



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2008 AND 2007

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress and Employer Contributions	49
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SUPPLEMENTARY INFORMATION

District Organization	51
Schedule of Expenditures of Federal Awards	52
Schedule of Expenditures of State Awards	53
Schedule of Workload Measures for State General Apportionment - Annual/Actual Attendance	54
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Fund Financial Statements	55
Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets	56
Note to Supplementary Information	57

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	62
Report on State Compliance	65

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	68
Financial Statement Findings and Recommendations	69
Federal Awards Findings and Questioned Costs	87
State Awards Findings and Questioned Costs	94
Summary Schedule of Prior Audit Findings	99

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2008 AND 2007

ADDITIONAL SUPPLEMENTARY INFORMATION

Governmental Funds	
Balance Sheets - (Unaudited)	118
Statements of Revenues, Expenditures, and Changes in Fund Balance - (Unaudited)	119
Proprietary Funds	
Balance Sheet - (Unaudited)	120
Statement of Revenues, Expenses, and Changes in Retained Earnings - (Unaudited)	121
Statement of Cash Flows	122
Fiduciary Funds	
Balance Sheets - (Unaudited)	123
Statements of Revenues, Expenditures, and Changes in Fund Balance - (Unaudited)	124
Note to Additional Supplementary Information	125

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the accompanying basic financial statements of the business-type activities of the Peralta Community College District (the District) as of and for the years ended June 30, 2008 and 2007, 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.

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

The District has not adequately maintained historical cost records of capital asset to support capital asset reporting and related depreciation expense. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial presentation of the capital assets.

Detailed accounting records supporting student enrollment fee revenue and the related deferred revenue were unavailable for our audit. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on deferred revenue and the related enrollment fee revenues reported within these financial statements.

Detailed accounting records of the campus trusts do not provide adequate detail to perform auditing procedures necessary to provide an opinion related to the presentation in the financial statements.

In our opinion, except for the effects of such adjustments, if any, as may be determined to be necessary in relation to the capital asset reporting and related depreciation expense and the enrollment fee revenue and related deferred revenue as discussed in the preceding paragraphs, in our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Peralta Community College District as of June 30, 2008 and 2007, 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.

As discussed in the Notes to the Financial Statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45 for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, 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 is important for 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 Governmental Accounting Standards Board. 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.

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

The Additional Supplementary Information on pages 118 through 125 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 it.

Vaurinek, Trine Day & Co. LLP

Rancho Cucamonga, California
February 27, 2009



Peralta Community College District

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

This section of the Peralta Community College District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008. 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 2007-2008, FTES was 19,414 (including credit and noncredit FTES), as compared to 19,058 in the fiscal year 2006-2007. This represented a 1.0 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 \$127.9 million, an increase of 4.5 percent from prior year's revenue of \$122.4 million.
- The District ended the fiscal year 2007-2008 with a net decrease in fund balance of approximately \$1.3 million in the unrestricted General Fund leaving the ending fund reserve at \$13.8 million or 12.2 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 10.1 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 7.0 percent discount rate for the District as of June 30, 2008 is \$106.8 million. The actuarial accrued liability is comprised of \$45.7 million of liabilities for active employees expected to retire in the future and \$61.1 million for retirees. In December 2005, the District issued \$153 million in Other Postemployment Benefits (OPEB) Bonds. 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 December 31, 2008, the investment trust fund had unrealized losses of \$26.4 million or 18.32 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.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- In June 2006, the voters in our six city service area approved the passage of Measure A. The \$390 million General Obligation Proposition 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

The Peralta Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

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

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 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.

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed financial information is as follows:

Statement of Net Assets

Net assets is the difference between assets and liabilities. Overall, net assets decreased by \$35.1 million as of June 30, 2008. The decrease in net assets is primarily attributed to the unrealized losses in the Deferred Comp Trust Fund and the accrual of the retiree health benefits expense as required by GASB Statement No. 45 as the annual required contribution (ARC).

**NET ASSETS
As of June 30,**

(Amounts in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current Assets			
Cash and investments	\$ 394,348	\$ 351,875	\$ 274,759
Accounts receivable and other assets, net	15,332	17,153	21,707
Total Current Assets	<u>409,680</u>	<u>369,028</u>	<u>296,466</u>
Noncurrent Assets			
Deferred costs on issuance	6,370	5,348	-
Capital assets (net of depreciation)	274,068	239,726	208,271
Total Assets	<u>690,118</u>	<u>614,102</u>	<u>504,737</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	19,799	16,892	19,074
Deferred revenue	2,420	3,929	2,176
Amounts held in trust for others	1,481	1,676	1,534
Current portion of long-term obligations	7,384	8,194	6,849
Total Current Liabilities	<u>31,084</u>	<u>30,691</u>	<u>29,633</u>
Long-term obligations	<u>539,924</u>	<u>429,241</u>	<u>354,724</u>
Total Liabilities	<u>571,008</u>	<u>459,932</u>	<u>384,357</u>
NET ASSETS			
Invested in capital assets	86,058	98,628	98,725
Restricted for expendable purposes	23,566	25,553	16,151
Unrestricted	9,486	29,989	5,504
Total Net Assets	<u>\$ 119,110</u>	<u>\$ 154,170</u>	<u>\$ 120,380</u>

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues			
Tuition and fees	\$ 9,403	\$ 8,711	\$ 8,139
Grants and contracts	37,704	33,487	29,762
Total Operating Revenues	<u>47,107</u>	<u>42,198</u>	<u>37,901</u>
Operating Expenses			
Salaries and benefits	116,042	98,945	92,070
Supplies and maintenance	60,183	47,358	42,911
Depreciation	7,945	6,240	7,061
Total Operating Expenses	<u>184,170</u>	<u>152,543</u>	<u>142,042</u>
Loss on Operations	<u>(137,063)</u>	<u>(110,345)</u>	<u>(104,141)</u>
Nonoperating Revenues and (Expenses)			
State apportionments	70,037	68,817	55,033
Property taxes	42,095	41,726	39,730
State revenues	4,498	4,833	2,890
Investment income	(3,071)	35,109	6,905
Interest expense	(15,887)	(12,908)	(8,490)
Other nonoperating revenues and transfers	4,591	2,346	6,534
Total Nonoperating Revenues	<u>102,263</u>	<u>139,923</u>	<u>102,602</u>
Other Revenues			
State and local capital income	(260)	4,213	26,223
Total Other Revenues	<u>(260)</u>	<u>4,213</u>	<u>26,223</u>
Net Increase (Decrease) in Net Assets	<u>\$ (35,060)</u>	<u>\$ 33,791</u>	<u>\$ 24,684</u>

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

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

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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

The interest income is primarily the result of cash held at the Alameda County Treasury 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)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash Provided by (Used in)			
Operating activities	\$ (126,907)	\$ (104,482)	\$ (90,218)
Noncapital financing activities	108,360	97,941	99,297
Capital financing activities	65,498	49,610	176,577
Investing activities	13,154	(1,204)	(136,665)
Net Change in Cash	<u>60,105</u>	<u>41,865</u>	<u>48,991</u>
Cash, Beginning of Year	173,185	131,320	82,329
Cash, End of Year	<u>\$ 233,290</u>	<u>\$ 173,185</u>	<u>\$ 131,320</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At June 30, 2008, the District had \$274 million in a broad range of capital assets including land, buildings, and furniture and equipment. During the year, the District added \$20.2 million in buildings and site improvements. The District also continued to modernize and refurbish various sites within the District. Construction in progress increased \$19.8 million and totaled \$158.6 million at year end. To continue our capital asset upgrades, the District issued in the current fiscal year \$100 million in Measure A General Obligation Proposition 39 Bonds.

Long-Term Obligations

At the end of 2007-2008, the District had \$547.3 million in long-term obligations. The increase in long-term obligations was primarily the result of the sale of the 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 \$4.2 million, the actual results for the year showed a net decrease in fund balance of approximately \$1.5 million, primarily attributed to reduced expenditure allocations by \$2.8 million.

- Actual apportionment revenues were approximately \$118,000 higher than budget while local taxes and other revenues were approximately \$476,000 higher than budget.
- The actual expenditures have increased \$15.6 million due to increased salary and medical benefit costs.
- During the fiscal year 2007-2008, the District's contribution to the California Public Employees' Retirement System (CalPERS) increased by approximately \$67,000 to \$2.1 million for the year.
- During the fiscal year 2007-2008, the District's contribution to the California State Teachers' Retirement System (CalSTRS) increased by \$349,000 to \$3.2 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 86 percent of the total sources of revenues received by the District in the general unrestricted fund.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- 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 2008-2009 due to ongoing funding restrictions.
- Due to the current State Budget deficit and escalating medical costs, a 2008-2009 deficit is anticipated. The District will use reserves to continue to serve our students. The 2008-2009 General Fund reserve will be maintained above the Board required reserve of five percent.
- The District is closely following State economic forecasts and announcements from the Governor's Office on administration spending priorities. Balancing the budget in fiscal 2008-2009 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, 2008 AND 2007**

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,947,659	\$ 2,494,877
Restricted cash and cash equivalents	6,055,395	5,873,307
Investments	179,442,964	192,017,460
Restricted investments	205,901,782	151,489,605
Accounts receivable, net	12,808,195	14,752,631
Student loans receivable, net	1,315,725	1,039,959
Prepaid expenses - current portion	570,776	709,063
Deferred costs on issuance - current portion	216,475	173,775
Stores inventories	239,316	296,169
Other current assets - current portion	181,057	181,057
Total Current Assets	409,679,344	369,027,903
NONCURRENT ASSETS		
Deferred costs on issuance - noncurrent portion	6,370,437	5,348,618
Nondepreciable capital assets	163,427,592	143,365,107
Depreciable capital assets, net of depreciation	110,640,648	96,361,027
Total Capital Assets	274,068,240	239,726,134
Total Noncurrent Assets	280,438,677	245,074,752
TOTAL ASSETS	690,118,021	614,102,655
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	12,919,156	11,293,241
Accrued interest payable	6,879,865	5,598,540
Deferred revenue	2,419,605	3,929,209
Amounts held in custody on behalf of others	1,481,264	1,675,741
Compensated absences payable - current portion	384,000	384,000
General obligation bonds payable - current portion	6,865,000	7,810,000
Other postemployment benefit bonds - current portion	135,000	-
Total Current Liabilities	31,083,890	30,690,731
NONCURRENT LIABILITIES		
Claims liability	1,691,000	1,392,000
Compensated absences payable - noncurrent portion	3,277,921	3,124,165
General obligation bond payable - noncurrent portion	367,282,890	269,682,843
Other postemployment benefit bonds - noncurrent portion	162,739,744	155,042,467
Other long-term obligations - noncurrent portion	4,932,201	-
Total Noncurrent Liabilities	539,923,756	429,241,475
TOTAL LIABILITIES	571,007,646	459,932,206
NET ASSETS		
Invested in capital assets, net of related debt	86,057,834	98,628,421
Restricted for:		
Debt service	11,000,153	12,878,263
Capital projects	335,807	281,326
Other activities	12,230,794	6,794,704
Unrestricted	9,485,787	35,587,735
TOTAL NET ASSETS	\$ 119,110,375	\$ 154,170,449

