable - noncurrent portion | 269,682,843 | 199,636,649 |
| Other post employment benefit bonds - noncurrent portion | 155,042,467 | 153,749,832 |
| **Total Noncurrent Liabilities** | 429,241,475 | 356,448,870 |
| **TOTAL LIABILITIES** | 459,932,206 | 384,357,296 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 98,628,421 | 98,724,809 |
| Restricted for: | | |
| Debt service | 18,476,803 | 13,791,455 |
| Capital projects | 281,326 | 209,252 |
| Other activities | 6,794,704 | 2,150,061 |
| Unrestricted | 29,989,195 | 5,503,801 |
| **TOTAL NET ASSETS** | $ 154,170,449 | $ 120,379,378 |

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, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Student Tuition and Fees | $ 14,182,962 | $ 14,138,356 |
| Less: Scholarship discount and allowance | (5,471,677) | (5,999,175) |
| Net tuition and fees | 8,711,285 | 8,139,181 |
| Grants and Contracts, noncapital: | | |
| Federal | 18,219,958 | 18,183,181 |
| State | 15,266,928 | 11,578,702 |
| **TOTAL OPERATING REVENUES** | 42,198,171 | 37,901,064 |
| **OPERATING EXPENSES** | | |
| Salaries | 72,240,387 | 65,425,894 |
| Employee benefits | 26,704,932 | 26,644,579 |
| Supplies, materials, and other operating expenses and services | 42,602,003 | 42,910,881 |
| Equipment, maintenance, and repairs | 4,755,769 | - |
| Depreciation | 6,239,549 | 7,061,182 |
| **TOTAL OPERATING EXPENSES** | 152,542,640 | 142,042,536 |
| **OPERATING LOSS** | (110,344,469) | (104,141,472) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State apportionments, noncapital | 68,816,841 | 55,032,999 |
| Local property taxes | 41,725,730 | 39,730,455 |
| State taxes and other revenues | 4,832,967 | 2,890,285 |
| Interest income | 7,930,019 | 5,181,973 |
| Realized gains on investments | 11,069,450 | - |
| Unrealized gains on investments | 15,591,510 | 1,592,654 |
| Interest expense on capital related debt | (12,908,020) | (8,489,876) |
| Interest income on capital asset-related debt, net | 517,786 | 130,237 |
| Transfer to agency fund | (148,360) | (135,031) |
| Other nonoperating revenue | 2,494,892 | 6,668,283 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 139,922,815 | 102,601,979 |
| **INCOME BEFORE OTHER REVENUES** | 29,578,346 | (1,539,493) |
| State revenues, capital | 4,212,725 | 26,223,647 |
| **INCREASE IN NET ASSETS** | 33,791,071 | 24,684,154 |
| **NET ASSETS, BEGINNING OF YEAR** | 120,379,378 | 95,695,224 |
| **NET ASSETS, END OF YEAR** | $ 154,170,449 | $ 120,379,378 |

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, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 8,589,392 | $ 7,756,418 |
| Federal and State grants and contracts | 35,307,260 | 30,479,496 |
| Payments to or on behalf of employees | (97,003,561) | (92,083,425) |
| Payments to vendors for supplies and services | (51,375,334) | (36,370,797) |
| **Net Cash Flows From Operating Activities** | (104,482,243) | (90,218,308) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State apportionments | 66,023,314 | 56,107,600 |
| Property taxes | 41,725,730 | 39,730,455 |
| Other State revenues | 3,805,696 | (397,874) |
| Other local revenues | 4,503,454 | 3,856,573 |
| **Net Cash Flows From Noncapital Financing Activities** | 116,058,194 | 99,296,754 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| State capital apportionments | 4,199,001 | 26,281,907 |
| Proceeds from bond issuance | 79,272,965 | 242,927,414 |
| Acquisition and construction of capital assets | (36,242,152) | (48,059,821) |
| Principal paid on capital debt and leases | (4,864,136) | (36,355,000) |
| Interest received on capital debt | 517,786 | 130,237 |
| Interest paid on capital debt and leases | (11,390,762) | (8,347,487) |
| **Net Cash Flows From Capital and Related Financing Activities** | 31,492,702 | 176,577,250 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sale (Purchase) of investments | 26,660,960 | (151,952,647) |
| Investment income | 7,386,523 | 6,774,627 |
| **Net Cash Flows From Investing Activities** | 34,047,483 | (145,178,020) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 77,116,136 | 40,477,676 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 122,806,466 | 82,328,790 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 199,922,602 | $ 122,806,466 |

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, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH FLOWS FROM OPERATING ACTUALS** | | |
| Operating Loss | $ (110,344,469) | $ (104,141,472) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation expense | 6,239,549 | 7,061,182 |
| Changes in Assets and Liabilities: | | |
| Receivables, net | 358,060 | (277,929) |
| Inventories | (70,575) | (3,678) |
| Prepaid items | 1,281,522 | (2,271,531) |
| Accounts payable and accrued liabilities | (5,153,537) | 8,809,726 |
| Deferred revenue | 1,753,431 | 371,761 |
| Claims liability | 793,672 | 598,328 |
| Compensated absences | 660,104 | (364,695) |
| Total Adjustments | 5,862,226 | 13,923,164 |
| **Net Cash Flows from Operating Activities** | $ (104,482,243) | $ (90,218,308) |
| | | |
| **CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:** | | |
| Cash in banks | $ 8,368,184 | $ 8,513,727 |
| Cash in county treasury | 191,554,418 | 114,292,739 |
| **Total Cash and Cash Equivalents** | $ 199,922,602 | $ 122,806,466 |
| | | |
| **NONCASH TRANSACTIONS** | | |
| Deferred costs on issuance | 5,522,393 | 4,654,067 |
| On behalf payments for benefits | 1,535,411 | 1,386,279 |
| **Total Noncash Transactions** | $ 7,057,804 | $ 6,040,346 |

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

***NOTE 1 - 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 the surrounding area. 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**

The District has 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 unit:

- **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.

- **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), and the Alameda County Schools Insurance Group (ACSIG).

## *NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### 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 as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. 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 budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office Budget and Accounting Manual.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 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

**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 for both the years ended June 30, 2007 and 2006, 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. Routine repairs and maintenance that do not extend the life of the building or equipment are charged as operating expenses in the year the expense is incurred.

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.

**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 District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. 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.
>
> **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.

### On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the State Teachers and the Public Employees Retirement Systems (STRS and PERS) on behalf of all community colleges in California. The amount of the on-behalf payment for STRS was $1,535,411, and $1,386,279 for 2005/2006 and 2006/2007 respectively. The State did not make on-behalf payments to PERS in either year.

### 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.

### 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.

### Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenditures, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

**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. 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, 2007 and 2006, the District distributed $1,664,950 and $1,456,103, 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 Expenditures of Federal Awards.

**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 retirement 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 3 - 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 accompanying 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.

**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, 2007, consist of the following:

| | |
|---|---|
| Cash on hand and in banks | $ 8,313,184 |
| Cash in revolving | 55,000 |
| Investments | 343,507,065 |
| Total Deposits and Investments | $ 351,875,249 |

**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 | $ 166,894,454 | 1.09 years |
| First American Treasury Obligations - Money Market Funds | 908,678 | 1 day * |
| Highmark Money Market Funds | 2,873,686 | N/A |
| Common Stock | 78,808,893 | N/A |
| Neuberger Berman International Institutional Fund - Mutual Funds | 39,455,599 | N/A |
| U.S. Governmental Securities | 16,485,707 | N/A |
| Corporate Debt Instruments | 38,021,788 | N/A |
| | $ 343,448,805 | |

* 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, 2007. 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.

| | Total | Minimum | Adjusted Moody's Credit Rating | | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Legal Rating | Aaa | Aa | A | Ba | Not Rated |
| County Pool - Alameda | $ 166,894,454 | Not required | $ - | $ - | $ - | $ - | $ 168,894,454 |
| First American Treasury Obligations - Money Market Funds | 908,678 | Not required | 908,678 | - | - | - | - |
| Highmark Money Market Funds | 2,873,686 | Not required | - | - | - | - | 2,873,686 |
| Common Stock | 78,808,893 | Not required | - | - | - | - | 78,808,893 |
| Neuberger Berman International Institutional Fund - Mutual Funds | 39,455,599 | Not required | - | - | - | - | 39,455,599 |
| U.S. Governmental Securities | 16,485,707 | Not required | 16,485,707 | - | - | - | - |
| Corporate Debt Instruments | 38,021,788 | Not required | - | 24,518,549 | 4,755,856 | 4,386,911 | 4,360,472 |
| | $ 343,448,805 | | | | | | |

### 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, 2007, the District's bank balance of $8,812,180 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 4 - ACCOUNTS RECEIVABLE*

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

| | 2007 | 2006 |
|---|---|---|
| Federal Government | | |
| Categorical aid | $ 606,092 | $ 1,090,799 |
| State Government | | |
| Apportionment | 6,911,271 | 4,117,744 |
| Categorical aid | 102,883 | 89,159 |
| Lottery | 653,409 | 662,675 |
| Other State sources | 4,465,908 | 3,429,371 |
| Local Government | | |
| Accrued interest on investment | 543,496 | - |
| Other local sources | 1,469,572 | 3,484,345 |
| Total | $ 14,752,631 | $ 12,874,093 |
| | | |
| Student receivables | $ 1,473,939 | $ 1,347,292 |
| Less allowance for bad debt | (433,980) | (433,980) |
| Student receivables, net | $ 1,039,959 | $ 913,312 |

### *NOTE 5 - PREPAIDS*

Prepaid expenses consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Other post-employment bonds debt service | $ 683,373 | $ - |
| Other | 25,690 | 2,858,911 |
| Total | $ 709,063 | $ 2,858,911 |

### *NOTE 6 - DEFERRED COSTS ON ISSUANCE*

The following table summarizes certain costs related to bond issuances that are required to be amortized over the life of the bonds issued. Amortization is calculated using the straight line method.

Unamortized issuance costs at are as follows:

| | 2007 | 2006 |
|---|---|---|
| Other Postemployment Benefits Bonds | $ 3,146,702 | $ 3,221,624 |
| General Obligation Bonds 2000, Series A | 838,260 | 867,165 |
| General Obligation Bonds 2005, Refunding | 537,014 | 565,278 |
| General Obligation Bonds 2006, Series A | 1,000,417 | - |
| Total | $ 5,522,393 | $ 4,654,067 |

### *NOTE 7 - CAPITAL ASSETS*

Capital asset activity for the District for the fiscal year ended June 30, 2007, 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 | 112,656,301 | 37,695,156 | 11,539,634 | 138,811,823 |
| Total Capital Assets Not Being Depreciated | 117,209,585 | 37,695,156 | 11,539,634 | 143,365,107 |
| Capital Assets Being Depreciated | | | | |
| Buildings | 140,619,313 | 10,913,269 | - | 151,532,582 |
| Site improvements | 14,606,499 | 626,365 | - | 15,232,864 |
| Machinery and equipment | 23,508,869 | - | - | 23,508,869 |
| Total Capital Assets Being Depreciated | 178,734,681 | 11,539,634 | - | 190,274,315 |
| Total Capital Assets | 295,944,266 | 49,234,790 | 11,539,634 | 333,639,422 |
| Less Accumulated Depreciation | | | | |
| Buildings | 66,833,018 | 3,011,939 | - | 69,844,957 |
| Site improvements | 3,771,034 | 661,198 | - | 4,432,232 |
| Machinery and equipment | 17,069,687 | 2,566,412 | - | 19,636,099 |
| Total Accumulated Depreciation | 87,673,739 | 6,239,549 | - | 93,913,288 |
| Net Capital Assets | $ 208,270,527 | $ 42,995,241 | $ 11,539,634 | $ 239,726,134 |

Depreciation expense for the year was $6,239,549.

The District did not provide adequate records to support construction in progress or equipment. The District has begun the process of implementing a new capital asset management system and has engaged a consultant to inventory capital assets. The effects to the balances reported above has not been determined at June 30, 2007, or to the effective date of this report.

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 | 71,008,869 | 46,706,618 | 505,902 | 117,209,585 |
| 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 | 177,067,089 | 1,667,592 | - | 178,734,681 |
| Total Capital Assets | 248,075,958 | 48,374,210 | 505,902 | 295,944,266 |
| 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 | 80,612,557 | 7,061,182 | - | 87,673,739 |
| Net Capital Assets | $167,463,401 | $ 41,313,028 | $ 505,902 | $208,270,527 |

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

### *NOTE 8 - ACCOUNTS PAYABLE*

Accounts payable for the District consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Accrued payroll and benefits | $ 836,895 | $ 348,913 |
| Construction | 5,380,400 | 3,927,396 |
| Other | 5,075,946 | 10,717,465 |
| Total | $ 11,293,241 | $ 14,993,774 |

## *NOTE 9 - DEFERRED REVENUE*

Deferred revenue for the District consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Federal categorical aid | $ 121,525 | $ 12,793 |
| State categorical aid | 2,754,562 | 1,527,627 |
| Enrollment fees | 859,371 | 446,361 |
| Other local | 193,751 | 188,997 |
| Total | $ 3,929,209 | $ 2,175,778 |

## *NOTE 10 - LONG-TERM OBLIGATIONS*

**Summary**

The changes in the District's long-term obligations during the fiscal year 2007 consisted of the following:

| | Beginning Balance | Additions | Amortization | Deductions | Ending Balance | Due in One Year |
|---|---|---|---|---|---|---|
| General obligation bonds | | | | | | |
| General obligation bonds - 1992 Election | $ 15,345,000 | $ - | $ - | $ 1,485,000 | $ 13,860,000 | $ 1,560,000 |
| General obligation bonds - 1996 Election | 995,000 | - | - | 235,000 | 760,000 | 245,000 |
| General obligation bonds - 2000 Election | 143,390,000 | - | - | 2,565,000 | 140,825,000 | 2,765,000 |
| Premium on debt | 3,525,876 | - | 27,696 | - | 3,498,180 | - |
| General obligation revenue bonds - 2005 Refunding | 39,490,000 | - | - | 455,000 | 39,035,000 | 290,000 |
| Premium on debt | 1,630,773 | - | 81,538 | - | 1,549,235 | - |
| General obligation revenue bonds - 2006 Series A | - | 75,000,000 | - | - | 75,000,000 | 2,950,000 |
| Premium on debt | - | 2,980,330 | 14,902 | - | 2,965,428 | - |
| Total General Obligation Bonds | 204,376,649 | 77,980,330 | 124,136 | 4,740,000 | 277,492,843 | 7,810,000 |
| Other post-employment benefit bonds | 153,749,832 | 1,292,635 | - | - | 155,042,467 | - |
| Total Bonds Payable | 358,126,481 | 79,272,965 | 124,136 | 4,740,000 | 432,535,310 | 7,810,000 |
| Other liabilities | | | | | | |
| Claims liability | 598,328 | 793,672 | - | - | 1,392,000 | - |
| Compensated absences | 2,848,061 | 660,104 | - | - | 3,508,165 | 384,000 |
| Total Long-Term Obligations | $ 361,572,870 | $ 80,726,741 | $ 124,136 | $ 4,740,000 | $ 437,435,475 | $ 8,194,000 |

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 | - |
| Total General Obligation Bonds | 146,900,000 | 93,831,649 | 36,355,000 | 204,376,649 | 4,740,000 |
| Other post-employment benefit bonds | - | 153,749,832 | - | 153,749,832 | - |
| Total Bonds Payable | 146,900,000 | 247,581,481 | 36,355,000 | 358,126,481 | 4,740,000 |
| 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 | $ 5,124,000 |

**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. Claims liability is an estimate based on an actuarial. Management is responsible to evaluate the adequacy of the change in value. 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.

**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 $27,5000,000, 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. The bonds mature through 2026.

**2005 General Obligation Revenue Bonds, Series B**

In August 2005, the Golden West Schools Financing Authority issued, in the amount of $32,975,000, 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.

**2006 General Obligation Bonds, Series A**

In August 2006, the District issued $75,000,000 of General Obligation Bonds, Election of 2006, Series A. Voters authorized $390,000,000 in June of 2006. The bonds bear interest rates of 4.0 to 5.0 percent and mature through the fiscal year 2032. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities.

The outstanding general obligation debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2006 | Issued | Redeemed | Bonds Outstanding June 30, 2007 |
|---|---|---|---|---|---|---|---|
| 10/24/2002 | 8/01/2017 | 2.00%-4.00% | $ 7,310,000 | $ 6,020,000 | $ - | $ 410,000 | $ 5,610,000 |
| 4/15/2001 | 8/01/2018 | 4.00%-5.00% | 8,770,000 | 6,860,000 | - | 410,000 | 6,450,000 |
| 4/15/2000 | 8/01/2019 | 2.62%-4.52% | 13,500,000 | 1,185,000 | - | 365,000 | 820,000 |
| 5/30/2001 | 8/01/2019 | 2.62%-4.52% | 10,500,000 | 1,280,000 | - | 300,000 | 980,000 |
| 5/30/2001 | 8/01/2009 | 2.62%-4.52% | 8,000,000 | 995,000 | - | 235,000 | 760,000 |
| 5/30/2001 | 8/01/2031 | 2.62%-4.52% | 27,500,000 | 19,135,000 | - | 505,000 | 18,630,000 |
| 5/30/2002 | 8/01/2032 | 2.00%-5.32% | 30,000,000 | 28,875,000 | - | 525,000 | 28,350,000 |
| 5/27/2004 | 8/01/2034 | 1.60%-5.20% | 40,000,000 | 39,680,000 | - | 670,000 | 39,010,000 |
| 7/21/2005 | 8/01/2035 | 2.51%-4.18% | 55,700,000 | 55,700,000 | - | 865,000 | 54,835,000 |
| 6/01/1997 | 8/01/2021 | 2.55%-4.25% | 8,000,000 | 6,515,000 | - | 255,000 | 6,260,000 |
| 8/17/2005 | 8/01/2025 | 2.62%-4.52% | 32,975,000 | 32,975,000 | - | 200,000 | 32,775,000 |
| 8/10/2006 | 8/01/2031 | 4.00%-5.00% | 75,000,000 | - | 75,000,000 | - | 75,000,000 |
| | Subtotal Bonds | | | | | | 269,480,000 |
| | Premiums (net) | | | | | | 8,012,843 |
| | | | | $199,220,000 | $75,000,000 | $ 4,740,000 | $277,492,843 |

**General Obligation Bond - 1992 Election**

The 1992 general obligation bonds mature through 2019 as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 990,000 | 344,275 | 1,334,275 |
| 2013-2017 | 5,565,000 | 1,057,263 | 6,622,263 |
| 2018-2019 | 1,910,000 | 89,900 | 1,999,900 |
| Total | $ 13,860,000 | $ 3,326,236 | $ 17,186,236 |

**General Obligation Bond - 1996 Election**

The 1996 general obligation bonds mature through 2010 as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 245,000 | $ 32,806 | $ 277,806 |
| 2009 | 250,000 | 19,813 | 269,813 |
| 2010 | 265,000 | 6,625 | 271,625 |
| Total | $ 760,000 | $ 59,244 | $ 819,244 |

**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 |
|---|---|---|---|
| 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 | 3,375,000 | 6,272,554 | 9,647,554 |
| 2013-2017 | 15,985,000 | 29,952,657 | 45,937,657 |
| 2018-2022 | 19,895,000 | 26,172,936 | 46,067,936 |
| 2023-2027 | 29,980,000 | 20,432,053 | 50,412,053 |
| 2028-2032 | 38,130,000 | 12,269,669 | 50,399,669 |
| 2033-2036 | 21,465,000 | 3,175,062 | 24,640,062 |
| Total | $ 140,825,000 | $ 124,896,509 | $ 265,721,509 |

**General Obligation Revenue Bonds - 2005 Refunding**

The general obligation revenue bonds mature through 2026 as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 1,510,000 | 1,804,157 | 3,314,157 |
| 2013-2017 | 11,910,000 | 7,481,937 | 19,391,937 |
| 2018-2022 | 15,090,000 | 3,891,838 | 18,981,838 |
| 2023-2026 | 7,710,000 | 683,195 | 8,393,195 |
| Total | $ 39,035,000 | $ 21,580,946 | $ 60,615,946 |

**General Obligation Bond- 2006 Series A**

The general obligation revenue bonds mature through 2026 as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 2,950,000 | $ 3,450,600 | $ 6,400,600 |
| 2009 | 1,755,000 | 3,356,500 | 5,111,500 |
| 2010 | 1,825,000 | 3,284,900 | 5,109,900 |
| 2011 | 1,900,000 | 3,210,400 | 5,110,400 |
| 2012 | 1,975,000 | 3,132,900 | 5,107,900 |
| 2013-2017 | 11,135,000 | 14,388,300 | 25,523,300 |
| 2018-2022 | 13,705,000 | 11,703,625 | 25,408,625 |
| 2023-2027 | 17,465,000 | 7,840,625 | 25,305,625 |
| 2028-2032 | 22,290,000 | 2,895,000 | 25,185,000 |
| Total | $ 75,000,000 | $ 53,262,850 | $ 128,262,850 |

**Taxable 2005 Limited Obligation Other Post-Employment Benefit Bonds**

In December 2005, the District issued $153,749,832 aggregate principal amount 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 of issuance. The Bonds consisted of $20,015,000 principal amount of Standard Bonds, and $133,737,832 initial principal amount of Convertible Auction Rate Securities. The Convertible Auction Rate Securities accrete to matured principal amount of $394,225,000. Interest rates on the Bonds range from 4.71 percent to 6.25 percent.