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, 2008 AND 2007**

	2008	2007
OPERATING REVENUES		
Student Tuition and Fees	\$ 14,031,452	\$ 14,182,962
Less: Scholarship discount and allowance	(4,628,626)	(5,471,677)
Net tuition and fees	<u>9,402,826</u>	<u>8,711,285</u>
Grants and Contracts, noncapital:		
Federal	20,284,519	18,219,958
State	<u>17,419,931</u>	<u>15,266,928</u>
TOTAL OPERATING REVENUES	<u>47,107,276</u>	<u>42,198,171</u>
OPERATING EXPENSES		
Salaries	81,126,832	72,240,387
Employee benefits	34,914,739	26,704,932
Supplies, materials, and other operating expenses and services	57,171,135	42,602,003
Equipment, maintenance, and repairs	3,012,624	4,755,769
Depreciation	<u>7,945,154</u>	<u>6,239,549</u>
TOTAL OPERATING EXPENSES	<u>184,170,484</u>	<u>152,542,640</u>
OPERATING LOSS	<u>(137,063,208)</u>	<u>(110,344,469)</u>
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	70,036,525	68,816,841
Local property taxes, levied for general purposes	25,914,548	23,608,268
Taxes levied for other specific purposes	16,180,584	18,117,462
State taxes and other revenues	4,498,338	4,832,967
Interest income	8,258,646	7,930,019
Realized gain (loss) on investments	(6,016,666)	11,069,450
Unrealized gain (loss) on investments	(5,816,487)	15,591,510
Interest expense on capital related debt	(15,886,624)	(12,908,020)
Investment income on capital asset-related debt, net	503,413	517,786
Transfer to agency fund	(170,113)	(148,360)
Other nonoperating revenue	<u>4,760,657</u>	<u>2,494,892</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>102,262,821</u>	<u>139,922,815</u>
INCOME BEFORE OTHER REVENUES	(34,800,387)	29,578,346
State revenues, capital	<u>(259,687)</u>	<u>4,212,725</u>
CHANGE IN NET ASSETS	(35,060,074)	33,791,071
NET ASSETS, BEGINNING OF YEAR	<u>154,170,449</u>	<u>120,379,378</u>
NET ASSETS, END OF YEAR	<u>\$ 119,110,375</u>	<u>\$ 154,170,449</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 9,585,880	\$ 8,589,392
Federal and State grants and contracts	35,928,955	35,307,260
Payments to or on behalf of employees	(109,787,421)	(97,003,561)
Payments made to students from financial aid	(19,807,404)	(17,535,071)
Payments to vendors for supplies and services	(42,827,440)	(33,840,263)
Net Cash Flows From Operating Activities	(126,907,430)	(104,482,243)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	72,655,888	66,023,314
Property taxes - nondebt related	25,914,548	23,608,268
Other State revenues	5,088,406	3,805,696
Other local revenues	4,702,063	4,503,454
Net Cash Flows From Noncapital Financing Activities	108,360,905	97,940,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital apportionments	(259,687)	4,199,001
Taxes levied for other specific purposes	16,180,584	18,117,462
Proceeds from bond issuance	112,530,872	79,272,965
Acquisition and construction of capital assets	(40,808,203)	(36,242,152)
Principal paid on capital debt and leases	(8,043,548)	(4,864,136)
Interest received on capital debt	503,413	517,786
Interest paid on capital debt and leases	(14,605,299)	(11,390,762)
Net Cash Flows From Capital and Related Financing Activities	65,498,132	49,610,164
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (Purchase) of investments	5,799,999	(8,590,587)
Investment income	7,354,097	7,386,523
Net Cash Flows From Investing Activities	13,154,096	(1,204,064)
NET CHANGE IN CASH AND CASH EQUIVALENTS	60,105,703	41,864,589
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	173,184,749	131,320,160
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 233,290,452	\$ 173,184,749

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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH FLOWS FROM OPERATING ACTUALS		
Operating Loss	\$ (137,063,208)	\$ (110,344,469)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:		
Depreciation	7,945,154	6,239,549
Changes in Assets and Liabilities:		
Receivables, net	(942,208)	358,060
Stores inventories	56,853	(70,575)
Prepaid expenses	(926,232)	1,281,522
Accounts payable and accrued liabilities	146,858	(5,153,537)
Deferred revenue	(1,509,604)	1,753,431
Claims liability	793,672	793,672
Other long-term obligations	4,591,285	660,104
Total Adjustments	<u>10,155,778</u>	<u>5,862,226</u>
Net Cash Flows From Operating Activities	<u>\$ (126,907,430)</u>	<u>\$ (104,482,243)</u>
 CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:		
Cash in banks	\$ 9,003,054	\$ 8,368,184
Investment in county treasury	224,287,398	164,816,565
Total Cash and Cash Equivalents	<u>\$ 233,290,452</u>	<u>\$ 173,184,749</u>
 NONCASH TRANSACTIONS		
Deferred costs on issuance	\$ 216,475	\$ 5,522,393
On behalf payments for benefits	1,773,946	1,535,411
Total Noncash Transactions	<u>\$ 1,990,421</u>	<u>\$ 7,057,804</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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 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. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District.

The following entities do not meet the above criteria for inclusion as component units of the District. Additional information is included in Note 17 to the financial statements.

- **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. Financial statements for the Foundation can be obtained from the Foundation's Business Office at 333 East 8th Street, Oakland, CA 94606.

Public Entity Risk Pools and Joint Powers Authorities (JPAs) The District is associated with four joint powers agencies (JPAs). These organizations do not meet the criteria for inclusion as component units of the District. The JPAs are the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), the Alameda County Schools Insurance Group (ACSIG), and the Golden West Financing Authority. Additional information is included in Note 17 of the financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. 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 material 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.

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 System'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. The District has not elected to apply FASB pronouncements after that date. 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 System's Office's *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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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. Restricted cash and cash equivalents represented balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectable accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$433,980 and \$433,980 for the years ended June 30, 2008 and 2007, respectively.

Prepaid Expenses

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

Stores Inventories

Stores inventories consist 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 \$49,999. 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 to buildings and land that significantly increase the value or extend the useful life of the asset 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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; vehicles, 5 to 10 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:

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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. Net assets may be restricted for capital projects, debt repayment, and/or educational programs. None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

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. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statement No. 35. Classifications are as follows:

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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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 California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement Systems (CalPERS) on behalf of all community colleges in California. See Note 15 for additional information.

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 Taxes

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.

The voters of the District passed a General Obligation Bond in 2006 for the acquisition, construction, and remodeling of District capital assets. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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, 2008 and 2007, the District distributed \$2,236,846 and \$1,664,950, 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.

Changes in Accounting Principles

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the entity-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

This Statement provided for prospective implementation – that is that employers set the beginning OPEB obligation at zero as of the beginning of the initial year. The District has implemented the provision of the Statement for the fiscal year ended June 30, 2008. The District had an annual required contribution of \$10,291,000 for the year June 30, 2008, and made a contribution of \$5,358,799 and have an OPEB obligation of \$4,932,201.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASB Statement No. 47 should be applied simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASB Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

New Accounting Pronouncements

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as RSI by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to those intangible assets, as applicable. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as Phase 1 or Phase 2 governments for the purpose of implementing Statement No 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments, financial arrangements used by governments to manage specific risks or make investments, in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008, consist of the following:

Cash on hand and in banks - unrestricted	\$ 2,892,659
Cash in revolving	55,000
Cash on hand and in banks - restricted	6,055,395
Total Cash and Cash Equivalents	<u>\$ 9,003,054</u>
Investment in county treasury - unrestricted	\$ 19,294,294
Investments - deferred comp trust fund - unrestricted	160,148,670
Investment in county treasury - restricted	204,993,104
Investment with fiscal agent - restricted	908,678
Total Investments	<u>\$ 385,344,746</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
County Pool - Alameda	\$ 231,568,300	440
U.S. Treasury Obligations	937,787	19
European Investment Bank Notes	248,589	N/A
Highmark Money Market Funds	6,617,673	N/A
Common Stock	68,136,941	N/A
Neuberger Berman International Institutional Fund - Mutual Funds	33,958,664	N/A
U.S. Governmental Securities	15,646,946	N/A
Corporate Debt Instruments	35,530,857	N/A
	<u>\$ 392,645,757</u>	

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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, 2008. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Total Fair Value	Rating
County Pool - Alameda	\$ 231,568,300	Not rated
U.S. Treasury Mutual Obligations	937,787	Aaa
European Investment Bank Notes	248,589	Aaa
Highmark Money Market Funds	6,617,673	Not rated
Common Stock	68,136,941	Not rated
Neuberger Berman International Institutional Fund - Mutual Funds	33,958,664	Not rated
U.S. Governmental Securities	15,646,946	Aaa
Corporate Debt Instruments	249,922	Aaa
Corporate Debt Instruments	21,799,679	Aa
Corporate Debt Instruments	3,926,388	A
Corporate Debt Instruments	1,703,439	A1
Corporate Debt Instruments	1,637,261	A2
Corporate Debt Instruments	725,497	A3
Corporate Debt Instruments	5,488,671	Ba
	<u>\$ 392,645,757</u>	

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, 2008, the District's bank balance of \$8,525,473 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.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>2008</u>	<u>2007</u>
Federal Government		
Categorical aid	\$ 972,841	\$ 606,092
State Government		
Apportionment	4,291,908	6,911,271
Categorical aid	402,576	102,883
Lottery	573,077	653,409
Other State sources	3,956,172	4,465,908
Local Sources		
Interest	1,448,045	543,496
Other local sources	1,163,576	1,469,572
Total	<u>\$ 12,808,195</u>	<u>\$ 14,752,631</u>
Student receivables	\$ 1,749,705	\$ 1,473,939
Less allowance for bad debt	(433,980)	(433,980)
Student receivables, net	<u>\$ 1,315,725</u>	<u>\$ 1,039,959</u>

NOTE 5 – PREPAID EXPENSES

Prepaid expenses consisted of the following:

	<u>2008</u>	<u>2007</u>
Other postemployment bonds debt service	\$ 545,086	\$ 683,373
Other	25,690	25,690
Total	<u>\$ 570,776</u>	<u>\$ 709,063</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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:

	<u>2008</u>	<u>2007</u>
Other Postemployment Benefits Bonds	\$ 3,071,782	\$ 3,146,702
General Obligation Bonds 2000, Series A	809,354	838,260
General Obligation Bonds 2005, Refunding	508,750	537,014
General Obligation Bonds 2006, Series A	958,731	1,000,417
General Obligation Bonds 2006, Series B	1,238,295	-
Total	<u>\$ 6,586,912</u>	<u>\$ 5,522,393</u>
Deferred costs on issuance - current portion	\$ 216,475	\$ 173,775
Deferred costs on issuance - noncurrent portion	<u>6,370,437</u>	<u>5,348,618</u>
	<u>\$ 6,586,912</u>	<u>\$ 5,522,393</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2008, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 4,553,284	\$ 304,221	\$ -	\$ 4,857,505
Construction in progress	138,811,823	39,944,972	20,186,708	158,570,087
Total Capital Assets Not Being Depreciated	<u>143,365,107</u>	<u>40,249,193</u>	<u>20,186,708</u>	<u>163,427,592</u>
Capital Assets Being Depreciated				
Buildings	151,532,582	15,635,227	-	167,167,809
Site improvements	15,232,864	4,551,481	-	19,784,345
Machinery and equipment	23,508,869	2,038,067	-	25,546,936
Total Capital Assets Being Depreciated	<u>190,274,315</u>	<u>22,224,775</u>	<u>-</u>	<u>212,499,090</u>
Total Capital Assets	<u>333,639,422</u>	<u>62,473,968</u>	<u>20,186,708</u>	<u>375,926,682</u>
Less Accumulated Depreciation				
Buildings	69,844,957	3,411,186	-	73,256,143
Site improvements	4,432,232	661,198	-	5,093,430
Machinery and equipment	19,636,099	3,872,770	-	23,508,869
Total Accumulated Depreciation	<u>93,913,288</u>	<u>7,945,154</u>	<u>-</u>	<u>101,858,442</u>
Net Capital Assets	<u>\$239,726,134</u>	<u>\$ 54,528,814</u>	<u>\$ 20,186,708</u>	<u>\$274,068,240</u>

Depreciation expense for the year was \$7,945,154.

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, 2008, or to the effective date of this report.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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	<u>117,209,585</u>	<u>37,695,156</u>	<u>11,539,634</u>	<u>143,365,107</u>
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	<u>178,734,681</u>	<u>11,539,634</u>	<u>-</u>	<u>190,274,315</u>
Total Capital Assets	<u>295,944,266</u>	<u>49,234,790</u>	<u>11,539,634</u>	<u>333,639,422</u>
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	<u>87,673,739</u>	<u>6,239,549</u>	<u>-</u>	<u>93,913,288</u>
Net Capital Assets	<u>\$208,270,527</u>	<u>\$ 42,995,241</u>	<u>\$ 11,539,634</u>	<u>\$ 239,726,134</u>

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

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	2008	2007
Accrued payroll and benefits	\$ 1,706,088	\$ 1,191,303
Construction contractors	4,724,741	5,380,400
Independent contractors and consultants	2,134,716	1,679,337
Vendors and supplies	4,353,611	3,042,201
Total	<u>\$ 12,919,156</u>	<u>\$ 11,293,241</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 9 - DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

	<u>2008</u>	<u>2007</u>
Federal categorical aid	\$ 175,556	\$ 121,525
State categorical aid	1,593,588	2,754,562
Enrollment fees	-	859,371
Other local	<u>650,461</u>	<u>193,751</u>
Total	<u>\$ 2,419,605</u>	<u>\$ 3,929,209</u>

NOTE 10 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivables and payables consist of amounts due for cost allocation. The balances result from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivable and payable balances at June 30, 2008, have been eliminated in the consolidation process for financial statement presentation.