The Bonds mature beginning on August 1, 2006 through August 1, 2049 as follows:

| Year Ending June 30, | Principal (Including accreted interest to date) | Accreted Interest | Current Interest to Maturity | Total |
|---|---|---|---|---|
| 2008 | $ - | $ - | $ 548,373 | $ 548,373 |
| 2009 | 135,000 | - | 545,085 | 680,085 |
| 2010 | 5,340,000 | - | 410,701 | 5,750,701 |
| 2011 | 5,660,000 | - | 139,802 | 5,799,802 |
| 2012 | 4,847,607 | 1,227,393 | - | 6,075,000 |
| 2013-2017 | 26,605,672 | 8,144,328 | - | 34,750,000 |
| 2018-2022 | 23,120,013 | 16,254,987 | - | 39,375,000 |
| 2023-2027 | 19,283,998 | 24,416,002 | - | 43,700,000 |
| 2028-2032 | 17,238,527 | 31,961,473 | - | 49,200,000 |
| 2033-2037 | 12,588,304 | 38,111,696 | - | 50,700,000 |
| 2038-2042 | 11,927,166 | 41,947,834 | - | 53,875,000 |
| 2043-2047 | 10,153,711 | 53,046,289 | - | 63,200,000 |
| 2048-2050 | 18,142,469 | 45,895,576 | - | 64,038,045 |
| Total | $ 155,042,467 | $ 261,005,578 | $ 1,643,961 | $ 417,692,006 |

**Bond Modification Agreement - Taxable 2005 Limited Obligation Bonds**

On August 31, 2006, the District entered into a modification agreement to make certain corrections to the original issuances described above. The District had originally intended that no Bonds would mature prior to August 1, 2009. To restructure the repayment schedule for the Bonds to meet the original intention, Lehman Brothers, as the underwriter of the Bonds, has purchased the initial maturing Bonds as outlined in the following table:

| Maturity Date | Principal Amount | Interest Rate |
|---|---|---|
| 2006 | $ 1,725,000 | 4.710% |
| 2007 | 3,180,000 | 4.820 % |
| 2008 | 4,110,000 | 4.870% |

These Bonds were converted to Capital Accretion Bonds all maturing on August 5, 2049. The initial principal amount is $8,880,000 accreting to a matured balance of $10,888,044. Annual sinking fund payments are required beginning in 2010.

**Compensated Absences**

At June 30, 2007, the liability for compensated absences was $3,508,165.

### *NOTE 11 - INTEREST RATE SWAP TRANSACTION*

**2005 Limited Obligation Other Post-Employment Benefit Bonds**

*Objective of the interest rate swap.* As a means to lower financing costs and to reduce the risks to the District associated with the fluctuation in market interest rates, the District entered into an interest rate swap in connection with the Limited Obligation Other Post-Employment Benefit Bonds (OPEB), 2005 Series B-1, B-2, B-3, B-4, B-5, and B-6 Convertible Auction Rate Securities in the amount of $394,225,000. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.900 percent, 5.158 percent, 5.279 percent, 5.207 percent, 5.055 percent, and 4.935 percent, respectively.

*Terms.* The OPEBs, 2005 Series B-1, B-2, B-3, B-4, B-5, and B-6 and the related swap agreements mature on August 1, 2015, 2020, 2025, 2031, 2039, and 2049, respectively, and the swap's aggregate notional amounts of $394,225,000 matches the $394,225,000 variable-rate OPEBs accreted value at full accretion date. The swap has different effective dates for each of the Series which are as follows:

B-1 notional value $33,950,000 effective date August 5, 2010,
B-2 notional value $38,450,000 effective date August 5, 2015,
B-3 notional value $43,175,000 effective date August 5, 2020,
B-4 notional value $57,525,000 effective date August 5, 2031,
B-5 notional value $86,650,000 effective date August 5, 2039, and
B-6 notional value $134,475,000 effective date August 5, 2049.

Under the swap agreement, the District pays Morgan Stanley Capital Services Inc. a fixed rate of percent (as noted above) and Morgan Stanley Services Inc. pays the District a floating rate option of 100 percent of London Interbank Offered Rate (LIBOR) with designated maturity of one month. Additionally, the District has agreed to pay Morgan Stanley $10,000 to cover swap counsel fees.

*Fair Value.* As of June 30, 2007, the swap has no fair value due to the effective date of the swap which starts August 5, 2010.

*Credit Risk.* As of June 30, 2007, the District was not exposed to credit risk because the swap had a negative fair value. Ongoing swap risks lay if the counterparty defaults and District incurs cost to obtain replacement swap at the same economic terms; however, to mitigate potential for credit risk, Morgan Stanley is rated Aa3/A+/AA-.

*Basic Risk.* Adverse changes in the District's or credit providers' financial strength could result in basic risk. To mitigate the potential for basic risk, integrate municipal bond insurance into the structure to substantially mitigate this risk.

*Termination Risk.* The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract.

## *NOTE 12 - 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 as retirees' report claims or premiums are paid. An actuarial report obtained by the District noted the future cost of this benefit will be in excess of $135.9 million.

## *NOTE 13 - 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, 2007, 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

The District is self insured for the first $250,000 of any workers' compensation claim and is insured for claims in excess of this amount. The District participates in a program through Alliance of Schools for Cooperative Insurance Programs (ASCIP). Claims are administered through Southern California Risk Management Association through an agreement with ASCIP. Additional information about the relationship between the District and these organizations is included in Note 16.

| | Workers' Compensation |
|---|---|
| Liability Balance, July 1, 2005 | $ - |
| Claims and changes in estimates | 278,440 |
| Claims payments | 319,888 |
| Liability Balance, June 30, 2006 | 598,328 |
| Claims and changes in estimates | 341,799 |
| Claims payments | 451,873 |
| Liability Balance, June 30, 2007 | $ 1,392,000 |
| Assets available to pay claims at June 30, 2007 | $ 535,499 |

**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 14 - 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).

**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 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

### Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were $2,898,855, $2,535,930, and $2,477,473, 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 2006-2007 was 9.124 percent of annual payroll.

**Annual Pension Cost**

The District's contributions to CalPERS for fiscal years ending June 30, 2007, 2006, and 2005, were $2,072,317, $1,863,352, and $1,857,446, 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 $1,535,411 (4.517 percent of salaries subject to STRS). A contribution to CalPERS was not required for the year ended June 30, 2007. These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

## *NOTE 15 - 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, 2007.

**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, 2007.

**Parking Mitigation**

The District has set aside funds to mitigate the impact of parking at Berkeley City College. These funds have been requested by the City of Berkeley as part of the development of the area surrounding Berkeley City College. At June 30, 2007, the total amount that has been deposited in a separate account owned by the District is $3.9 million. A formal agreement has not yet been finalized as to the actual mitigation project parameters. The funds that have been set aside are from General Obligation Bonds sold specifically for the construction of the Berkeley City College Campus.

### Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

| CAPITAL PROJECTS | Remaining Construction Commitment | Expected Date of Completion |
|---|---|---|
| Project Consulting Services | $ 24,479 | Ongoing |
| Laney Art Building Instructional Equipment | 109,441 | 06/30/08 |
| Merritt Short-Term Construction Project #2306 | 202,583 | 01/25/08 |
| COA Short-Term to Mid-Term Project Management Services #2304 | 129,576 | 10/31/08 |
| Laney Short-Term to Mid-Term Project Management Services #2305 | 64,181 | 01/08/08 |
| Districtwide Short-Term to Mid-Term Project Management Services | 67,600 | TBD |
| COA Short-Term to Mid-Term Project Management Services #2308 | 27,274 | 10/31/08 |
| Laney Short-Term to Mid-Term Project Management Services #2309 | 155,815 | 01/08/08 |
| Merritt Short-Term Construction Project #2310 | 256,979 | 01/25/08 |
| Upgrade Emergency Blue Phone | 39,876 | 11/30/07 |
| Furniture and Millwork for PCCD Conference Room | 132,221 | 09/30/07 |
| Laney Short-Term to Mid-Term Project Management Services #2314 | 2,762,778 | 01/08/08 |
| COA Short-Term to Mid-Term Project Management Services #2315 | 1,695,971 | 10/31/08 |
| Re-Paving Parking Lots at COA, Laney, and Merritt | 1,310,433 | 01/25/08 |
| Facility Consulting and Energy Management | 37,600 | 06/30/08 |
| District Center Renovation Phase III | 20,500 | 06/30/08 |
| Total Other Departments Measure A Fund | 3,381,628 | Ongoing |
| Flushing of Storm Drains | 55,404 | TBD |
| Repair Fire Sprinkler Systems | 46,220 | TBD |
| Athletic Fields Laney | 41,210 | 03/19/08 |
| Network Upgrade-Peoplesoft | 2,719,247 | TBD |
| Merritt Building R Student Center Renovation | 689,081 | 04/30/08 |
| Merritt Building D Renovation | 2,509,859 | TBD |
| Laney Building A Deck | 24,150 | TBD |
| Physical Plant Program Support | 81,432 | TBD |
| Re-Carpeting of Laney Library | 10,990 | TBD |
| Districtwide Security System Upgrade | 392,227 | 12/12/07 |
| Roof Replacement of COA Gymnasium | 168,519 | TBD |
| COA Underground Water Heating Replacement | 1,350 | TBD |
| Laney Landscape Improvements | 591,913 | TBD |
| DAC Renovation Phase III | 194,309 | 06/30/08 |
| Laney Culinary Kitchen Project | 561,545 | 11/30/08 |
| Laney Student Services Building | 291,547 | TBD |
| COA Building A Admissions and Records | 606,999 | TBD |
| Laney Multi-Purpose Building | 4,192 | TBD |
| Berkeley City College Building | 493,926 | 05/29/08 |
| | $ 19,903,055 | |

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

## *NOTE 16 - 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), 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, 2007, the District made payments of $32,485, $890,240, and $909,830 to the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), and the Alameda County Schools Insurance Group (ACSIG), respectively.

## *NOTE 17 - SUBSEQUENT EVENTS*

In November 2007, the District issued $100,000,000 of General Obligation Bonds, Election of 2006, Series B. The bonds bear interest rates of 5.0 to 5.25 percent and mature through the fiscal year 2038. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities.

In January 2008, the District investment from the issuance of Other Post-Employment Benefit (OPEB) Bonds fell in market value. The District's market value at this time noted to be below book value by more than $2.4 million compared to June 2007. The District's market value exceeded book value by more than $15 million.

In February 2008, the District terminated the Convertible Auction Rate Securitas (CARS), Series 2005B-1 through 2005B-5. In consideration of the termination and discharge, Deutsche Bank AG New York will pay to the District an amount equal to $1,200,000 (the Termination Payment Amount) in immediately available funds.

# *SUPPLEMENTARY INFORMATION*

# PERALTA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION
## JUNE 30, 2007

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**

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Mr. Bill Withrow | President | 2008 |
| Mr. Cy Gulassa | Vice President | 2008 |
| Mr. Nicky González Yuen | Member | 2008 |
| Dr. William Riley | Member | 2010 |
| Ms. Linda Handy | Member | 2010 |
| Ms. Marcie Hodge | Member | 2008 |
| Mr. Abel Guillén | Member | 2010 |
| Mr. Reginald James | Student Trustee | 2008 |
| Ms. Marlene Hurd | Student Trustee | 2008 |

**ADMINISTRATION**

| | |
|---|---|
| Mr. Elihu Harris, Esq. | Chancellor |
| Mr. Alton Jelks | Associate Vice Chancellor and Special Assistant |
| Ms. Thuy Thi Nguyen, Esq. | General Counsel |
| Dr. Gary Yee | Vice Chancellor, Educational Services, Acting |
| Mr. Thomas Smith, Esq. | Vice Chancellor, Finance and Administration |
| Dr. Sadiq Ikharo | Vice Chancellor, General Services |
| Mr. Gary Perkins | Chief Information Officer |
| Ms. Gail Waiters, Esq. | Inspector General |
| Mr. Jeffrey Heyman | Executive Director of Marketing, PR, and Communications |
| Dr. Cecilia Cervantes | President, College of Alameda |
| Dr. Judy Walters | President, Berkeley City College |
| Dr. Robert Adams | President, Merritt College |
| Dr. Frank Chong | President, Laney College |
| Ms. Yvonne Dorrough | Associate Vice Chancellor, Budget and Finance |
| Mr. Jacob Ng | Associate Vice Chancellor, International Affairs |
| Mr. Howard Perdue | Vice Chancellor, Enrollment Mgt/Student Services |
| Mr. Wyman Fong | Human Resources Manager |
| Ms. Joanne Baldinelli | Director of Risk Management |
| Ms. Karen Ulrich | Director of Employee Relations |

## PERALTA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2007

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Federal Expenditures |
|---|---|---|
| U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS | | |
| DIRECT PROGRAMS: | | |
| Student Financial Aid Cluster | | |
| Pell Grants | 84.063 | $ 13,314,685 |
| Pell Administration | 84.063 | 79,155 |
| Federal Supplemental Education Opportunity Grants | 84.007 | 962,940 |
| Federal Work Study Program | 84.033 | 686,509 |
| Academic Competitiveness Grant | 84.375 | 30,892 |
| Federal Family Education Loans | 84.032 | 1,664,950 |
| Child Care Access Means Parents in School | 84.335 | 56,158 |
| Passed through the California Community College Chancellor's Office | | |
| Vocational and Applied Technology Education Act | | |
| Title I-C | 84.048 | 753,031 |
| Tech Prep | 84.243 | 242,060 |
| Workability | 84.126 | 269,571 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | 18,059,951 |
| U.S. DEPARTMENT OF AGRICULTURE | | |
| Passed through the California Department of Education | | |
| Child Care and Adult Food Program | 10.558 | 57,110 |
| U.S. DEPARTMENT OF LABOR | | |
| Passed through the County of Alameda | | |
| WIA Cluster | | |
| WIA Grant Program One Stop Career Center Operation | 17.258 | 241,380 |
| WIA Grant Program Youth Services | 17.259 | 168,965 |
| TOTAL U.S. DEPARTMENT OF LABOR | | 410,345 |
| NATIONAL SCIENCE FOUNDATION | | |
| Direct Funded | | |
| Environmental Control Technology Education | 47.076 | 248,775 |
| Passed through the Foundation for Community Colleges | | |
| Institutional Development | 47.076 | 4,540 |
| Passed through San Francisco Community College District | | |
| Job Development Incentive Fund | 47.076 | 15,384 |
| TOTAL NATIONAL SCIENCE FOUNDATION | | 268,699 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | |
| Passed through the California Community College Chancellor's Office | | |
| Temporary Assistance for Needy Families | 93.558 | 257,672 |
| Passed through the Yosemite Community College District | | |
| Child Development Block Grant | 93.575 | 8,822 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | 266,494 |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | |
| Direct Funded | | |
| Retired and Senior Volunteer Program | 94.002 | 80,870 |
| Americorp | 94.004 | 83,610 |
| Passed through San Francisco State University | | |
| Building Partnership | 94.005 | 1,683 |
| Passed through the American Association of Community Colleges | | |
| Learn and Serve America | 94.005 | 7,352 |
| TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | 173,515 |
| Total Federal Expenditures | | $ 19,236,114 |

See accompanying note to supplementary information.

## PERALTA COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF STATE AWARDS
## FOR THE YEAR ENDED JUNE 30, 2007

| | Program Entitlements | | |
|---|---|---|---|
| Program | Current Year | Prior Year | Total Entitlement |
| Beverage Container Recycling Program | $ 35,000 | $ - | $ 35,000 |
| Board of Finance Assistance Program | 1,083,684 | 54,485 | 1,138,169 |
| Cal Grant B/C | 1,466,995 | 13,990 | 1,480,985 |
| California Articulation Number System | 20,000 | 1,749 | 21,749 |
| CalWORKS | 833,267 | 97,319 | 930,586 |
| Career Advancement | 50,000 | - | 50,000 |
| Child Care Tax Bailout | 722,707 | - | 722,707 |
| Child Development | 156,795 | - | 156,795 |
| Cooperative Agencies Resources for Education | 625,756 | 69,620 | 695,376 |
| Disabled Students Programs and Services | 2,527,939 | - | 2,527,939 |
| Economic Development (CITD) | 205,000 | - | 205,000 |
| Extended Opportunity Program and Services | 2,862,293 | - | 2,862,293 |
| Foster Care | 92,882 | 21,120 | 114,002 |
| Instructional Equipment | 1,657,460 | 131,707 | 1,789,167 |
| Matriculation - Credit | 1,700,500 | 74,100 | 1,774,600 |
| Matriculation - Non-Credit | 12,930 | 21,150 | 34,080 |
| Nursing Education | 627,365 | 171,292 | 798,657 |
| Nursing Program | 57,192 | 43,041 | 100,233 |
| Statewide Discipline/Industry Collaborative for Family and Consumer Sciences | 6,000 | - | 6,000 |
| Staff Diversity | 105,163 | 12,877 | 118,040 |
| Telecommunications/Technology Infrastructure | 198,427 | 81,827 | 280,254 |

See accompanying note to supplementary information.

| Program Revenues | | | | |
| --- | --- | --- | --- | --- |
| Cash Received | Accounts Receivable | Deferred Revenue | Total Revenue | Program Expenditures |
| $ - | $ - | $ - | $ - | $ 30,170 |
| 1,138,170 | - | 64,099 | 1,074,071 | 1,074,071 |
| 1,480,985 | - | - | 1,480,985 | 1,473,230 |
| 20,000 | - | 11,643 | 8,357 | 8,357 |
| 930,586 | - | 83,432 | 847,154 | 847,154 |
| 30,000 | - | 30,000 | - | - |
| 722,707 | - | - | 722,707 | 722,707 |
| 22,883 | 46,001 | - | 68,884 | 68,884 |
| 676,127 | - | 107,549 | 568,578 | 535,336 |
| 2,548,007 | - | 56,897 | 2,491,110 | 2,521,079 |
| 172,200 | 21,224 | - | 193,424 | 197,591 |
| 2,863,932 | - | 218,164 | 2,645,768 | 2,678,347 |
| 55,124 | 35,658 | 24,489 | 66,293 | 66,293 |
| 1,781,168 | - | 1,146,118 | 635,050 | 636,939 |
| 1,718,246 | - | 143,662 | 1,574,584 | 1,624,622 |
| 2,313 | - | 12,930 | (10,617) | - |
| 855,829 | - | 668,249 | 187,580 | 187,580 |
| 57,192 | - | - | 57,192 | 64,276 |
| | | | | |
| 1,500 | - | - | 1,500 | 910 |
| 120,163 | - | 91,346 | 28,817 | 28,817 |
| 280,254 | - | 95,984 | 184,270 | 184,270 |
| $ 15,477,386 | $ 102,883 | $ 2,754,562 | $ 12,825,707 | $ 12,950,633 |

**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT - ANNUAL/ACTUAL ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2007**

| CATEGORIES | Revised Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| **Credit Full-Time Equivalent Student (FTES)** | | | |
| A. Summer Intersession (Summer 2006 only) | | | |
| 1. Credit | 1,986 | - | 1,986 |
| B. Summer Intersession (Summer 2007 - Prior to July 1, 2007) | | | |
| 1. Credit | 544 | - | 544 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure | | | |
| (a) - Weekly Census Contact Hours | 14,149 | - | 14,149 |
| (b) - Daily Census Contact Hours | 1,237 | - | 1,237 |
| 2. Actual Hours of Attendance | | | |
| (a) - Credit | 373 | - | 373 |
| (b) - Weekly Census Procedure Courses | 420 | - | 420 |
| (c) - Daily Census Procedure Courses | 59 | - | 59 |
| Subtotal | 18,768 | - | 18,768 |
| **Noncredit FTES** | | | |
| A. Summer Intersession (Summer 2007 - Prior to July 1, 2007) | | | |
| 1. Noncredit | - | - | - |
| B. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Actual Hours of Attendance | | | |
| (a) - Noncredit | 264 | - | 264 |
| Subtotal | 290 | - | 290 |
| Total FTES | 19,058 | - | 19,058 |
| **Supplemental Information (subset of above information)** | | | |
| In-Service Training Courses (FTES) | | | - |
| **Basic Skills Courses** | | | |
| 1. Noncredit | | | - |
| 2. Credit | | | 1,267 |
| Total Basic Skills FTES | | | 1,267 |

See accompanying note to supplementary information.

## PERALTA COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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

| | General Fund | Capital Outlay Projects | Self-Insurance | Deferred Compensation |
|---|---|---|---|---|
| FUND BALANCE | | | | |
| Balance, June 30, 2007, (CCFS-311) | $ 16,406,824 | $ 138,253,982 | $ 535,497 | $ 143,636,207 |
| Increase in: | | | | |
| Investments | - | 908,678 | - | 28,253,415 |
| Accounts receivable | - | - | - | 543,496 |
| Prepaid expenses | 683,373 | - | - | - |
| Deferred cost on issuance | - | - | - | 3,146,703 |
| Accounts payable | (762,025) | (2,767,527) | (1,392,000) | - |
| Accrued interest | - | - | - | (228,489) |
| Other post-employment benefit bonds | - | - | - | (155,042,467) |
| Difference between General Ledger and CCFS-311 | 329,960 | (3) | 2 | - |
| Balance, June 30, 2007, Fund Financial Statement | $ 16,658,132 | $ 136,395,130 | $ (856,501) | $ 20,308,865 |

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, 2007

| | | |
|---|---|---|
| **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 | $ 16,658,132 | |
| Special Revenue Funds | 6,794,704 | |
| Debt Service Fund | 18,476,803 | |
| Capital Projects Funds | 136,676,456 | |
| Internal Service Fund | (856,501) | |
| Fiduciary Funds | 21,984,606 | |
| **Total Fund Balance and Retained Earnings - All District Funds** | | **$ 199,734,200** |
| 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 | 333,639,422 | |
| Accumulated depreciation is | (93,913,288) | |
| Less fixed assets in fiduciary funds | (2,775) | |
| Subtotal | | 239,723,359 |
| 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: | | 2,375,690 |
| Amounts held in trust on behalf of others (Trust and Agency Funds) | | (1,675,741) |
| 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. | | (5,370,051) |
| Long-term liabilities at year-end consist of: | | |
| General obligation bonds payable | 269,480,000 | |
| Premium on debt | 8,012,843 | |
| Compensated absences (vacations) - less current portion | 3,124,165 | |
| Subtotal | | (280,617,008) |
| **Total Net Assets** | | **$ 154,170,449** |

See accompanying note to supplementary information.