Interfund Operating Transfers

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

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 11 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the fiscal year 2008 consisted of the following:

	Beginning				Ending	Due in
	Balance	Additions	Amortization	Deductions	Balance	One Year
General obligation bonds	\$ 277,492,843	\$ 104,698,595	\$ 233,548	\$ 7,810,000	\$ 374,147,890	\$ 6,865,000
Other postemployment benefit bonds	155,042,467	7,832,277	-	-	162,874,744	135,000
Total Bonds Payable	<u>432,535,310</u>	<u>112,530,872</u>	<u>233,548</u>	<u>7,810,000</u>	<u>537,022,634</u>	<u>7,000,000</u>
Other liabilities						
Other postemployment benefits obligation	-	4,932,201	-	-	4,932,201	-
Claims liability	1,392,000	299,000	-	-	1,691,000	-
Compensated absences	3,508,165	153,756	-	-	3,661,921	384,000
Total Long-Term Obligations	<u>\$ 437,435,475</u>	<u>\$ 117,915,829</u>	<u>\$ 233,548</u>	<u>\$ 7,810,000</u>	<u>\$ 547,307,756</u>	<u>\$ 7,384,000</u>

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

	Beginning				Ending	Due in
	Balance	Additions	Amortization	Deductions	Balance	One Year
General obligation bonds	\$ 204,376,649	\$ 77,980,330	\$ 124,136	\$ 4,740,000	\$ 277,492,843	\$ 7,810,000
Other postemployment benefit bonds	153,749,832	1,292,635	-	-	155,042,467	-
Total Bonds Payable	<u>358,126,481</u>	<u>79,272,965</u>	<u>124,136</u>	<u>4,740,000</u>	<u>432,535,310</u>	<u>7,810,000</u>
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	<u>\$ 361,572,870</u>	<u>\$ 80,726,741</u>	<u>\$ 124,136</u>	<u>\$ 4,740,000</u>	<u>\$ 437,435,475</u>	<u>\$ 8,194,000</u>

Description of Obligations

Payments on the general obligation bonds are made by the bond interest and redemption fund with local tax collections. Debt service on the Other Postemployment Benefit (OPEB) Bonds will be made from the Unrestricted General Fund. The OPEB Obligation is funded through payments for benefits and is reported within the 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Bonded Debt

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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.

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.

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.

2005 General Obligation Revenue Bonds, Series A

In June 2005, the District issued, in the amount of \$7,285,000, 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. 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 2022.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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 issued 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.

2006 General Obligation Bonds, Series B

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.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

The outstanding general obligation debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Issued	Redeemed	Bonds Outstanding June 30, 2008
1992 D	4/15/2000	8/01/2009	2.62%-4.52%	\$13,500,000	\$ 820,000	\$ -	\$ 395,000	\$ 425,000
1992 E	5/30/2001	8/01/2010	2.62%-4.52%	10,500,000	980,000	-	315,000	665,000
Subtotal Election of 1992								1,090,000
1996 A	5/30/2001	8/01/2009	2.62%-4.52%	8,000,000	760,000	-	245,000	515,000
2000 A	5/30/2001	8/01/2031	2.62%-4.52%	27,500,000	18,630,000	-	545,000	18,085,000
2000 B	5/30/2002	8/01/2032	2.00%-5.32%	30,000,000	28,350,000	-	550,000	27,800,000
2000 C	5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	39,010,000	-	700,000	38,310,000
2000 D	7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	54,835,000	-	970,000	53,865,000
Subtotal Election of 1992								138,060,000
2001	4/15/2001	8/01/2018	4.00%-5.00%	8,770,000	6,450,000	-	425,000	6,025,000
2002	10/24/2002	8/01/2017	2.00%-4.00%	7,310,000	5,610,000	-	425,000	5,185,000
2005 A	6/01/2005	8/01/2021	2.55%-4.25%	7,285,000	6,260,000	-	270,000	5,990,000
2005 B	8/17/2005	8/01/2025	2.62%-4.52%	32,975,000	32,775,000	-	20,000	32,755,000
Subtotal 2005 Refinancings								38,745,000
2006 A	8/10/2006	8/01/2031	4.00%-5.00%	75,000,000	75,000,000	-	2,950,000	72,050,000
2006 B	11/15/2007	8/01/2037	5.00%-5.25%	100,000,000	-	100,000,000	-	100,000,000
Subtotal Election of 2006								172,050,000
Subtotal Bonds								361,670,000
Premiums (net)								12,477,890
Total General Obligation Bonds (Net)					<u>\$269,480,000</u>	<u>\$100,000,000</u>	<u>\$7,810,000</u>	<u>\$374,147,890</u>

General Obligation Bond - 1992 Election

The 1992 general obligation bonds mature through 2010 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 750,000	\$ 38,262	\$ 788,262
2010	340,000	9,350	349,350
Total	<u>\$ 1,090,000</u>	<u>\$ 47,612</u>	<u>\$ 1,137,612</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

General Obligation Bond - 1996 Election

The 1996 general obligation bonds mature through 2010 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 250,000	\$ 19,813	\$ 269,813
2010	265,000	6,625	271,625
Total	<u>\$ 515,000</u>	<u>\$ 26,438</u>	<u>\$ 541,438</u>

General Obligation Bond - 2000 Election

The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
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	3,525,000	6,122,911	9,647,911
2014-2018	15,905,000	28,524,130	44,429,130
2019-2023	21,885,000	24,246,212	46,131,212
2024-2028	31,455,000	17,389,069	48,844,069
2029-2033	38,225,000	8,462,500	46,687,500
2034-2036	14,460,000	3,175,063	17,635,063
Total	<u>\$ 138,060,000</u>	<u>\$ 113,923,981</u>	<u>\$ 251,983,981</u>

General Obligation Bond - 2001 Refinancing

The 2001 general obligation bonds mature through 2019 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 440,000	\$ 272,760	\$ 712,760
2010	460,000	254,080	714,080
2011	485,000	233,992	718,992
2012	500,000	212,565	712,565
2013	525,000	189,490	714,490
2014-2018	2,955,000	543,408	3,498,408
2019	660,000	16,500	676,500
Total	<u>\$ 6,025,000</u>	<u>\$ 1,722,795</u>	<u>\$ 7,747,795</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

General Obligation Bond - 2002 Refinancing

The 2002 general obligation bonds mature through 2018 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 435,000	\$ 171,600	\$ 606,600
2010	455,000	159,906	614,906
2011	470,000	146,600	616,600
2012	490,000	131,710	621,710
2013	505,000	115,411	620,411
2014-2018	2,830,000	282,354	3,112,354
Total	<u>\$ 5,185,000</u>	<u>\$ 1,007,581</u>	<u>\$ 6,192,581</u>

General Obligation Revenue Bonds - 2005 Refunding

The general obligation revenue bonds mature through 2026 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,585,000	1,728,518	3,313,518
2014-2018	13,230,000	7,481,937	20,711,937
2019-2023	14,210,000	3,891,838	18,101,838
2024-2026	5,685,000	683,195	6,368,195
Total	<u>\$ 38,745,000</u>	<u>\$ 21,343,033</u>	<u>\$ 60,088,033</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

General Obligation Bond- 2006 Series A and B

The general obligation bonds mature through 2038 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 1,755,000	\$ 9,292,677	\$ 11,047,677
2010	3,410,000	8,285,425	11,695,425
2011	3,565,000	8,129,675	11,694,675
2012	3,725,000	7,966,800	11,691,800
2013	3,890,000	7,796,575	11,686,575
2014-2018	22,240,000	36,142,569	58,382,569
2019-2023	28,080,000	30,085,468	58,165,468
2024-2028	35,955,000	22,026,875	57,981,875
2029-2033	40,735,000	11,974,625	52,709,625
2034-2038	28,695,000	3,726,125	32,421,125
Total	<u>\$ 172,050,000</u>	<u>\$ 145,426,814</u>	<u>\$ 317,476,814</u>

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 through 2050 as follows:

Year Ending June 30,	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
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	5,166,791	1,308,209	-	6,475,000
2014-2018	27,309,542	8,290,458	-	35,600,000
2019-2023	23,683,364	16,691,636	-	40,375,000
2024-2028	19,624,818	24,600,182	-	44,225,000
2029-2033	17,394,185	31,505,815	-	48,900,000
2034-2038	13,693,194	41,456,806	-	55,150,000
2039-2043	11,620,304	39,904,696	-	51,525,000
2044-2048	11,077,506	57,872,494	-	68,950,000
2049-2050	17,322,433	30,315,611	-	47,638,044
Total	<u>\$ 162,874,744</u>	<u>\$ 253,173,300</u>	<u>\$ 1,095,588</u>	<u>\$ 417,143,632</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2008, was \$10,291,000 and contributions made by the District during the year were \$5,358,799, which resulted in a net OPEB obligation of \$4,932,201. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefit plan.

Claims Liability

At June 30, 2008, the liability for claims liability was \$1,691,000. See Note 14 for additional information.

Compensated Absences

At June 30, 2008, the liability for compensated absences was \$3,661,921.

NOTE 12 - INTEREST RATE SWAP TRANSACTION

2005 Limited Obligation Other Postemployment Benefit Bonds

Objective of the interest rate swap: The District entered into a forward interest rate swap to manage interest rate risk associated with its 2005 Taxable Limited Obligation Other Postemployment Bonds. The OPEB bonds included six series of bonds that were initially issued at a fixed rate of interest, converting to a variable rate (auction rate) on separate dates and continuing in that mode until maturity of the individual series of bonds. In order to effectively convert the variable rate to a fixed rate for each of the six series of bonds, the District entered into separate swap transactions with Morgan Stanley corresponding to each of the individual variable rate periods. Because the swap obligation only arises during the variable rate interest period for each series of bonds, the District does not become obligated to make swap payments until those periods arrive for each series of bonds. The 2005 Series B-1 through B-6 mature to \$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: Under the swap agreement, the District pays a fixed rate of percent (as noted above) and the counterparty pays the District a floating rate option of 100 percent of London Interbank Offered Rate (LIBOR) with designated maturity of one month.

Fair value: As of June 30, 2008, the swap has fair values as follows:

Trade ID	Trade Date	Maturity Date	CCY	Original Notional	MTM
AUF3X	November 28, 2006	August 5, 2049	USD	\$ 134,475,000	\$ (57,240)
AUF3W	November 28, 2006	August 5, 2039	USD	86,650,000	34,913
AUF3V	November 28, 2006	August 5, 2031	USD	57,525,000	(9,654)
AUF3U	November 28, 2006	August 5, 2025	USD	43,175,000	(1,451)
AUF3T	November 28, 2006	August 5, 2020	USD	38,450,000	6,722
AUF3S	November 28, 2006	August 5, 2015	USD	33,950,000	(162,677)

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

The District also entered into a second swap agreement as part of its intention to minimize interest rate risk associated with the OPEB bonds referred to above. This agreement resulted in an upfront \$2 million payment by the counterparty that was to be held to offset possible future payments related to the OPEB bonds. The transaction contained notional amounts that are a percentage of the capital accretion bonds.

Terms: The second agreement contained six notional amounts similar to the above. The terms include floating rates based on LIBOR and included a termination option. The District exercised this option while in a favorable position. All but one of the notional amounts was terminated in February 2008 resulting in an additional termination fee payment made to the District of \$1.2 million.

Fair market value: There remains one notional amount associated with 2005 Series B-6 in the amount of \$69,994,238 which had a fair market value favoring the counterparty in the amount of \$1,046,707. This amount was terminated subsequent to year end. The District received an additional termination payment of \$78,000.

Credit risk: As of June 30, 2008, 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 the District incurs cost to obtain replacement swap at the same economic terms; however, to mitigate potential for credit risk, the counterparty ratings under 3 national ratings agencies is Aa3/A+/AA-.