## *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 - Annual/Actual Attendance**

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

**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, 2007 and 2006, and have issued our report thereon dated May 8, 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Peralta Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peralta Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Peralta Community College District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-7 through 2007-11 to be significant deficiencies in internal control over financial reporting.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-6 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Peralta Community College District's 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 audits 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*.

Peralta Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Peralta Community College District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
May 8, 2008

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON 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, 2007. Peralta Community College District's major Federal programs are identified in the summary of auditors' 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 Peralta Community College District's management. Our responsibility is to express an opinion on Peralta Community College 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; 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 Peralta Community College 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 of Peralta Community College District's compliance with those requirements.

As described in item 2007-12 in the accompanying Schedule of Findings and Questioned Costs, Peralta Community College District did not comply with requirements regarding Eligibility that are applicable to its Student Financial Aid Cluster of programs. As described in item 2007-13 in the accompanying Schedule of Findings and Questioned Costs, Peralta Community College District did not comply with requirements related to equipment purchases and safeguardings that are applicable to the Vocational and Technology Act - Title IC. As described in item 2007-14 in the accompanying Schedule of Findings and Questioned Costs, Peralta Community College District did not comply with requirements related to reporting for Vocational and Technology Act - Title IC. Compliance with such requirements is necessary, in our opinion, for Peralta Community College District to comply with the requirements applicable to that program.



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In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

**Internal Control Over Compliance**

The management of Peralta Community College District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Peralta Community College District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-12 through 2007-14 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Peralta Community College District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Peralta Community College District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
May 8, 2008

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



# 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, 2007 and 2006, and have issued our report thereon dated May 8, 2008.

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**

Section 424: MIS Implementation - State General Apportionment Funding System

**Administration**

Section 435: Open Enrollment
Section 436: Minimum Conditions - Standards of Scholarship
Section 437: Student Fee - Instructional Materials and Health Fees
Section 423: Apportionment of Instructional Service Agreements/Contracts
Section 425: Residency Determination for Credit Courses
Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 432: Enrollment Fee
Section 421: Salaries of Classroom Instructors (50% Law)
Section 426: Students Actively Enrolled
Section 431: Gann Limit Calculation



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**Student Services**

Section 428: Use of Matriculation Funds

Section 433: CalWORKs - Use of State and Federal TANF Funding

**Facilities**

Section 434: Scheduled Maintenance Program

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 2007-15 through 2007-19 as described in the accompanying Schedule of State Award Findings and Questioned Costs, the Peralta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information of the Board of Trustees, Audit Committee, 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
May 8, 2008

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

## PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY OF AUDITORS' RESULTS
## FOR THE YEAR ENDED JUNE 30, 2007

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditors' report issued: | Qualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

**FEDERAL AWARDS**

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

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.063, 84.007, 84.032, 84.033, and 84.375 | Student Financial Aid Cluster |
| 84.048 | Title I-C |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 577,083 |
| Auditee qualified as low-risk auditee? | No |

**STATE AWARDS**

| | |
|---|---|
| Internal control over State programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | Yes |
| Type of auditors' report issued on compliance for State programs: | Qualified |

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

**The following findings represent material weaknesses in internal control and the financial reporting processes of the District.**

**FINANCIAL ACCOUNTING SYSTEM PROCEDURES**

**2007-1 Criteria or Specific Requirement**

Industry standards and best practices require the use of a financial accounting system that captures all financial transactions for the accounting period and is reconciled to properly report all such transactions.

**Condition**

*Material Weakness* - During the 2005-2006 fiscal year, the District implemented the PeopleSoft financial accounting system in response to significant weaknesses and deficiencies in the prior financial reporting system. Inadequate support from the software vendor, as well as delays in the implementation of certain modules of the system, have resulted in deficiencies in reporting, reconciliations, and monitoring of the financial activity of the District.

Financial reporting/ledger reports are not readily available to the users of the financial information to provide analysis and oversight of the financial activity. Reports have not been developed that can be reviewed on a routine basis and is critically underdeveloped. Subsidiary ledger reports have not been developed that can be reviewed and reconciled to the general ledger.

The Information Systems Department has been given access to all process activities and report writing in an effort to obtain financial information on a more timely basis. The hierarchy of controls over electronic information in some instances has been set so high that users cannot access the needed information and, in some instances, has been set to allow certain key individuals access to all segments of the transaction cycle.

A clear audit trail which allows for the review of transactions and approvals is not available within the accounts payable module.

Posting of payroll transactions during the year was not completed on a timely basis. As a result, department managers have been unable to utilize the PeopleSoft financial accounting system to properly monitor their budgets related to personnel costs. Separate spreadsheets have been developed to reconcile, monitor, and control personnel costs during the year.

Reconciliations of the cash held in the county treasury to the general ledger was not completed on a monthly basis during the 2006-2007 fiscal year and ultimately was not completed until April 2008.

**Effect**

Because of the problems with the implementation of the financial accounting system, the District was not able to properly monitor financial activity on a timely basis which has resulted in the delay in accurate reporting of activity to Federal and State agencies, as well as the delay of the audit report. Additionally, internal controls that are considered standard within the industry have been set aside to provide for processing of financial transactions.

**Recommendation**

Continued training of the end users of the financial system on the functions, uses, and protocols of the PeopleSoft accounting software system must occur. Reports of financial activity must be prepared and accessible to the appropriate levels of management on a routine basis to provide the ability to analyze and reconcile accounts. Access by the Information Systems Department to process activity must be eliminated as soon as possible. Adequate internal controls over all modules which allow for the review, approval, and monitoring of all activity 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.

**Management Response**

When the PeopleSoft financial accounting system was installed the position control module was not installed or programmed. This and other programming errors by PeopleSoft (then acquired by Oracle) created the situation described in this comment. The Board of Trustees has approved the installation of the needed module and Ciber, Inc. is currently completing the programming.

**INFORMATION SYSTEMS**

**2007-2 Criteria or Specific Requirement**

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

**Condition**

*Material Weakness* **-** The PeopleSoft financial accounting software operates and provides the following services through the Information Systems:

- Accounting **-** A financial, accounting, and budgeting system that processes all transactions for the District.
- Purchasing - Vendor files and payment information.
- Payroll **-** The payroll processing for employees of the District.

Due to the implementation issues associated with the PeopleSoft accounting system, these key areas have not been independently evaluated or tested to ensure the controls, approvals, procedures, and processes have been appropriately set up within the computer system and are functioning properly.

**Effect**

Necessary application controls and security levels may not have been included or developed with adequate consideration of internal control.

**Recommendation**

The controls in place within the software 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. The District should consider obtaining a SAS 70 review to assess the internal controls and report back to the District whether the controls are functioning properly. The report should provide recommendations to correct any weaknesses noted within the internal control environment.

**Management Response**

When we complete the necessary module installations and required customizations, the District intends to obtain a SAS 70 review.

**RETIREE HEALTH BENEFIT INVESTMENTS**

**2007-3 Criteria or Specific Requirement**

Industry standards and best practices require the use of a financial accounting system that captures all financial transactions for the accounting period and is reconciled to properly report all such transactions. Governmental Accounting Standards Board (GASB) Statement No. 31 requires all investments to be reported at fair value.

**Condition**

*Material Weakness* **-** The District has investments from the issuance of the District's Taxable 2005 Limited Obligation OPEB (other post-employment benefit) Bonds, which are held separately by an Investment Manager employed by the District.

The District recorded the initial proceeds from the sale of the bonds within a fund of the District; however, the activity subsequent to the initial investment has not been recognized within the system. During the year ended June 30, 2007, total investments recorded on the District's general ledger amounted to $149.5 million which did not agree to third party custodian of assets of $176.1 million.

Although the District received and reported quarterly reports on the activity, including gains and losses of investment held through the bond, the actual financial reporting within the general ledger system did not properly reflect this activity.

Audit adjustments were proposed and accepted by management to account for the net increase in the fair value of investments as of June 30, 2007. These adjustments take into account all changes in fair value including purchases and sales, as well as realized and unrealized gains and losses that occurred during the year.

**Effect**

By not posting the actual activity of the investments within the general ledger, the financial statements were not reported properly and an audit adjustment was proposed to, and accepted by, management to report the investments in accordance with generally accepted accounting principles. Additionally, the requirements noted within the Bond Debt Covenants related to account maintenance and disclosure requirements have not been met.

**Recommendation**

As required by GASB Statement No. 31, investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. All fair values are determined by third party custodian of investment assets. The District should implement adequate accounting policies and procedures to account for and record security transactions such as purchases, sales, and any resulting gains or losses within the general ledger system on a current basis.

**Management Response**

The investment assets are held by the Deutsche Bank as trustee. All transactions are recorded in the trust and detailed reports are distributed to the District monthly. The reports are reviewed by the District and a summary monthly report is provided to the Chancellor and the Board of Trustees audit committee. During the fiscal year two detailed presentations are made to the entire Board of Trustees. At June 30th the District makes a memo journal entry to record the mark to market for realized and unrealized gains and losses.

**CAPITAL ASSETS**

**2007-4 Criteria or Specific Requirement**

Industry standards and best practices require a system of internal control over capital assets that will provide for both the safeguarding of all District owned assets and the proper recordkeeping of the valuation and depreciation of those assets.

**Condition**

*Material Weakness* - The District has not implemented a previously purchased software program to account for the maintenance, addition and deletion of the capital assets, and the related depreciation. Additionally, there is not an employee designated to compile and report all current year activities to date for fixed assets at year-end. The following areas are affected by this:

- Reporting: The District has not adequately developed procedures or assigned responsibility to account for capital assets. We found that the Purchasing, Warehouse, Facilities and Maintenance, Information Technology, and Accounting departments do not share information impairing the process.

- Construction in Progress Classification: There is no detail accounting of Construction in Progress maintained during the year. The amounts reported in the Capital Assets were not supported by a complete detail of activities that documents when projects are started and completed. Schedules have not been prepared on a full accrual basis.
- Building/Site Improvements Classification: During the course of modernization and other ongoing construction, the District has not developed procedures to monitor building additions or site improvements for changes including additions/disposals of buildings or other properties.
- Additions for Machinery/Equipment: The District did not adequately evaluate and capitalize individual machinery and equipment purchases which meet the District's $5,000 capitalization threshold. Also, the District has not conducted a physical inventory of machinery and equipment since the 2000-2001 fiscal year. Staff was not available to produce a detailed listing of any machinery and equipment purchased during the course of the year for determination of reasonableness.
- Disposals for Equipment: The District has not identified machinery or equipment which has been disposed of or impaired. The Colleges do not have procedures in place to report changes in capital asset status including disposals, loss, or inventory of machinery and equipment.
- Current/Accumulated Depreciation: The District has not implemented a fixed asset system which would calculate depreciation for applicable classes of fixed assets. Depreciation has been rolled forward on an annual basis since the 2002-2003 fiscal year without detail analysis of the actual depreciation expense.

**Effect**

Due to the significance of the assets which have not been accounted for, we were unable to express an opinion on the fair presentation of the capital asset account balances. The accounting for the capital assets of the District is not in accordance with generally accepted accounting standards.

**Recommendation**

The implementation of a fixed asset accounting software program should be a high priority for the District. Written procedures should be developed and disseminated to all Colleges and departments noting the requirements for notification of additions and deletions of equipment and assets owned by the District. Training should be conducted to provide for the application of the procedures. We further recommend that a reconciliation of construction project expenses to the work in process accounts be completed at least quarterly during the year and a physical inventory of all equipment be taken at least once every two years to ensure all equipment owned by the District is in use as intended.

The District should review the current approved capitalization policy, which requires the capitalization and depreciation of all items over $5,000, to determine if it reflects the most meaningful level of capitalization for the size of the District.

**Management Response**

The District is currently testing and training personnel on the PeopleSoft asset management module. This module will be recording all asset entries for the 2008-2009 fiscal year.

**BALANCE SHEET LEDGER ACCOUNTS**

**2007-5 Criteria or Specific Requirement**

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

**Condition**

*Material Weakness* **-** Internal controls are not effective in identifying misstatements on a timely basis. We found that the balance sheet of the General Fund was not adequately analyzed prior to year end closing. Cash and investments accounts were not reconciled until March 2008 with the related effects of the adjustments impacting the other assets and liabilities of the District.

**Effect**

The ability of District financial personnel to report timely information to the Board and other departments is impaired. As a result of the inability of the District to reconcile these accounts, the reporting to oversight agencies and the audit completion has been delayed.

**Recommendation**

All account balances should be reviewed and analyzed on a monthly basis with adjustments to corresponding revenue, expense accounts, or other asset and liability accounts posted in a timely manner. Reporting of the financial condition and activity of the District to the Finance Committee and the Board should be provided on a monthly basis.

**Management Response**

District financial personnel monitored the financial condition of the District by the use of Excel spreadsheets and other internal controls. When the position control module is installed, management will be able to review fiscal operations and provide PeopleSoft generated reports.

**DEBT MANAGEMENT**

**2007-6 Criteria or Specific Requirement**

Industry standards and bond covenant agreements require all financial transactions to be recorded to provide for accurate and timely financial information. Best practices require financial information to be reviewed and analyzed by management in a timely manner.

**Condition**

*Material Weakness* - Transactions related to the repayment of OPEB bonds were not accurately recorded within the District's financial accounting system. Debt repayments were not properly set up by the trustee which required a series of bonds to be re-purchased and adjustments made to principal and interest payments made to the trustee. The fund recording the activity of the debt does not reflect the long-term portion of the debt obligation in accordance with generally accepted accounting standards. Adjustments were proposed and accepted by management to bring the accounts into compliance with these accounting standards.

**Effect**

The District is at risk of non-compliance with debt covenants related to recording financial transactions. Additionally, errors or omission in the accounting could be made and go undetected in a timely manner.

**Recommendation**

All financial activity related to the OPEB bonded debt should be reviewed on a regular basis to ensure the accounts are reported in accordance with generally accepted accounting principles. The long-term obligations related to the Bond should be recorded within the financial activity of the District on a full accrual basis to ensure all obligations have been captured and reported.

**Management Response**

The OPEB bonds were to be issued as interest-only for the first three years. An error by the underwriter caused the bonds to be issued as principle and interest due annually. The District prepaid the principle and interest in the first year while the underwriter purchased the outstanding bonds that needed to be converted to interest-only. This process took several months. Going forward this should not be an issue.

**The following comments represent significant deficiencies in internal control and the financial reporting process of the District.**

**ACCOUNTS PAYABLE/PURCHASING FUNCTIONS**

**2007-7 Criteria or Specific Requirement**

Industry standards and best practices require a system of internal control be designed to incorporate sound business practices within all financial areas.

**Condition**

*Significant Deficiency* - Accounts Payable Technicians have the ability to approve transactions within the purchasing module. This enables the "direct pay" of a vendor which effectively circumvents the purchasing function and eliminates to proper segregation of duties required by sound internal controls.

**Effect**

The District is at risk of having payments made to vendors without proper approval.

**Recommendation**

A review of the processes between the Accounts Payable and Purchasing functions should be made. Adequate segregation of duties should be re-established. A procedure manual for both departments should be written which provides guidance on the approved functions and responsibilities.

**Management Response**

This recommendation will be implemented.

**WRITTEN BUSINESS OFFICE PROCEDURES**

**2007-8 Criteria or Specific Requirement**

Industry standards and best practices related to internal controls require documentation of approved procedures be available for all Business Office functions.

**Condition**

With the implementation of the 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. There are no updated written procedures to support current practices and ensure all staff are aware of the approved practices related to the Business Office procedures.

**Effect**

This creates the possibility that controls are circumvented, and errors or irregularities could occur that are not detected by management in a timely manner.

**Recommendation**

Written procedures manuals should be developed for all functions within the Business Office to provide guidance as to the approved practices and procedures related to accounting, purchasing, payroll and other Business Office functions. This manual should be provided to all District Office and College Business Office departments to ensure procedures are followed and to allow for training for new staff.

**Management Response**

This recommendation will be implemented.

**JOURNAL ENTRIES**

**2007-9 Criteria or Specific Requirement**

Industry standards and best practices require a system of internal control be designed to incorporate sound business practices within all financial areas.

**Condition**

*Significant Deficiency* **-** Segregation of duties for processing transfers between funds and journal entries to post and correct activity has not been enforced. The creation and processing of transactions posted between funds through journal entries may rest with one individual with no documentation of additional review, approval, or reconciliation.

**Effect**

Without proper review and approval, reconciliation errors could be made within the financial activity and may go undetected within a reasonable amount of time.

**Recommendation**

The process of recording transfers and journal entries should be reviewed and evaluated for proper internal control. Segregation of duties to eliminate the possibility of one individual being responsible for an entire accounting transaction should be re-established with primary responsibility for review and reconciliation of the accounts maintained at the supervisory level. Written procedures should be established to provide guidance to staff on the proper controls and procedures.

**Management Response**

This recommendation will be implemented.

**DISASTER RECOVERY AND STRATEGIC PLANNING**

**2007-10 Condition**

*Significant Deficiency* – The District does not have a current functional Disaster Recovery Plan (DRP) for the Information Services Department or an updated strategic plan noting future goals and plans for technology needs. In the event of a disaster, the District may not be in a position to take the necessary steps to mitigate the effects of such a disaster. We have reviewed the Draft Disaster Recovery Plan; however, the key components of the Plan have not been implemented.

**Effect**

The lack of a formal DRP could severely hamper the District's ability to recover to a normal state of operations and may result in financial losses should business be interrupted.

**Recommendation**

The District should continue to review and implement the Draft Disaster Recovery Plan. The Plan should cover all operating systems and be tested on an annual basis. The Plan should also include procedures that will ensure recovery and restoration of all systems to normal functioning within a timely manner in the event of an unforeseen disaster.

A functional strategic plan is necessary to document future plans and changes to the Information Systems Department. The Plan should lay out individual procedures that are deemed necessary for the advancement of the IT Department as a unit including systems. Goals and objectives should be clearly stated within this Plan.

**Management Response**

The District is completing a disaster recovery plan that also includes the ability to record transactions at the Merritt campus if the District office is unable to function.

**INTERNAL AUDIT FUNCTION**

**2007-11 Condition**

*Significant Deficiency* **-** The District's operations and functions are decentralized and take place at four College campuses, as well as the District Office. An internal audit function that provides an ongoing assessment of the District's accounting and financial operations is a valuable tool within the internal control function of the District.

**Effect**

The District is at risk of policies and procedures not being followed on a consistent basis by not having the ongoing review and assessment of operational functions throughout the District.

**Recommendation**

An internal audit function should be established. A risk assessment of the various operations should be completed on an annual basis with review and testing of the key internal controls assessed and reported throughout the year.

**Management Response**

The District will consider this recommendation.

# FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

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

**STUDENT FINANCIAL AID ELIGIBILITY DETERMINATION**

**2007-12** **Federal Programs Affected -** U.S. Department of Education (DOE), Student Financial Aid Cluster: 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), and Academic Competitiveness Grant (CFDA #84.375)

**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*."

**Condition**

*Significant Deficiency* **-** College personnel at Berkeley City College have circumvented established District policies regarding the calculation, awarding, and disbursement of Federal Student Financial Aid. Student files did not provide a clear audit trail of changes to student enrollment status, petitions for waivers, or current education plans to support the amounts disbursed to students. By circumventing such policies, students received financial aid for classes in which they either never attended or stopped attending mid-way through the semester, prior to the 60 percent completion date. As a result of the circumvention of District policies, students at Berkeley College were over-awarded and under-awarded financial aid.

**Effect**

Lack of adequate internal controls over file maintenance and the disbursement process has resulted in the over-awarding and under-awarding of student financial aid. Noncompliance with the applicable Federal regulations could result in additional questioned costs related to the student financial aid program.

**Questioned Costs**

Based upon testing in 41 Pell student aid files, 13 students were over-awarded a total of $16,470 and one student was under-awarded $382.

**Recommendation**

Berkeley City College should comply with established District policies and procedures regarding the calculation, awarding, and disbursement of Federal Student Financial Aid. A written procedural manual should be developed and utilized to document the actual procedures related to the above functions and improve recordkeeping both in the hard copy files and the SAFE system files to properly support the payment of Federal student aid to qualifying students at Berkeley City College.

**Management Response**

The college has hired a financial aid consultant to review the staffing and procedures in the financial aid office. The college has also completed a policies and procedures manual.

**EQUIPMENT PURCHASE AND SAFEKEEPING**

**2007-13** **Federal Program Affected -** U.S. Department of Education (DOE), Vocational and Technology Educational Act (VATEA) - Title I-C (CFDA #84.048)

**Criteria**

OMB Circular A-110, Subpart C, Section 34 (3) and (4):

(3) *A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.*

(4) *A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.*

**Condition**

*Significant Deficiency* **-** The District has not maintained an inventory control system that satisfies the compliance criteria noted above. Equipment purchased with VATEA funds have not been identified as being used within the program. A physical inventory has not been taken within the past two years to determine the equipment remains in use within the program.

**Effect**

Equipment purchased through the VATEA program may not be properly safeguarded and maintained for use within the program.

**Questioned Costs**

For the condition noted, there is not an associated questioned cost.