Basis risk: Adverse changes in the District's or credit providers' financial strength could result in basis 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 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The plan is a single-employer defined benefit healthcare plan administered by the Peralta Community College District. The plan provides medical and dental insurance benefits and life insurance to eligible retirees and their spouses. Eligible benefits plan features are based on retirees' retirement date and current employees most recent hire date in accordance with collective bargaining unit agreements. Membership in the plan consists of 798 active participants and 636 retirees.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The plan is currently funded on a pay-as-you-go basis. For fiscal year 2007-2008, the District contributed \$5,358,799 to the plan, comprised on premiums paid for medical insurance, claims expense, eligible Medicare reimbursements, and life insurance premiums for eligible plan members.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

Annual required contribution	\$ 10,291,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>10,291,000</u>
Contributions made	<u>(5,358,799)</u>
Increase in net OPEB obligation	4,932,201
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u><u>\$ 4,932,201</u></u>

The annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2008 was as follows:

Year Ended <u>June 30,</u> 2008	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Net OPEB <u>Obligation</u>
	\$ 10,291,000	52%	\$ 4,932,201

Funding Status and Funding Progress

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

In the July 1, 2005, actuarial valuation, the entity age normal method was used. The actuarial assumptions included a seven percent investment rate of return (net of administrative expenses), based on assets invested in the District's retire health benefits program. Healthcare cost trend rates ranged from an initial 12 percent and 13 percent for Kaiser and Core Source, respectively, with an ultimate rate of five percent. The UAAL is being amortized at a level percent of payroll method (same as CalPERS). The initial UAAL is amortized over a closed 30 year period beginning this year. There is no actuarial value of assets because funds have not been placed in an irrevocable trust. The District has an active investment portfolio funded through the issuance of bonds and has earmarked funds held in the County Treasury for funding of the OBEB obligation, but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

NOTE 14 - 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, 2008, 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.

Claims Liability

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate costs of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2006 to June 30, 2008 (in thousands):

	Workers' Compensation
Liability Balance, July 1, 2006	\$ 598,328
Claims and changes in estimates	1,638,769
Claims payments	(845,097)
Liability Balance, June 30, 2007	1,392,000
Claims and changes in estimates	1,155,480
Claims payments	(856,480)
Liability Balance, June 30, 2008	<u>\$ 1,691,000</u>
Assets available to pay claims at June 30, 2008	<u>\$ 558,470</u>

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 15 - 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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Funding Policy

Active members 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$3,248,572, \$2,898,855, and \$2,535,930, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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, CA 95811.

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 2007-2008 was 9.306 percent of annual payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2008, 2007, and 2006, were \$2,139,752, \$2,072,317, and \$1,863,352, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to \$1,773,946, \$1,535,411, and \$1,386,279 for the years 2008, 2007, and 2006, respectively, (4.517 percent of salaries subject to CalSTRS). A contribution to CalPERS was not required for the year ended June 30, 2008. These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

NOTE 16 - 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, 2008.

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, 2008.

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, 2008, the total amount that has been deposited in a separate account owned by the District is \$3,775,274. 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

The District is involved with various long-term construction and renovation projects throughout the four college campuses and the District Office. The projects are in various stages of completion and are funded through the voter approved general obligation bonds. The outstanding commitments at June 30, 2008, were approximately \$15 million.

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), the Alameda County Schools Insurance Group (ACSIG), and Golden West Financing Authority Joint Powers Authorities (JPAs). SELF, ASCIP, and ACSIG provide property and liability insurance and health insurance. Golden West Financing Authority provides assistance related to school facilities financing. The relationship between the District and the JPAs is such that they are not component units of the District for financial reporting purposes.

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

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

During the year ended June 30, 2008, the District made payments of \$33,558, \$916,234, and \$1,021,268 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 18 - SUBSEQUENT EVENTS

Bond Refunding

In February 2009, the District issued 2009 Taxable OPEB Refunding Bonds in the amount of \$48,725,000. The purpose of the issuance is to refinance a portion of the District's previously issued 2005 Limited Obligation Bonds. Interest rates on the bonds range from 4.415 percent to 6.423 percent.

Investment Values

At the end of December 2008, the District investment from the issuance of OPEB bonds has continued to decline since June 30, 2008. As of the quarter ended December 31, 2008, market value for the OPEB investments is approximately \$124 million as compared to \$160 million at June 30, 2008. This represents an additional decline of \$35 million by the quarter ended December 2008.

REQUIRED SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2008**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entity Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
12/11/2008	\$ -	\$ 106,785,000	\$ 106,785,000	\$ -	\$ 52,887,000	202%

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2008

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. The District's four colleges are each accredited by the Western Association of Schools and Junior Colleges.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Cy Gulassa	President	2008
Mr. Nicky González Yuen	Vice President	2008
Dr. William Riley	Member	2010
Ms. Linda Handy	Member	2010
Ms. Marcie Hodge	Member	2008
Mr. Abel Guillén	Member	2010
Mr. Bill Withrow	Member	2008
Ms. Yvonne Thompson	Student Trustee	2009
Ms. Nicole Tobor	Student Trustee	2009

ADMINISTRATION

Mr. Elihu Harris, Esq.	Chancellor
Mr. Alton Jelks	Associate Vice Chancellor and Special Assistant
Ms. Thuy Thi Nguyen, Esq.	General Counsel
Dr. Wise Allen	Vice Chancellor, Educational Services
Mr. Thomas Smith, Esq.	Vice Chancellor, Finance and Administration
Dr. Sadiq Ikharo	Vice Chancellor, General Services
Vacant	Chief Information Officer
Ms. Gail Waiters	Inspector General
Mr. Jeffrey Heyman	Executive Director of Marketing, PR, and Communications
Dr. Cecilia Cervantes	President, College of Alameda
Dr. Betty Inclan	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
Ms. Kerry Compton	Acting Associate Vice Chancellor of Admissions and Records and 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, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS		
Direct Funded Programs		
Student Financial Aid Cluster		
Pell Grants	84.063	\$ 15,214,600
Pell Administration	84.063	66,980
Federal Supplemental Education Opportunity Grants	84.007	1,005,723
Federal Work Study Program	84.033	689,355
Academic Competitiveness Grant	84.375	67,425
Federal Family Education Loans	84.032	2,236,846
Subtotal of Cluster		<u>19,280,929</u>
Passed through the California Community College System's Office		
Carl D. Perkins - Career and Technical Education Act (CTEA)		
CTEA Perkins IV - Title I, Part C	84.048	857,548
Tech Prep	84.243	272,164
Passed through the California Department of Education		
Tech Prep Consortium	84.243	848,747
Passed through the California Department of Rehabilitation		
Workability	84.126A	265,100
TOTAL U.S. DEPARTMENT OF EDUCATION		<u><u>21,524,488</u></u>
U.S. DEPARTMENT OF AGRICULTURE		
Passed through the California Department of Education		
Child Care and Adult Food Program	10.558	11,906
U.S. DEPARTMENT OF LABOR		
Passed through the County of Alameda		
Workforce Investment Act (WIA)		
WIA Cluster		
WIA Bay Area Collaborative Biotechnology	17.258	50,804
WIA Grant Program One Stop Career Center Operation	17.258	219,746
WIA Grant Program Youth Services	17.259	714
Passed through San Francisco Community College District		
Job Development Incentive Fund	17.260	136,932
TOTAL U.S. DEPARTMENT OF LABOR AND CLUSTER TOTAL		<u><u>408,196</u></u>
NATIONAL SCIENCE FOUNDATION		
Direct Funded		
Environmental Control Technology Education	47.076	214,131
TOTAL NATIONAL SCIENCE FOUNDATION		<u><u>214,131</u></u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through the California Community College Chancellor's Office		
Temporary Assistance for Needy Families	93.558	123,229
Passed through the Yosemite Community College District		
Child Development Block Grant	93.575	7,671
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u><u>130,900</u></u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Funded		
Americorp	94.004	120,704
Passed through the American Association of Community Colleges		
Learn and Serve America	94.005	11,101
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		<u><u>131,805</u></u>
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 22,421,426</u></u> ^[1]

^[1] The difference between the schedule of expenditures of Federal awards and Federal revenues reported on the statement of revenues, expenses, and change in net assets is due to Federal family education loans in the amount of \$2,236,846 (see Note 2 in the financial statements) and differences of \$99,939 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Board of Finance Assistance Program	\$ 1,094,684	\$ 64,099	\$ 1,158,783
Cal Grant B/C	1,733,638	47,110	1,780,748
California Articulation Number System	20,000	11,643	31,643
CalWORKs	858,989	83,432	942,421
Career Advancement	1,666,000	50,000	1,716,000
Child Care - Department of Education	1,038,051	-	1,038,051
Child Care Tax Bailout	755,417	-	755,417
Child Development	10,000	1,578	11,578
Cooperative Agencies Resources for Education (CARE)	605,355	107,549	712,904
Disabled Students Programs and Services	2,504,225	103,534	2,607,759
Economic Development	407,135	7,396	414,531
Extended Opportunity Program and Services (EOPS)	3,108,361	215,951	3,324,312
Foster Care	-	6,369	6,369
Instructional Equipment	264,759	553,791	818,550
Career TechTrailer Bill	-	598,434	598,434
Matriculation - Credit	1,902,918	143,662	2,046,580
Matriculation - Non-Credit	-	12,930	12,930
Nursing Education	541,029	619,303	1,160,332
Nursing Program	57,142	17,370	74,512
Portable Tech Guide	360,000	-	360,000
Statewide Discipline	10,000	-	10,000
Staff Diversity/Staff Development	20,054	101,278	121,332
Telecommunications/Technology Infrastructure	189,552	398,423	587,975
	<u>\$ 17,147,309</u>	<u>\$ 3,143,852</u>	<u>\$ 20,291,161</u>

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
\$ 1,158,783	\$ -	\$ -	\$ 1,158,783	\$ 1,135,040
1,780,748	-	-	1,676,463	1,676,463
20,000	-	14,034	5,966	6,269
873,205	-	79,724	793,481	789,166
705,386	136,116	-	841,502	806,186
934,769	101,282	-	1,036,051	1,036,051
755,417	-	-	755,417	755,417
10,000	-	2,110	7,890	7,671
698,798	-	78,536	620,262	620,262
2,607,759	-	-	2,607,759	2,550,862
349,389	-	97,964	251,425	250,381
3,276,611	-	245,138	3,031,473	3,031,473
6,369	-	-	6,369	966
812,443	-	376,488	435,955	437,465
598,434	-	93,838	504,596	504,596
1,989,716	-	76,222	1,913,494	1,869,629
12,930	-	-	12,930	12,930
1,142,057	-	363,427	778,630	776,167
57,142	-	34,555	22,587	29,453
138,500	165,178	-	303,678	303,678
10,000	-	-	10,000	7,374
111,797	-	81,039	30,758	21,937
285,536	-	50,513	235,023	235,023
<u>\$ 18,335,789</u>	<u>\$ 402,576</u>	<u>\$ 1,593,588</u>	<u>\$ 17,040,492</u>	<u>\$ 16,864,459</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT - ANNUAL/ACTUAL ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2008**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession			
1. Noncredit	26	-	26
2. Credit	1,845	-	1,845
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,668	-	14,668
(b) Daily Census Contact Hours	1,359	-	1,359
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	429	-	429
(b) Credit	382	-	382
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	604	-	604
(b) Daily Census Contact Hours	101	-	101
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>19,414</u>	<u>-</u>	<u>19,414</u>
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	-	-	-
2. Credit	1,291	-	1,291
	<u>1,291</u>	<u>-</u>	<u>1,291</u>

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, 2008**

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

	<u>General Fund</u>	<u>Bond Interest and Redemption</u>
June 30, 2008, Annual Financial and Budget Report (CCFS-311) Reported Fund Balance	<u>\$ 15,227,632</u>	<u>\$ 17,757,762</u>
Adjustments to Increase (Decrease) Fund Balance		
Investments	-	127,516
Accounts receivable	-	-
Stores inventories	(236,383)	-
Deferred costs on issuance	-	-
Accounts payable	156,505	-
Accrued interest	-	-
Claims liability	-	-
Long-term obligations - OPEB Bonds	-	-
Difference CCFS-311 to general ledger	(96)	(5,260)
Net Adjustments	<u>(79,974)</u>	<u>122,256</u>
Audited Fund Balance	<u>\$ 15,147,658</u>	<u>\$ 17,880,018</u>

See accompanying note to supplementary information.

<u>Special Reserve</u>	<u>Capital Projects</u>	<u>Self-Insurance</u>	<u>Deferred Compensation</u>
<u>\$ 12,501,371</u>	<u>\$ 191,735,441</u>	<u>\$ 558,468</u>	<u>\$ 138,102,639</u>
-	908,678	-	(11,833,153)
(1,116,393)	-	-	(28,521)
-	-	-	-
-	-	-	(74,921)
-	(3,433,285)	-	-
-	-	-	-
-	-	(299,000)	-
-	-	-	(7,832,277)
110	1,858,851	(1,391,998)	(123,327,141)
<u>(1,116,283)</u>	<u>(665,756)</u>	<u>(1,690,998)</u>	<u>(143,096,013)</u>
<u>\$ 11,385,088</u>	<u>\$ 191,069,685</u>	<u>\$ (1,132,530)</u>	<u>\$ (4,993,374)</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

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	\$ 15,147,658
Special Revenue Funds	12,230,794
Debt Service Fund	17,880,018
Capital Projects Funds	191,405,492
Internal Service Fund	(1,132,530)
Fiduciary Funds	<u>(3,512,110)</u>

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

\$ 232,019,322

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	375,926,682	
Accumulated depreciation is	(101,858,442)	
Less fixed assets in fiduciary funds	<u>(1,665)</u>	
Subtotal		274,066,575

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 Deferred Comp Trust Fund) amounted to:	3,515,130
Amounts held in trust on behalf of others (Trust and Agency Funds)	(1,481,264)

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.	(6,651,376)
--	-------------

Long-term liabilities at year-end consist of:

General obligation bonds payable	361,670,000	
Premium on debt	12,477,890	
Other postemployment benefits obligation	4,932,201	
Compensated absences (vacations) - less current portion	<u>3,277,921</u>	
Subtotal		(382,358,012)

Total Net Assets

\$ 119,110,375

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

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.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Tech Prep Consortium	84.243	
Hartnell Community College District		\$ 25,000
Cabrillo Community College District		45,000
Foothill-DeAnza Community College District		45,000
Monterey Peninsula Community College District		45,000
San Jose-Evergreen Community College District		45,000
San Mateo County Community College District		45,000
San Mateo CCD for Bay Area Community College Career Occupational Education		15,000
Chabot-Las Positas Community College District		45,000
Chabot-Las Positas CCD - Expended HLA Project		5,000
Marin Community College District		45,000
Marin CCD - Expended HLA Project		15,000
Napa Valley Community College District		45,000
Ohlone Community College District		45,000
San Francisco Community College District		45,000
Sonoma County Community College District		45,000
		\$ 555,000

PERALTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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 (CCFS-311) 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



**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 the business-type activities of the Peralta Community College District (the District) for the years ended June 30, 2008 and 2007, and have issued our report thereon dated February 27, 2009. 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 the 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 questioned costs, items 2008-1 through 2008-19, to be significant deficiencies in internal control over financial reporting.

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 2008-1 through 2008-9 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 questioned costs. 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 System'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.

Maurine Fine Day & Co. LLP

Rancho Cucamonga, California
February 27, 2009



**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, 2008. 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 the table below and in the accompanying schedule of findings and questioned costs, the District did not comply with requirements that are applicable to the following programs:

Compliance Requirement	Programs Name and Catalog of Federal Domestic Assistance (CFDA) Number	Finding Number
Eligibility and Special Tests	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)	2008-20 and 2008-21
Subrecipient Monitoring	Tech Prep Consortium (CFDA #84.243)	2008-22
Procurement, Suspension, and Debarment	Tech Prep Consortium (CFDA #84.243) and CTEA Perkins IV Title I Part C (CFDA #84.048)	2008-23
Equipment	CTEA Perkins IV - Title I, Part C (CFDA #84.048)	2008-24

Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

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, 2008.

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 the 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 and others that we consider to be material weaknesses.

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 2008-20 through 2008-24 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 consider deficiencies described in the accompanying schedule of findings and questioned costs as item 2008-22 to be a material weakness.

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 System'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.

Vaurine K, Trine, Day & Co., LLP.

Rancho Cucamonga, California
February 27, 2009



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, 2008 and 2007, and have issued our report thereon dated February 27, 2009.

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 System's Office's *California Community Colleges Contracted District Audit Manual (CDAM)*.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fees - 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

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 2008-25 through 2008-30 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, 2008.

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 of the Board of Trustees, Audit Committee, District Management, the California Community Colleges System'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.

Vaurinek, June, Day & Co. LLP

Rancho Cucamonga, California
February 27, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>Yes</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Aid Cluster:
84.063	Pell Grants
84.063	Pell Administration
	Federal Supplemental Education
84.007	Opportunity Grants
84.033	Federal Work Study Program
84.375	Academic Competitiveness Grant
84.032	Federal Family Education Loans
84.048	CTEA Perkins IV - Title I, Part C
84.243	Tech Prep Consortium

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 672,643</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

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

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

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*.

OVERSIGHT AND MONITORING

2008-1 Criteria or Specific Requirement

Industry standards and best business practices recommend that districts implement a corrective action plan to address and implement findings noted during prior years' audits.

Identified Condition

Material Weakness - Findings and recommendations noted in the prior years' audit reports have not been addressed through an implementation process. Material weaknesses and significant deficiencies have rolled forward through several years with no corrective action.

Effect

By not completing a corrective action plan for all District staff to review and follow, the District remains at risk of noncompliance with standard internal controls, accounting policies, and Federal and State compliance requirements.

Recommendation

The District should establish a procedure to quickly identify an appropriate corrective action plan, assign individuals responsibility for the implementation, and provide updates and analysis to the Audit Committee and the staff of the District. The implemented corrective action plan should be designed to address the issues noted and maintain the internal control structure of the District.

Management Response and Corrective Action Plan

Staffing and budget issues causes the District to be stretched in its ability to address all issues in a timely manner. The implementation of the new enterprise software system, which was overstated as a material weakness, was implemented in a timeframe and without the proper planning and training so that these issues could be addressed. The District's internal controls are strong, and we will continue to improve our processes.

FINANCIAL ACCOUNTING SYSTEM PROCEDURES

2008-2 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Identified Condition

Material Weakness - As noted in prior years' reports, the District implemented the PeopleSoft financial accounting system during the 2005-2006 fiscal year 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 continuing deficiencies in the ability to post, review, reconcile, report, and monitor 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 and budget monitoring. Reports have not been developed that can provide transparency to the activity and review a routine basis. Subsidiary ledger reports have not been developed that can be reconciled to the general ledger on a routine and timely basis.

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 appears to be set at inappropriate levels. In some instances, the control has been set so high that users cannot access the needed information and, in other instances, has been set too low to allow certain key individuals access to all segments of the transaction cycle.

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

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 2007-2008 fiscal year and, ultimately, was not completed until January 2009.

Effect

Due to the problems with the implementation of the financial accounting system, the District has not been 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, management, and the Board. This delay has also impacted the filing of the District's audited financial statements for the past three years. Additionally, internal controls over information systems that are considered standard within the industry have been set aside to provide for processing of financial transactions.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

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 designed, 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 and Corrective Action Plan

Additional training in change management for staff is necessary and has been communicated to the Board of Trustees and the Audit Committee. Queries have been written to obtain details of various general ledger accounts and are now in effect. The PeopleSoft position control module has been programmed and implemented in December 2008. That module allows financial users to track and monitor their respective budgets.

INFORMATION SYSTEMS

2008-3 Criteria or Specific Requirement

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

Identified 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

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 review should provide recommendations to correct any weaknesses noted within the internal control environment.

Management Response and Corrective Action Plan

The District is continuing to program and implement key financial and student modules. When these modules are fully operational, the District will obtain a SAS 70 review to assess the overall internal controls of our information system.

RETIREE HEALTH BENEFIT INVESTMENTS

2008-4 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. Accounting principles generally accepted in the United States of America and the California Community College System's Office *Budget and Accounting Manual* require the use of full accrual accounting within Trust Funds.

Identified Condition

Material Weakness - The District maintains investments from the issuance of the Taxable 2005 Limited Obligation OPEB 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 trust 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, 2008, total investments recorded on the District's general ledger amounted to \$171,981,823 which did not agree to third party custodian's confirmation of asset valuations of \$160,148,670.

Additionally, the Trust Fund has not recorded the corresponding debt related to the OPEB bonds which is required under generally accepted accounting principles.

Although the District has 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 decrease in the fair value of investments as of June 30, 2008, in the amount of \$11,833,153. An adjustment was proposed and accepted by management to include the long-term obligations of the fund in the amount of \$131,159,418. Additional adjustments to include current activity brought the reported ending balance of the trust fund from a positive \$138,102,639 to a negative \$4,993,374. 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Effect

By not posting the actual activity of the investments and obligations within the general ledger, the financial statements were not reported properly, and audit adjustments were necessary to report the fund activity in accordance with generally accepted accounting principles.

Recommendation

The District should review the requirements of the Trust Fund reporting in accordance with accounting principles generally accepted in the United States of America and the California Community College System's Office *Budget and Accounting Manual*. All activity associated with the investments and obligations of the fund should be reported on a full accrual basis of accounting. The District should implement adequate accounting policies and procedures to account for and record all activity within the funds of the District in accordance with current standards.

Management Response and Corrective Action Plan

A memo journal entry to record the General Fund receivable for retiree medical benefits and the investment trust's unrealized gains and losses will be posted in July for the prior fiscal year.

CAPITAL ASSET ACCOUNTING

2008-5 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.

Identified 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. Accounting records are incomplete and inadequate to provide sufficient support for an opinion on the fair presentation. The following areas are affected by this:

- Reporting: The District has not adequately developed procedures or assigned responsibility to account for capital assets.
- Construction in Progress Classification: Schedules of expenditures for construction in progress do not agree to the amounts reported within the capital assets ledger or the expenditures ledger. Further, the general ledger is not adjusted for prior year audit corrections.
- Building/Site Improvements Classification: The District has not developed procedures to analyze existing capital assets reported values when a modernization project substantially changes the existing asset cost.
- Equipment Physical Inventory: The District conducted a physical inventory of equipment during the 2006-2007 fiscal year. However, the results of the inventory were not reflected in the financial fixed asset information.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

- 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 Expense: Based upon the above noted items and the inability to maintain a complete fixed asset listing, current records do not support the recorded current or accumulated 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.

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 providing 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. The results of the third-party inventory counts should be reconciled and incorporated into the fixed asset ledgers of the District.

Management Response and Corrective Action Plan

This has been an important issue for many years since the legacy system was incapable of recording fixed assets. In July 2008, the District implemented the PeopleSoft fixed asset module that will account for capital assets.

ACCRUAL ACCOUNTS

2008-6 Criteria or Specific Requirement

Governmental accounting policies and the California Community College System's Office *Budget and Accounting Manual* require the use of modified accrual within the governmental fund financial statements. This requires revenues to be recognized in the period they become measurable.

Identified Condition

Material Weakness - As noted in the prior year's audit report, poor implementation of cut-off procedures associated with the accrual accounts within the fund financial statements resulted in audit adjustments being proposed and accepted for accounts receivable, cash accounts, prepaid expense, and accounts payable. The oversight and monitoring of these accounts has also been impacted by the financial accounting software system as described in finding 2008-2 above.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Effect

The financial statements reported to the Board and the State System's Office through the CCFS-311 reporting did not reflect the proper accruals of both revenues and expenses. Audit adjustment within the governmental funds reduced the total ending fund balances by over \$2.6 million. The ability of the District financial personnel to report timely, accurate information to the Board and others has been impacted by this comment.

Recommendation

The District should institute adequate controls over the year-end closing process to ensure that all valid accruals have been included within the financial activity for the year in accordance with accounting principles generally accepted in the United States of America. Training of District staff to recognize, record, and review the accruals should be a high priority to ensure accounting principles are followed as a routine within the Business Office.

Management Response and Corrective Action Plan

Certain departments within the District withheld documents that were needed for a proper cut-off. Those departments have been informed to forward necessary documents so we may attain an accurate closing.

ENROLLMENT FEE REVENUE REPORTING

2008-7 Criteria or Specific Requirement

California Community College System's Office *Budget and Accounting Manual* requires the community college districts to accurately report the earned enrollment fee revenue.

Identified Condition

Material Weakness - Due to the District conversion to a new student accounting system, the College campus business offices have not been able to determine the amount of student enrollment fees received and earned subsequent to the implementation date of May 2008. In testing student enrollment fee activity, we noted the system will back-date the activity to a prior period if a student requests a refund or other adjustment to their account.