**Recommendation**

A process to ensure the complete inventory listing of equipment purchased with Federal program funds should be implemented immediately. A process to ensure all equipment purchased through the program remains in use within the program should be implemented through a bi-annual physical inventory count.

**Management Response**

The installation of the PeopleSoft asset management module should correct this deficiency.

**REPORTING**

**2007-14** **Federal Program Affected -** U.S. Department of Education (DOE), Vocational and Technology Educational Act (VATEA) - Title I-C (CFDA #84.048)

**Criteria**

The District is required to report to the oversight agency, on a quarterly basis, the activity through the program.

**Condition**

*Significant Deficiency* - The District's quarterly reports submitted during the year were not reconciled and did not agree to the financial activity reported through the general ledger. Additionally, we noted the reports to the agency were not submitted within the timeframe required by the oversight agency.

**Effect**

Allocations of Federal funds through the oversight agency may be impacted when reporting is either incomplete, inaccurate, or untimely.

**Questioned Costs**

For the condition noted, there is not an associated questioned cost.

**Recommendation**

Financial reports of the VATEA program activity should be prepared based upon accurate financial information from the general ledger system and submitted within the prescribed timelines.

**Management Response**

The installation of the PeopleSoft position control module should correct this deficiency.

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

## CalWORKS

**2007-15** **Program Affected -** CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families Funds (TANF), passed through the California Community Colleges Chancellor's Office as CalWORKS State Funds

**Criteria**

The California Community Colleges Chancellor's Office *CalWORKS Program Handbook Guidelines* Section V Subsection Eligibility Documentation states, "Eligibility for services must be coordinated through the local County Welfare Department. Once the initial eligibility determination is made by the County Welfare Department, on-going communication with the County is essential to ensure that a student remains in good standing. Eligibility determinations must be conducted at the beginning of each term to ensure students are eligible for services prior to receiving them."

**Identified Condition**

In our sample of 25 CalWORKS recipients tested for eligibility requirements at each of the four campuses, we noted the following discrepancies:

- College of Alameda had five out of the 25 CalWORKS recipients sampled who were receiving CalWORKS services who did not have the proper eligibility documented from the County Welfare Department for each academic term the recipient was served or were not determined eligible at the beginning of each term; therefore, students claimed as CalWORKS were noncompliant.
- Laney College had 12 out of the 25 CalWORKS recipients sampled who were receiving CalWORKS services who did not have the proper eligibility documented from the County Welfare Department for each academic term the recipient was served or were not determined eligible at the beginning of each term; therefore, students claimed as CalWORKS were noncompliant.
- Berkeley City College had 12 out of the 25 CalWORKS recipients sampled who were receiving CalWORKS services who did not have the proper eligibility documented from the County Welfare Department for each academic term the recipient was served or were not determined eligible at the beginning of each term; therefore, students claimed as CalWORKS were noncompliant.
- Merritt College had four out of the 25 CalWORKS recipients sampled who were receiving CalWORKS services who did not have the proper eligibility documented from the County Welfare Department for each academic term the recipient was served or were not determined eligible at the beginning of each term; therefore, students claimed as CalWORKS were noncompliant.

**Questioned Costs**

Recipients received only services and not direct program dollars; therefore, no costs are questioned.

**Recommendation**

We recommend that the District develop an independent internal tracking of student eligibility for all CalWORKS and TANF-funded services to verify initial and continued eligibility from the County Welfare Department. Services provided through other college departments, like the Child Care Center, must be coordinated with the CalWORKS program office to also verify a student's ongoing eligibility for services, academic progress, and to monitor programs expenses that are directly attributable to support for the identified CalWORKS eligible recipients.

**Management Response**

This recommendation will be implemented.

**2007-16** **Program Affected -** CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families (TANIF) Funds, passed through the California Community Colleges Chancellor's Office

**Criteria**

Internal Controls: An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance: Chancellor's Office - *CalWORKS Program Handbook Guidelines 2005*
Annual reports of expenditures are required to be filed with the State Chancellor's Office.

**Identified Condition**

The year end report for CalWORKS expenditures filed with the State Chancellor's Office did not agree to expenditure reports from the Peoplesoft general ledger.

**Questioned Costs**

None.

**Recommendation**

The annual cost report filed with the State Chancellor's Office should be prepared and supported by appropriate ledger reports and by evidence of review by supervisory individuals within the accounting office.

**Management Response**

The installation of the PeopleSoft position control module should correct this deficiency.

**Concurrent Enrollment of K-12 Students in Community College Credit Courses**

**2007-17** **Program Affected -** Concurrent Enrollment of K-12 students

**Criteria**

Education Code Sections 48800-48802, 76000-760002, and 68752
CCR, Title 5, various sections

The Chancellor's Office and the State of California have authorized community college districts to allow the admittance of K-12 students who would benefit from advanced scholastic or vocational work. This admittance is dependent on both the parental approval and recommendation of the principal of the pupil's school of attendance.

**Identified Condition**

Documentation to support the proper enrollment of K-12 students at Merritt College could not be located for two of the 12 students selected for testing. Supporting documentation that was missing included the concurrent enrollment forms and the actual students' high school transcripts.

**Questioned Costs**

Unknown at this time.

**Recommendation**

All required documentation supporting the allowability of a high school student's enrollment should be maintained within the admissions and records files as proof that the students obtained the necessary approval to be enrolled as concurrent high school students.

**Management Response**

This recommendation will be implemented.

**STUDENTS ACTIVELY ENROLLED**

**2007-18 Criteria**

CCR, Title 5, Sections 58003.1, 58004, 58005, and 58051
California Community Colleges *Student Attendance Accounting Manual (SAAM*), pages 1.02-1.04

Districts are required to clear the rolls of all inactive students as of each course section's drop date. The drop date shall be no later than the end of business of the day immediately preceding the beginning of the census week in weekly census procedure courses.

**Identified Condition**

Apportionment may only be given to students actively enrolled in a course section as of the census date. Drop date rosters are not consistently received from instructors indicating the clearing of the roll prior to census date for each quarter. Students dropped as of census date are not segregated as to 'no shows' and, therefore, all students are claimed for apportionment credit. There is not a current report that allows the registrars the ability to see who has not turned in the Census Rosters in a timely manner.

Instructors may back date student drops with no additional supporting documentation being received by the registrars office.

**Questioned Costs**

Unknown at this time.

**Recommendation**

A report should be written within the student accounting system which will provide the registrars at the four campuses the ability to ensure all census date rosters have been completed and filed as required by the Title 5 requirements. Any drop date which is back dated on the student record should be supported by adequate documentation within the student's file and signed as approved by the registrar.

**Management Response**

With the go-live of the PeopleSoft student administration system completed, this discrepancy should be corrected.

**SALARIES OF CLASSROOM INSTRUCTORS (50% LAW CALCULATION)**

**2007-19 Criteria**

*Government Code Section 8880.5(k)* requires districts to establish a separate account/subfund to account for the receipt and expenditure of lottery funds.

**Identified Condition**

The District has established a separate fund to account for the expenditures of lottery funds restricted for instructional materials; however, a separate account or subfund to account for the unrestricted expenses charged against the lottery revenues had not been established. Expenses are designated as Librarians and Counselors; however, the actual accounting in accordance with the above Education Code has not been maintained.

**Questioned Costs**

None; this is a recordkeeping issue.

**Recommendation**

In accordance with Government Code Section 8880.5(k), the District should establish a subfund or program to segregate and account for expenditures of unrestricted lottery funds.

**Management Response**

The District will consider implementing this recommendation.

# PERALTA COMMUNITY COLLEGE DISTRICT

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2007

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.

**FINANCIAL STATEMENT FINDINGS**

**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.

**Current Status**

Not implemented. See finding 2007-1.

**INFORMATION SYSTEMS**

**2006-2 Finding**

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

- Accounting –financial, accounting, and budgeting system that processes all transactions for the District.
- Purchasing – Vendor files and payment information.
- Payroll and Human Resources –Maintains information related to the payroll of District employees.

With the implementation of PeopleSoft, 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 software 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. The District should consider obtaining a SAS 70 review to assess if controls tested are functioning properly, as well as address any weaknesses in the internal control environment.

**Current Status**

Not implemented. See finding 2007-2.

**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.

**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.

**Current Status**

Not implemented. See finding 2007-8.

**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.

**Current Status**

Not implemented. See finding 2007-9.

**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.

**Current Status**

Not implemented. See finding 2007-7.

**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 PeopleSoft accounting 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.

**Current Status**

Improved.

**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.

**Current Status**

Implemented.

## FEDERAL AWARDS FINDINGS

### 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.

**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.

**Current Status**

Not implemented. See finding 2007-12.

**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.

**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.

**Current Status**

Implemented.

**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.

**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.

**Current Status**

Not implemented. See finding 2007-13.

**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.

**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:

| College | Allocation | Expenditures | Under Utilized Funds |
|---|---|---|---|
| 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.

**Current Status**

Not implemented. See finding 2007-14.

**STATE AWARD FINDINGS**

**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.

**Current Status**

Implemented.

**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.

**Current Status**

Not implemented. See finding 2007-17.

**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:

| Program Tested | Total Per Audit | Total Per Annual Report | Footing Errors |
|---|---|---|---|
| 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.

**Current Status**

Implemented.

**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.

**Recommendation**

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

**Current Status**

Implemented.

**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.

**Current Status**

Not implemented. See finding 2007-15.

**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.

**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.

**Current Status**

Implemented.