Effect

Due to the programming and system restrictions of the new student accounting system, we were unable to satisfy ourselves as to whether the student enrollment fee revenue and related accounts receivable and deferred revenue are fairly stated at June 30, 2008.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

The District must request a program update to the current student accounting system that will permit the College Bursar's Office to identify the student enrollment fee revenue and forward to the District Business Office for posting to the financial accounting system. The ability of the College Bursar's Office to track current revenue receipts, refunds, and adjustments and properly remit the revenues to the District Business Office should be a high priority of the information system's programming of the new system.

Management Response and Corrective Action Plan

The original PeopleSoft program did not summarize revenues by object code due to programming deficiencies. We are in the process to correct the program.

BURSAR'S OFFICE AND TRUST FUND ACTIVITY REPORTING

2008-8 Criteria or Specific Requirement

The California Community College System's Office *Budget and Accounting Manual* and best business practices require the maintenance of the financial activity to report all actual revenue by source and the related expenditures in a clear and transparent manner.

Identified Condition

Material Weakness - Revenue has been received by the Laney College Bursar's Office and recorded within the campus Trust Fund accounts from Federal categorical programs. These funds have not been reported to the District Business Office to ensure compliance with the terms and conditions of the grant and have not been included within the District's Schedule of Expenditures of Federal Awards. Expenditures of the funds received have been netted with the revenues, and a clear audit trail of the actual activity has been eliminated.

Effect

By not properly reporting the Federal revenue and remitting to the District Office, the funds have not been reported as required on the Schedule of Expenditures of Federal Awards. Additionally, the District has not been provided the opportunity to monitor the expenditures for compliance with grant restrictions. As a result of this finding, we were unable to express an opinion on the completeness or accuracy of the Schedule of Expenditures of Federal Awards or determine if the District is in compliance with the grant requirements.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

The Laney College Bursar's Office personnel should be trained on the types of funds to be deposited within the College Trust Funds. The District's current procedures specify that monies received from outside funding sources should be immediately transferred in total to the District Office and included as appropriate in the College budget for expenditure. The Laney College Business Officer should review the District's policies and procedures related to the receipt of funds and follow appropriate practices.

Management Response and Corrective Action Plan

Laney College's actions are contrary to District policy. Instructions and training on how to account for Federal revenues will be provided to appropriate personnel.

COLLEGE TRUST FUND ACCOUNTING AND ACTIVITY

2008-9 Criteria or Specific Requirement

Best business practices require the maintenance of the financial activity to report all actual revenue by source and the related expenditures in a clear and transparent manner.

Identified Condition

Material Weakness - The financial accounting system used by the four College Bursar's Offices for Trust Fund accounting does not provide the ability to separately identify revenues received and expenditures made. All activity for the Trust accounts is netted to show only the beginning and ending balances. Over the past year activity through the trust accounts has grown with over \$1.6 million in assets being held at the four College campuses. A full accounting of the revenues and expenses of the trust accounts can not be provided during the year or at year-end.

Effect

Supporting documentation and accountability of the four College's Trust Funds was not sufficient to allow an audit to be conducted and an opinion to be rendered on the presentation of the activity in conformity with accounting principles generally accepted in the United States of America.

Recommendation

The accounting software utilized by the College Trust Funds should be reviewed and upgraded to an appropriate software package that will allow for the segregation of revenues from expenditures. Appropriate training of the College Business Officers charged with the oversight and management of the Trust Fund activities should be provided on an annual basis to ensure that the accounting is posted in accordance with accounting standards. A full accounting of the revenues and expenditures through the Trust Funds should be prepared and reviewed at least quarterly and provided to the District Business Office on an annual basis to ensure funds received that are the responsibility of the District are forwarded and accounted for appropriately.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Management Response and Corrective Action Plan

A new Trust accounting system is being considered for implementation.

INTERNAL AUDIT FUNCTION

2008-10 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.

Identified Condition

Significant Deficiency - As noted in the past several years' audit reports, 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 approved 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 to provide assistance with monitoring and oversight of the approved policies and procedures throughout the year. 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.

The internal audit function should have a direct line of communication to the District's audit committee and assist with the implementation of comments noted in external audit reports.

Management Response and Corrective Action Plan

The District is discussing options with the Board audit committee.

ACCOUNTS PAYABLE/PURCHASING FUNCTIONS

2008-11 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Identified 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 the 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 and Corrective Action Plan

The District will review the process, but does not agree with the categorization of "direct pays" as circumventing internal controls.

WRITTEN BUSINESS OFFICE PROCEDURES

2008-12 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.

Identified Condition

Significant Deficiency - 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.

Additionally, the practices and procedures for financial activity at the four College Campus Business Offices are not written.

Effect

There is a possibility that current procedures are not in accordance with approved guidelines, and individuals within the business office do not consistently follow procedures for each transaction that is processed. This also creates the possibility that controls that are in place may be circumvented, and errors or irregularities could occur that are not detected by management in a timely manner.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Without documented procedures for the College Business Offices, there are inconsistent practices that are followed by each business office.

Recommendation

Written procedures manuals should be developed for all functions within the District Business Office, as well as the College Business Offices 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 and Corrective Action Plan

The District continues the installation of the remaining key financial and student accounting PeopleSoft modules. At the conclusion of these installations, documentation of the procedures will be completed.

JOURNAL ENTRIES

2008-13 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.

Identified 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Management Response and Corrective Action Plan

Currently, budget transfers and journal entries are reviewed by the Chief Financial Officer of the District, although no official sign-off documentation is retained. A more formalized process will be developed.

DISASTER RECOVERY AND STRATEGIC PLANNING

2008-14 Criteria or Specific Requirement

Identified Condition

Significant Deficiency - The District provided a draft of their Disaster Recovery Plan (DRP) for the Information Systems Department; however, the key components of the DRP could not be demonstrated that they have been implemented. 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.

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 DRP. The DRP should cover all operating systems and be tested on an annual basis. The DRP 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 (the 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 continuing the process to implement the draft recovery plan. We expect to receive final Board approval to fully implement the plan at the March Board meeting.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

CCFS-311 Reporting

2008-15 Criteria or Specific Requirement

The Budget and Accounting Manual (BAM), which has the authority of regulation in accordance with Title 5 Section 59011 of the California Code of Regulations (CCR) defines the budgeting and accounting structure and procedures for the California community colleges. Each community college district is required to follow this manual in accordance with Education Code Section 84030.

Identified Condition

Significant Deficiency - The CCFS-311 report is due on or before September 30 of each fiscal year. The CCFS-311 report provided to the auditors was incomplete. This fiscal year, the System's Office required community colleges to submit a balance sheet and a GASB Statement No. 45 questionnaire with their annual submission of the CCFS-311 report for fiscal year ending June 30, 2008. The District did not submit either documentation with their annual CCFS-311 report. The District did submit the required supplemental reports on January 23, 2009. However, the reports were not submitted with the initial CCFS-311 reporting. Also, the report did not include information on the reservations of fund balance necessary to properly present the components of fund balance in supplemental section or calculate available reserves.

Effect

By not reporting the CCFS-311 report correctly, the District is not properly following Education Code Section 84030.

Recommendation

The District should ensure that all reporting requirements are included in the annual submission of the CCFS-311 report.

Management Response and Corrective Action Plan

The recommendation will be implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

SCHEDULE EXPENDITURES OF FEDERAL AWARDS (SEFA)

2008-16 Criteria or Specific Requirement

Circular A-133 requires the auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List individual Federal programs by Federal agency.
- Include, for Federal awards received as a sub-recipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

Identified Condition

Internal Controls

Significant Deficiency - A complete SEFA was prepared by the District for both the Federal and State categorical programs; however, we noted the following errors and omissions in the initial SEFA. Two of the Federal programs were reported on the SEFA as State Categorical Programs. On the State categorical page, they were missing four categorical programs. There were also some errors noted within the recordings of the total revenue and expenditures.

Effect

Without proper control in place over the reporting of Federal and State awards, the District is at risk of losing future funding for those programs and/or may have to repay funds back to the grantor that were already received.

Recommendation

We recommend that the District review its procedures over the collection of data to be included in the SEFA and also review its existing format of its SEFA to ensure that it includes all above noted required elements.

Management Response and Corrective Action Plan

The recommendation will be implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

FUND BALANCE

2008-17 Criteria or Specific Requirement

The Budget and Accounting Manual (BAM), which has the authority of regulation in accordance with Title 5 Section 59011 of the California Code of Regulations (CCR) defines the budgeting and accounting structure and procedures for the California community colleges. Each community college district is required to follow this manual in accordance with Education Code Section 84030.

Identified Condition

Significant Deficiency - The District did not post prior year audit adjustments to the General Fund, Capital Outlay fund, or the Self-Insurance fund. The Deferred Comp Trust (OPEB) balance was off a dollar, which indicates that the significant adjustment to this fund was posted.

Effect

An adjustment to beginning fund balance of \$4,012,876 was necessary to reconcile beginning balance to the prior year.

Recommendation

The District must post all approved audit adjustments.

Management Response and Corrective Action Plan

The recommendation will be implemented.

MERRITT COLLEGE BUSINESS OFFICE ACTIVITY

2008-18 Criteria or Specific Requirement

The College Business Offices and the Bursar's Office are required to collect monies on behalf of the District in accordance with District approved policies and procedures and the California Community College System's Office *Budget and Accounting Manual*.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

Identified Condition

Significant Deficiency - Each of the College Bursar's Offices receive monies from students for enrollment fees, parking fees, and other assessments, as well as facilities rental fees and other amounts that are to be forwarded to the District Office on a timely basis. During our testing of activity subsequent to June 30, 2008, we noted Merritt College had opened two accounts within the Associated Student accounts for deposit of facilities rental fees, as well as other receipts without forwarding these funds to the District Business Office. Expenditures through these new accounts were also noted including a "loan" for a college conference in the amount of \$25,000. As of our audit date, \$15,000 of this loan had been repaid and \$10,000 remained outstanding. We were unable to obtain detail records of the conference attendees, purpose, and actual expenses. The BAM identifies specific instances when loans from Associated Student Body Organization funds may be made – expenses that are the responsibility of the District do not fall under the approved categories.

Effect

Monies defined by the BAM and Education Code as District General Fund Monies may be inappropriately used for the College discretionary activities when not forwarded to the District Office in accordance with approved procedures. Additionally, the College is at risk of non-compliance with Education Code by not understanding and following the guidance in the BAM.

Recommendation

The College should review the current guidelines for receipt and use of monies that are General Fund monies to be deposited within the District accounts. All activity related to these types of receipts should be reconciled and provided to the District Office on a timely basis. Amounts currently held within the Student Organization funds belonging to the District should be forwarded immediately with a full reconciliation and accounting.

The Student Body Organization Advisor should review the *Budget and Accounting Manual* provided by the State System's Office for the appropriate types of expenditures and activities to be included as part of the Student Body Organization.

The loan from the student fund should be repaid immediately and all supporting documentation for the conference should be forwarded to the District Office.

Management Response and Corrective Action Plan

These actions are contrary to District policies and procedures. A re-training effort for the Business Office staff will be conducted.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2008

SWAP RISK MANAGEMENT

2008-19 Criteria or Specific Requirement

California Government Code Section 5922, Governmental Accounting Standards Board Statement No. 40, and Government Finance Officers Association recommended practice aid, "Ensuring the sustainability of Other Postemployment Benefits."

Identified Condition

Significant Deficiency - The District has entered into various financial agreements related to the OPEB bond issuance. These agreements are sophisticated swap agreements with the purpose of minimizing the risks related to variable interest rates of the bonds. The District has hired outside consultants to provide for the management and direction of the swap agreements, however, has not accounted for the initial transaction or subsequent activity on the financial statements of the District. The ability of the District to properly report and manage the effect of the agreements was not demonstrated in the accounting ledgers. While the financial analysts have provided quarterly information to the Board for review, it is not clear that the ultimate transaction is transparent. Additionally, the District does not have in place a formal policy governing the use of derivatives.

Effect

The District is at risk of not properly reporting to third parties the use and activity of the swap agreements.

Recommendation

Formal policies should be developed and approved. The District received a recommendation for the implementation of Board approved policies which will provide the guidance needed to include all elements such as objectives, authority, and approval mechanisms, including government code citations, provide for risk analysis, and include opportunities for competitive bidding for services.

Management Response and Corrective Action Plan

The District will consider development of a Board policy relating to derivative transactions.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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

STUDENT FINANCIAL AID ELIGIBILITY DETERMINATION

2008-20 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)

Compliance Requirements: Eligibility

Criteria or Specific Requirement

The institution must review and document each student's eligibility before it disburses Federal funds to students for each payment period.

- 34 CFR Sections 690.61, 690.75 through 690.78, and 668.164(g)
- CCR, Title 5, Sections 58003.1, 58004, 58005, and 58051
- California Community Colleges *Student Attendance Accounting Manual (SAAM)*, pages 1.02-1.04

Identified Condition

Significant Deficiency - Instances where aid was over- and under-awarded were found at all four campuses.

Questioned Costs

<u>Program</u>	<u>Over-Awarded</u>	<u>Under-Awarded</u>
Pell	\$13,051	\$4,729
FSEOG	450	300
ACG	-	750
FFEL (Subsidized)	2,194	-
FFEL (Unsubsidized)	1,950	-
Total	<u>\$17,645</u>	<u>\$5,779</u>

Context

We selected a significant sample including all four campuses as summarized below.

- Laney College: 34 students tested with one error: Over-awarded \$539
- Merritt College: 41 students tested with eight errors: Over-awarded \$539 and under-awarded \$4,422.
- Berkeley City College: 49 students tested with 12 errors: Over-awarded \$14,031 and under-awarded \$170.
- College of Alameda: 41 students tested with six errors: Over-awarded \$2,535.50 and under-awarded \$1,187.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

The campuses each operate autonomously in that each has its own administration, policies, and procedures. We found that three of the four campuses have adequate policies and procedures, but may not have adequate staffing or resources to compensate for the volume of awards disbursed. One campus was in the process of correcting prior year conditions and was improved.

Cause

Inadequate documentation to support eligibility and the amount awarded based on enrollment status were the primary causes. We noted that drop dates on rosters can be changed after the awards were calculated without notifying the student financial aid office, an issue that may be systematic and involves the admissions office system.

Effect

Students not awarded properly causes potential financial hardship to students and impacts the unrestricted resources of the District in that the awards are repaid to the student when under-awarded and to the Department of Education where over-awarded.

Recommendation

A report should be written within the student accounting system that would provide the registrars and the student financial aid office the ability to ensure enrollment information recorded is correct and no changes have been made that would impact the student financial aid award as required by Title IV. Communication between the offices should be improved to ensure Federal awards are not inappropriately disbursed to ineligible students.

Management Response and Corrective Action Plan

The District continues to correct various issues with the new Regent Financial Aid software program. The District is also moving to centralize and standardize processes and procedures for our student financial aid offices.

STUDENT FINANCIAL AID – EZ-AUDIT FILING

2008-21 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)

Compliance Requirements: Special Tests

Criteria or Specific Requirement

Each College is required to annually submit its compliance audit data and summary financial data via an internet web form to www.IFAP.ed.gov to the Department of Education.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Identified Condition

Significant Deficiency - A significant deficiency exists within the reporting requirements of the EZ-Audit submission. EZ-Audit is a web application that provides colleges with a paperless, single point of submission for financial statements and compliance audits. Agencies receiving Federal student financial aid are required to access and submit the requested information within nine months of the fiscal year end. We noted the EZ-Audit information was not submitted for the 2007 fiscal year end until after the March 31, 2008, filing deadline.

Questioned Costs

None.

Context

The consequences of late filing are not clear, but indicates that responsibilities related to certain Federal filings are not being met.

Cause

Late completion of the audit in adequate follow up on auditee responsibilities is the cause.

Effect

By not submitting the financial statement and compliance information required by the EZ-Audit to the Department of Education, the District's four Colleges are out of compliance with the reporting and special testing components of the Federal grants.

Recommendation

The District should implement procedures to provide the College student financial aid offices with the required information and timelines to submit the appropriate reports to the Department of Education. The College student financial aid offices should develop appropriate procedures to ensure the EZ-Audit is completed in a timely manner, reviewed, and submitted as required.

Management Response and Corrective Action Plan

The District continues to correct various issues with the new Regent Financial Aid software program. The District is also moving to centralize and standardize processes and procedures for our student financial aid offices.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

PROGRAM MONITORING

2008-22 Federal Program Affected: Tech Prep Consortium - U.S. Department of Education - CFDA #84.243

Compliance Requirements: Subrecipient Monitoring

Criteria or Specific Requirement

24 CFR 84 §84.51 Monitoring and reporting program performance.

Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in §84.26.

Identified Condition

Material Weakness - The District did not furnish evidence verifying that it effectively monitored the grant's subrecipient for compliance with program performance. The subrecipient agreement does not contain key elements including:

- Program CFDA number
- Monitoring processes that the District will perform
- Require significant compliance documents be provided supporting that the subrecipient is complying with the program requirements

Questioned Costs

Funding to the subrecipients totaled \$555,000. While no evidence was noted of noncompliance at the subrecipient level, the District is at risk that material noncompliance with grant requirements would go undetected without adequate monitoring and documentation.

Context

The District provides Federal award funding to 16 agencies through the Tech Prep Program. The conditions were systematic in nature and appear to have been preventable by adhering to OMB Circular A-133 guidance.

Cause

The contracts utilized in the awarding of Federal grant monies to subrecipients does not contain the key elements necessary to ensure compliance with program performance.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Effect

The lack of monitoring and documentation of the subrecipient's compliance with guidelines puts the District at risk of noncompliance and funding reductions.

Recommendation

The District should provide the subrecipients with a contract that includes all compliance requirements noted above. Periodic monitoring of the activities and programs will assist in ensuring proper compliance. In some instances, a single audit of the award may be necessary for the subrecipient, and a copy of that report should be provided to the District.

Management Response and Corrective Action Plan

The Memorandum of Understanding is being revised by the District's General Counsel to comply with recommendations. Periodic reviews to ensure compliance has been initiated.

PROCUREMENT POLICIES

2008-23 Federal Program Affected: Career and Technical Education Tech Prep, Tech Prep Consortium, and CTEA Perkins IV - Title I, Part C - U.S. Department of Education - CFDA #84.243 and #84.048

Compliance Requirement: Procurement, Suspension, and Debarment

Criteria or Specific Requirement

Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Pre-Award Requirements, Section 80.35. OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Sub-Part C, Pre-Award Requirements, Section .33 Debarment and Suspension.

Identified Condition

Significant Deficiency - The District does not have policies and procedures in place for the certification of potential contractor or subcontractor relationships involving Federal program dollars. Contracts in excess of \$25,000 are subject to the compliance requirement that the status of the entity is verified against the suspension and debarment eligibility requirements. The District does not currently monitor the Federal contracts for these requirements, nor do the contracts allow a vendor to self-certify they have not been excluded from working with Federal program grants.

Questioned Costs

None.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Context

There were 12 governmental agencies and three vendors that were paid in excess of \$25,000. While no evidence was noted of noncompliance with contracting with a suspended or debarred vendor, the District is at risk that material noncompliance with grant requirements would go undetected without adequate monitoring and documentation.

Cause

The District has not implemented policies and procedures to ensure the compliance with Federal requirements.

Effect

Without evidence of compliance, the District is at risk of utilizing a vendor who has been subject to the suspension and debarment regulations.

Recommendation

The District should implement a procedure to verify all vendors who are providing services to federally funded programs in excess of \$25,000. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA). Additionally, the current contract language for such services should include a self-certification from the vendor that they have not been suspended or debarred as defined by the Federal program guidelines.

Management Response and Corrective Action Plan

The Memorandum of Understanding is being revised by the District's General Counsel to comply with recommendation. Reviews to ensure compliance have been initiated.

EQUIPMENT PURCHASE AND SAFEKEEPING

2008-24 Federal Program Affected: U.S. Department of Education (DOE), CTEA Perkins IV - Title I, Part C (CFDA #84.048)

Compliance Requirement: Equipment

Criteria or Specific Requirement

OMB Circular A-110, Subpart C, Section 34 (3) and (4) requires a physical inventory of equipment purchased with Federal grant dollars every two years and requires a system of internal controls to adequately safeguard the equipment and prevent loss or damage to the equipment.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Identified Condition

Significant Deficiency - The District has not maintained an inventory control system that satisfies the compliance criteria noted above. Equipment purchased with CTEA Perkins IV - Title I, Part C funds have not been identified as being used within the program. A physical inventory has been taken within the past two years; however, that inventory listing has not been reviewed to determine if equipment purchased with CTEA Perkins IV - Title I, Part C funds remains in use within the program.

Questioned Costs

None.

Context

During the current fiscal year, the District's CTEA Perkins IV - Title I, Part C program spent approximately \$253,000 on capital equipment.

Cause

The District has not implemented policies and procedures to ensure compliance with Federal requirements.

Effect

Equipment purchased through the CTEA Perkins IV - Title I, Part C program may not be properly safeguarded and maintained for use within the program.

Recommendation

A process to ensure the complete inventory listing of equipment purchased with Federal program funds should be implemented. Written procedures should be prepared that provide for the internal control of all equipment purchased through the Federal programs and to ensure the equipment remains exclusively in use within the program. A physical inventory of the federally purchased equipment should be taken on a bi-annual basis and reconciled with records of purchases of the equipment.

Management Response and Corrective Action Plan

In July 2008, the District implemented the PeopleSoft fixed asset module. This will allow the District to properly account for the capital assets and track the location of the assets.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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

STUDENTS ACTIVELY ENROLLED

2008-25 Criteria or Specific Requirement

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

Significant Deficiency - 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 'no shows' and, therefore, all students may be 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.

Additionally, instructors may back date student drops after census day with no additional supporting documentation being received by the registrar's office.

Effect

The District is at risk of inaccurately reporting FTES as of census date.

Questioned Costs

Unknown at this time.

Recommendation

A report should be written within the student accounting system that will provide the registrars at the four College 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 and Corrective Action Plan

The recommendation will be implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

ENROLLMENT FEES

2008-26 Criteria or Specific Requirement

Education Code Section 76300; 76140(k), and 84757
Form CCFS-323 - *Actual Enrollment Fee Revenue Report*
Form CCFS-311 - *Annual Financial and Budget Report*
California Community College System's Office's *Contracted District Audit Manual*

Identified Condition

Significant Deficiency - Community college districts are required to report the total enrollment fee revenue amounts for the purpose of calculating the components of the annual general apportionment. The enrollment fee revenue reported on the CCFS-311 report does not agree with the amount reported on the CCFS-323 report. There is a difference of \$47,089 under-recorded on the CCFS-323 report.

Effect

By not reporting the student enrollment fee revenue correctly, the amount of general apportionment due the District may not be properly calculated.

Questioned Costs

None.

Recommendation

Care should be taken when completing the required reporting forms for the State System's Office. A reconciliation of amounts to be reported to the general ledger should be signed off by supervisory personnel prior to submitting the documents. We noted the District had made the correction to the CCFS-323 report upon notification of the error.

Management Response and Corrective Action Plan

The recommendation will be implemented.

CONCURRENT ENROLLMENT

2008-27 Criteria or Specific Requirement

Education Code Section 48800(b)(2) Concurrent student enrollment
California Community College System's Office's *Contracted District Audit Manual*

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Identified Condition

Significant Deficiency - The District does not have a procedure to determine if the principal of the K-12 school has verified that no more than five percent of the school's student enrollment has been recommended for entry at the College.

Effect

The Colleges were unable to verify that students attending the College under the concurrent enrollment guidelines had been properly enrolled within the limitations of the K-12 school.

Questioned Costs

Unknown at this time.

Recommendation

The Colleges should work with the local K-12 school districts to ensure principals are properly completing and signing the appropriate documentation to allow the K-12 students to attend classes within the District.

Management Response and Corrective Action Plan

The recommendation will be implemented.

CalWORKs - EXPENDITURES REPORTS

2008-28 Criteria or Specific Requirement

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

Significant Deficiency - The year-end expenditure reports for the CalWORKs program were due August 31, 2008. None of the District's four Colleges submitted their reports within the proper timeframe. The following is a breakdown of the dates the reports were signed for submission: Merritt College (not dated), Laney College (10/3/08), College of Alameda (9/12/08), and Berkeley City College (9/22/08). Also, the expenditures on the reports could not be verified to the general ledger amounts recorded for CalWORKs.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Effect

The District is out of compliance with reporting requirements for the CalWORKs program.

Questioned Costs

None noted.

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 and Corrective Action Plan

Changes to the PeopleSoft software now allows the timely reporting of the expenditures.

CalWORKs - STUDENT ELIGIBILITY

2008-29 Criteria or Specific Requirement

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

Significant Deficiency - A sample of students receiving program services through the CalWORKs program was reviewed for each of the District's four Colleges. The following student eligibility problems were noted: The established procedure for student eligibility verification at Berkeley City College is to complete an eligibility form on an annual basis. However, the form is not consistently used and program guidelines require the verification to be completed for each semester.