## *ADDITIONAL SUPPLEMENTARY INFORMATION*

## PERALTA COMMUNITY COLLEGE DISTRICT

## GOVERNMENTAL FUNDS
## BALANCE SHEETS - (UNAUDITED)
## JUNE 30, 2007

| | | Special Revenue Funds | |
|---|---|---|---|
| | **General** | **Child Development** | **Special Reserve** |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 2,494,877 | $ - | $ - |
| Investments | 9,619,355 | 422,688 | 5,610,229 |
| Accounts receivable | 8,836,918 | 41,486 | 720,301 |
| Student loans receivable, net | 1,039,959 | - | - |
| Due from other funds | 6,219,371 | - | - |
| Prepaid expenses | 683,373 | - | - |
| Stores inventory | 296,169 | - | - |
| Other current assets | 181,057 | - | - |
| **Total Assets** | $ 29,371,079 | $ 464,174 | $ 6,330,530 |
| **LIABILITIES AND FUND EQUITY** | | | |
| **LIABILITIES** | | | |
| Accounts payable | $ 8,768,684 | $ - | $ - |
| Due to other funds | 15,054 | - | - |
| Deferred revenue | 3,929,209 | - | - |
| **Total Liabilities** | 12,712,947 | - | - |
| **FUND EQUITY** | | | |
| Fund Balances | | | |
| Reserved | 979,542 | - | - |
| Unreserved | | | |
| Designated | 6,583,096 | - | - |
| Undesignated | 9,095,494 | 464,174 | 6,330,530 |
| **Total Fund Equity** | 16,658,132 | 464,174 | 6,330,530 |
| **Total Liabilities and Fund Equity** | $ 29,371,079 | $ 464,174 | $ 6,330,530 |

See accompanying note to additional supplementary information.

| Debt Service Fund | Capital Projects Funds | | |
|---|---|---|---|
| Bond Interest and Redemption | Revenue Bond Project | Capital Outlay Projects | Total |
| $ - | $ - | $ 3,949,827 | $ 6,444,704 |
| 18,476,803 | 279,971 | 130,721,232 | 165,130,278 |
| - | 1,355 | 4,465,908 | 14,065,968 |
| - | - | - | 1,039,959 |
| - | - | 4,406,218 | 10,625,589 |
| - | - | 25,690 | 709,063 |
| - | - | - | 296,169 |
| - | - | - | 181,057 |
| $ 18,476,803 | $ 281,326 | $ 143,568,875 | $ 198,492,787 |
| | | | |
| $ - | $ - | $ 2,767,527 | $ 11,536,211 |
| - | - | 4,406,218 | 4,421,272 |
| - | - | - | 3,929,209 |
| - | - | 7,173,745 | 19,886,692 |
| | | | |
| - | - | - | 979,542 |
| - | - | - | 6,583,096 |
| 18,476,803 | 281,326 | 136,395,130 | 171,043,457 |
| 18,476,803 | 281,326 | 136,395,130 | 178,606,095 |
| $ 18,476,803 | $ 281,326 | $ 143,568,875 | $ 198,492,787 |

**PERALTA COMMUNITY COLLEGE DISTRICT**

## GOVERNMENTAL FUNDS
## STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (UNAUDITED)
## FOR THE YEAR ENDED JUNE 30, 2007

| | | Special Revenue Funds | |
|---|---|---|---|
| | General | Child Development | Special Reserve |
| **REVENUES** | | | |
| Federal revenues | $ 3,722,319 | $ 113,268 | $ - |
| State revenues | 84,100,018 | 1,475,066 | - |
| Local revenues | 34,620,717 | 100,063 | 859,134 |
| **Total Revenues** | 122,443,054 | 1,688,397 | 859,134 |
| **EXPENDITURES** | | | |
| Current Expenditures | | | |
| Academic salaries | 45,053,541 | - | - |
| Classified salaries | 25,530,815 | 992,886 | - |
| Employee benefits | 25,323,956 | 443,851 | - |
| Books and supplies | 2,142,195 | 52,121 | - |
| Services and operating expenditures | 15,644,806 | 4,030 | - |
| Capital outlay | 1,618,561 | - | - |
| Debt service - principal | - | - | - |
| Debt service - interest and other | 479,332 | - | - |
| **Total Expenditures** | 115,793,206 | 1,492,888 | - |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 6,649,848 | 195,509 | 859,134 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Operating transfers in | 5,892,200 | - | 3,590,000 |
| Operating transfers out | (3,738,360) | - | - |
| Other sources | - | - | - |
| Other uses | (1,260,388) | - | - |
| **Total Other Financing Sources (Uses)** | 893,452 | - | 3,590,000 |
| **EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | 7,543,300 | 195,509 | 4,449,134 |
| **FUND BALANCE, BEGINNING OF YEAR** | 9,114,832 | 268,665 | 1,881,396 |
| **FUND BALANCE, END OF YEAR** | $16,658,132 | $ 464,174 | $ 6,330,530 |

See accompanying note to additional supplementary information.

| Debt Service Fund | Capital Project Funds | | |
|---|---|---|---|
| Bond Interest and Redemption | Revenue Bond Project | Capital Outlay Projects | Total |
| $ - | $ - | $ - | $ 3,835,587 |
| - | - | 4,212,725 | 89,787,809 |
| 18,635,248 | 81,191 | 6,516,931 | 60,813,284 |
| 18,635,248 | 81,191 | 10,729,656 | 154,436,680 |
| | | | |
| - | - | - | 45,053,541 |
| - | 3,041 | - | 26,526,742 |
| - | 42 | - | 25,767,849 |
| - | 2,618 | 300,124 | 2,497,058 |
| - | - | 4,738,482 | 20,387,318 |
| - | 3,416 | 39,109,780 | 40,731,757 |
| 4,740,000 | - | - | 4,740,000 |
| 11,148,131 | - | 1,059,171 | 12,686,634 |
| 15,888,131 | 9,117 | 45,207,557 | 178,390,899 |
| | | | |
| 2,747,117 | 72,074 | (34,477,901) | (23,954,219) |
| | | | |
| - | - | - | 9,482,200 |
| - | - | - | (3,738,360) |
| 1,938,231 | - | 76,042,100 | 77,980,331 |
| - | - | - | (1,260,388) |
| 1,938,231 | - | 76,042,100 | 82,463,783 |
| | | | |
| 4,685,348 | 72,074 | 41,564,199 | 58,509,564 |
| 13,791,455 | 209,252 | 94,830,931 | 120,096,531 |
| $ 18,476,803 | $ 281,326 | $ 136,395,130 | $ 178,606,095 |

**PERALTA COMMUNITY COLLEGE DISTRICT**

**PROPRIETARY FUNDS**
**BALANCE SHEET - (UNAUDITED)**
**JUNE 30, 2007**

| | Internal Service Fund |
|---|---|
| **ASSETS** | |
| Investments | $ 535,499 |
| **LIABILITIES** | |
| Claim liabilities | $ 1,392,000 |
| **FUND EQUITY** | |
| Retained earnings | (856,501) |
| **Total Liabilities and Fund Equity** | $ 535,499 |

See accompanying note to additional supplementary information.

# PERALTA COMMUNITY COLLEGE DISTRICT

## PROPRIETARY FUNDS
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - (UNAUDITED)
## FOR THE YEAR ENDED JUNE 30, 2007

| | Internal Service Fund |
|---|---|
| **OPERATING EXPENSES** | |
| Services and other operating expenditures | $ 1,392,000 |
| **Operating Loss** | (1,392,000) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Interest income | $ 22,931 |
| **Revenues (Expenses)** | 22,931 |
| **NET LOSS** | (1,369,069) |
| **RETAINED EARNINGS, BEGINNING OF YEAR** | 512,568 |
| **RETAINED EARNINGS, END OF YEAR** | $ (856,501) |

See accompanying note to additional supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**PROPRIETARY FUNDS**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2007**

| | Internal Service Fund |
|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest on investments | $ 22,931 |
| Net Cash Provided from Investing Activities | 22,931 |
| Net increase in cash and cash equivalents | 22,931 |
| Cash and cash equivalents - Beginning | 512,568 |
| Cash and cash equivalents - Ending | $ 535,499 |

See accompanying note to additional supplementary information.

## PERALTA COMMUNITY COLLEGE DISTRICT

## FIDUCIARY FUNDS
## BALANCE SHEETS - (UNAUDITED)
## JUNE 30, 2007

| | Trust Funds | | | |
|---|---|---|---|---|
| | Deferred Compensation Trust | Associated Students Trust | Student Financial Aid | Scholarship and Loan |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ - | $ 409,026 | $ 142,455 | $ 9,069 |
| Investments | 177,781,822 | - | 59,466 | - |
| Accounts receivable | 543,496 | 7,831 | 133,190 | - |
| Due from other funds | - | 15,054 | - | - |
| Deferred costs on issuance | 3,146,703 | - | - | - |
| Fixed assets | - | 2,775 | - | - |
| **Total Assets** | $ 181,472,021 | $ 434,686 | $ 335,111 | $ 9,069 |
| **LIABILITIES AND FUND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Accounts payable | $ - | $ 5,919 | $ 135,111 | $ - |
| Accrued interest | 228,489 | - | - | - |
| Due to other funds | 5,892,200 | - | 200,000 | - |
| Due to student groups | - | 100,180 | - | - |
| Other post-employment benefit bonds | 155,042,467 | - | - | - |
| **Total Liabilities** | 161,163,156 | 106,099 | 335,111 | - |
| **FUND EQUITY** | | | | |
| Fund Balances | | | | |
| Unreserved | | | | |
| Undesignated | 20,308,865 | 328,587 | - | 9,069 |
| **Total Fund Equity** | 20,308,865 | 328,587 | - | 9,069 |
| **Total Liabilities and Fund Equity** | $ 181,472,021 | $ 434,686 | $ 335,111 | $ 9,069 |

See accompanying note to additional supplementary information.

| Agency Fund | |
|---|---|
| Other Trust | Total |
| $ 1,362,930 | $ 1,923,480 |
| - | 177,841,288 |
| 2,146 | 686,663 |
| - | 15,054 |
| - | 3,146,703 |
| - | 2,775 |
| $ 1,365,076 | $ 183,615,963 |
| | |
| $ - | $ 141,030 |
| - | 228,489 |
| 127,171 | 6,219,371 |
| 1,237,905 | 1,338,085 |
| - | 155,042,467 |
| $ 1,365,076 | 162,969,442 |
| | |
| | 20,646,521 |
| | 20,646,521 |
| | |
| | $ 183,615,963 |

# PERALTA COMMUNITY COLLEGE DISTRICT

## FIDUCIARY FUNDS
## STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (UNAUDITED)
## FOR THE YEAR ENDED JUNE 30, 2007

| | Trust Funds | | | | |
|---|---|---|---|---|---|
| | Deferred Compensation Trust | Associated Students Trust | Student Financial Aid | Scholarship and Loan | Total |
| **REVENUES** | | | | | |
| Federal revenues | $ - | $ - | $ 14,384,371 | $ - | $ 14,384,371 |
| State revenues | - | - | 1,806,241 | - | 1,806,241 |
| Local revenues | 27,204,456 | 150,455 | - | - | 27,354,911 |
| **Total Revenues** | 27,204,456 | 150,455 | 16,190,612 | - | 43,545,523 |
| **EXPENDITURES** | | | | | |
| Current Expenditures | | | | | |
| Services and operating expenditures | - | 240,505 | - | 247 | 905,210 |
| Debt service - interest and other | 2,596,045 | - | - | - | 2,596,045 |
| **Total Expenditures** | 2,596,045 | 240,505 | - | 247 | 3,501,255 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 24,608,411 | (90,050) | 16,190,612 | (247) | 40,044,268 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Operating transfers in | - | 148,360 | - | - | 148,360 |
| Operating transfers out | (5,892,200) | - | - | - | (5,892,200) |
| Other uses | - | - | (16,190,612) | - | (16,190,612) |
| **Total Other Financing Sources (Uses)** | (5,892,200) | 148,360 | (16,190,612) | - | (21,934,452) |
| **EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | 18,716,211 | 58,310 | - | (247) | 18,774,274 |
| **FUND BALANCE, BEGINNING OF YEAR** | 1,592,654 | 270,277 | - | 9,316 | 1,872,247 |
| **FUND BALANCE, END OF YEAR** | $ 20,308,865 | $ 328,587 | $ - | $ 9,069 | $ 20,646,521 |

See accompanying note to additional supplementary information.

# PERALTA COMMUNITY COLLEGE DISRTRICT

# NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
# JUNE 30, 2007

***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.