For the 25 student files reviewed at each campus, the following deficiencies were noted: Berkeley City College – five of the student files did not meet the minimum eligibility verification requirements, Laney College – one student file did not meet the minimum eligibility verification requirements, and at Merritt College – 19 student files did not meet the minimum eligibility verification requirements.

Effect

The District is not in compliance with eligibility requirements for the CalWORKs program.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Questioned Costs

None.

Recommendation

The District should implement the prior year recommendation and develop procedures to adequately document eligibility status in accordance with State guidelines.

Management Response and Corrective Action Plan

The recommendation will be implemented.

SALARIES OF CLASSROOM INSTRUCTORS (50% LAW CALCULATION)

2008-30 Criteria or Specific Requirement

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

California Community College System's Office's *Contracted District Audit Manual*

Identified Condition

Control Deficiency - As noted in the prior year audit, 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 revenue and related expenses of the unrestricted portion of the lottery funding had not been established. Expenses are designated as librarians and counselors salaries and benefits; however, the actual accounting in accordance with the above Education Code has not been maintained.

Effect

The District is not in compliance with the recordkeeping requirements of the lottery funds which is a component of the 50% Law calculation.

Questioned Costs

None; this is a recordkeeping issue.

Recommendation

The District should establish a subfund or program to segregate and account for expenditures of unrestricted lottery funds.

Management Response and Corrective Action Plan

This technical recordkeeping requirement will be implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

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.

PERALTA COMMUNITY COLLEGE DISTRICT

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

Current Status

Partially implemented. See current year finding 2008-2.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-3.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-4.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

- 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.

Current Status

Not implemented. See current year finding 2008-5.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-6.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Implemented.

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.

Current Status

Not implemented. See current year finding 2008-11.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-12.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-13.

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 Systems 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.

Current Status

Partially implemented. See current year finding 2008-14.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-10.

FEDERAL AWARD FINDINGS

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.*"

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-20.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

In process. See current year finding 2008-24.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Implemented.

STATE AWARD FINDINGS

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

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Current Status

Not implemented. See current year finding 2008-29.

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.

Current Status

Not implemented. See current year finding 2008-28.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

Current Status

Not implemented. See current year finding 2008-25.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

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.

Current Status

Not implemented. See current year finding 2008-30.

ADDITIONAL SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEETS - (UNAUDITED)
JUNE 30, 2008**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
ASSETS			
Cash and cash equivalents	\$ 2,947,659	\$ -	\$ -
Investments	8,750,747	732,700	10,221,512
Accounts receivable	6,746,272	113,006	1,163,576
Student loans receivable, net	1,315,725	-	-
Due from other funds	6,354,653	-	-
Prepaid expenses	545,086	-	-
Stores inventories	239,316	-	-
Other current assets	181,057	-	-
Total Assets	<u><u>\$ 27,080,515</u></u>	<u><u>\$ 845,706</u></u>	<u><u>\$ 11,385,088</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 9,513,252	\$ -	\$ -
Deferred revenue	2,419,605	-	-
Total Liabilities	<u><u>11,932,857</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
FUND EQUITY			
Fund Balances			
Reserved	784,402	-	-
Unreserved			
Designated	5,434,633	-	-
Undesignated	8,928,623	845,706	11,385,088
Total Fund Equity	<u><u>15,147,658</u></u>	<u><u>845,706</u></u>	<u><u>11,385,088</u></u>
Total Liabilities and Fund Equity	<u><u>\$ 27,080,515</u></u>	<u><u>\$ 845,706</u></u>	<u><u>\$ 11,385,088</u></u>

See accompanying note to additional supplementary information.

Debt Service Fund	Capital Projects Funds		
Bond Interest and Redemption	Revenue Bond Project	Capital Outlay Projects	Total
\$ -	\$ -	\$ 3,775,299	\$ 6,722,958
17,880,018	334,623	186,745,809	224,665,409
-	1,184	3,956,172	11,980,210
-	-	-	1,315,725
-	-	-	6,354,653
-	-	25,690	570,776
-	-	-	239,316
-	-	-	181,057
<u>\$ 17,880,018</u>	<u>\$ 335,807</u>	<u>\$ 194,502,970</u>	<u>\$ 252,030,104</u>
\$ -	\$ -	\$ 3,433,285	\$ 12,946,537
-	-	-	2,419,605
<u>-</u>	<u>-</u>	<u>3,433,285</u>	<u>15,366,142</u>
-	-	-	784,402
-	-	-	5,434,633
17,880,018	335,807	191,069,685	230,444,927
<u>17,880,018</u>	<u>335,807</u>	<u>191,069,685</u>	<u>236,663,962</u>
<u>\$ 17,880,018</u>	<u>\$ 335,807</u>	<u>\$ 194,502,970</u>	<u>\$ 252,030,104</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
REVENUES			
Federal revenues	\$ 3,864,161	\$ 11,906	\$ -
State revenues	86,338,240	1,804,208	-
Local revenues	37,740,466	94,382	3,054,558
Total Revenues	<u>127,942,867</u>	<u>1,910,496</u>	<u>3,054,558</u>
EXPENDITURES			
Current Expenditures			
Academic salaries	51,681,471	-	-
Classified salaries	28,072,308	1,045,267	-
Employee benefits	27,720,292	421,979	-
Books and supplies	2,381,985	47,585	-
Services and operating expenditures	17,371,834	14,133	-
Capital outlay	2,424,164	-	-
Debt service - principal	-	-	-
Debt service - interest and other	1,803,910	-	-
Total Expenditures	<u>131,455,964</u>	<u>1,528,964</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,513,097)</u>	<u>381,532</u>	<u>3,054,558</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	5,533,368	-	2,000,000
Operating transfers out	(2,170,113)	-	-
Other sources	-	-	-
Other uses	(1,360,632)	-	-
Total Other Financing Sources (Uses)	<u>2,002,623</u>	<u>-</u>	<u>2,000,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(1,510,474)</u>	<u>381,532</u>	<u>5,054,558</u>
FUND BALANCE, BEGINNING OF YEAR	16,658,132	464,174	6,330,530
FUND BALANCE, END OF YEAR	<u>\$ 15,147,658</u>	<u>\$ 845,706</u>	<u>\$ 11,385,088</u>

See accompanying note to additional supplementary information.

Debt Service Fund	Capital Project Funds		
Bond Interest and Redemption	Revenue Bond Project	Capital Outlay Projects	Total
\$ -	\$ -	\$ -	\$ 3,876,067
-	-	(259,687)	87,882,761
16,683,997	97,200	7,350,621	65,021,224
<u>16,683,997</u>	<u>97,200</u>	<u>7,090,934</u>	<u>156,780,052</u>
-	-	-	51,681,471
-	14,414	159,616	29,291,605
-	-	66,321	28,208,592
-	3,423	40,494	2,473,487
-	12,730	24,427,709	41,826,406
-	12,152	27,722,239	30,158,555
7,810,000	-	-	7,810,000
12,893,382	-	1,280,995	15,978,287
<u>20,703,382</u>	<u>42,719</u>	<u>53,697,374</u>	<u>207,428,403</u>
<u>(4,019,385)</u>	<u>54,481</u>	<u>(46,606,440)</u>	<u>(50,648,351)</u>
-	-	-	7,533,368
-	-	-	(2,170,113)
3,422,600	-	101,280,995	104,703,595
-	-	-	(1,360,632)
<u>3,422,600</u>	<u>-</u>	<u>101,280,995</u>	<u>108,706,218</u>
(596,785)	54,481	54,674,555	58,057,867
18,476,803	281,326	136,395,130	178,606,095
<u>\$ 17,880,018</u>	<u>\$ 335,807</u>	<u>\$ 191,069,685</u>	<u>\$ 236,663,962</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2008**

	Internal Service Fund
ASSETS	
Investments	\$ 558,470
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Claim liabilities	\$ 1,691,000
FUND EQUITY	
Retained earnings	(1,132,530)
Total Liabilities and Fund Equity	\$ 558,470

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, 2008**

	Internal Service Fund
OPERATING EXPENSES	
Services and other operating expenditures	<u>\$ 299,000</u>
Operating Loss	<u>(299,000)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>\$ 22,971</u>
Revenues (Expenses)	<u>22,971</u>
NET LOSS	(276,029)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>(856,501)</u>
RETAINED EARNINGS, END OF YEAR	<u><u>\$ (1,132,530)</u></u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

	Internal Service Fund
	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	\$ 22,971
Net Cash Provided from Investing Activities	<u>22,971</u>
Net increase in cash and cash equivalents	22,971
Cash and cash equivalents - Beginning	(856,501)
Cash and cash equivalents - Ending	<u><u>\$ (833,530)</u></u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEETS - (UNAUDITED)
JUNE 30, 2008**

	Trust Funds			
	Deferred Compensation Trust	Associated Students Trust	Student Financial Aid	Scholarship and Loan
ASSETS				
Cash and cash equivalents	\$ -	\$ 417,292	\$ 206,045	\$ 10,016
Investments	160,148,670	-	-	-
Accounts receivable	514,975	42,534	268,508	-
Deferred costs on issuance	3,071,782	-	-	-
Fixed assets	-	1,665	-	-
Total Assets	\$ 163,735,427	\$ 461,491	\$ 474,553	\$ 10,016
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Overdraft	\$ -	\$ -	\$ 27,803	\$ -
Accounts payable	92,200	13,483	246,750	-
Accrued interest	228,489	-	-	-
Due to other funds	5,533,368	-	200,000	-
Due to student groups	-	102,316	-	-
Other postemployment benefit bonds	162,874,744	-	-	-
Total Liabilities	168,728,801	115,799	474,553	-
FUND EQUITY				
Fund Balances				
Unreserved				
Undesignated	(4,993,374)	345,692	-	10,016
Total Fund Equity	(4,993,374)	345,692	-	10,016
Total Liabilities and Fund Equity	\$ 163,735,427	\$ 461,491	\$ 474,553	\$ 10,016

See accompanying note to additional supplementary information.

Agency Fund

<u>Other Trust</u>	<u>Total</u>
\$ 1,646,743	\$ 2,280,096
-	160,148,670
1,968	827,985
-	3,071,782
-	1,665
<u>\$ 1,648,711</u>	<u>\$ 166,330,198</u>

\$ -	\$ 27,803
4,186	356,619
-	228,489
621,285	6,354,653
1,023,240	1,125,556
-	162,874,744
<u>1,648,711</u>	<u>170,967,864</u>

(4,637,666)

(4,637,666)

<u>\$ 1,648,711</u>	<u>\$ 166,330,198</u>
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PERALTA COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

	Trust Funds				Total
	Deferred Compensation Trust	Associated Students Trust	Student Financial Aid	Scholarship and Loan	
REVENUES					
Federal revenues	\$ -	\$ -	\$ 16,408,452	\$ -	\$ 16,408,452
State revenues	-	-	2,038,400	-	2,038,400
Local revenues	(11,861,674)	31,765	-	947	(11,828,962)
Total Revenues	<u>(11,861,674)</u>	<u>31,765</u>	<u>18,446,852</u>	<u>947</u>	<u>6,617,890</u>
EXPENDITURES					
Current Expenditures					
Services and operating expenditures	-	184,773	-	-	184,773
Total Expenditures	<u>-</u>	<u>184,773</u>	<u>-</u>	<u>-</u>	<u>184,773</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,861,674)</u>	<u>(153,008)</u>	<u>18,446,852</u>	<u>947</u>	<u>6,433,117</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	170,113	-	-	170,113
Operating transfers out	(5,533,368)	-	-	-	(5,533,368)
Other uses	(7,907,197)	-	(18,446,852)	-	(26,354,049)
Total Other Financing Sources (Uses)	<u>(13,440,565)</u>	<u>170,113</u>	<u>(18,446,852)</u>	<u>-</u>	<u>(31,717,304)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(25,302,239)</u>	<u>17,105</u>	<u>-</u>	<u>947</u>	<u>(25,284,187)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>20,308,865</u>	<u>328,587</u>	<u>-</u>	<u>9,069</u>	<u>20,646,521</u>
FUND BALANCE, END OF YEAR	<u>\$ (4,993,374)</u>	<u>\$ 345,692</u>	<u>\$ -</u>	<u>\$ 10,016</u>	<u>\$ (4,637,666)</u>

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

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.