



**PERALTA COMMUNITY  
COLLEGE DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2009**

# PERALTA COMMUNITY COLLEGE DISTRICT

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# PERALTA COMMUNITY COLLEGE DISTRICT

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***FINANCIAL SECTION***

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## 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 Peralta Community College District (the District) as of and for the year ended June 30, 2009, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Peralta Community College District as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the District continues to be impacted by the economic downturn of the State of California, as well as the long-term negative budgetary impact of the postemployment benefits obligations and debt issuances. The impact of these events has not been reflected in the current year financial statements.

As discussed in Note 17 to the financial statements, certain errors resulting in understatement of previously reported capital assets and student fee revenue as of June 30, 2008, were corrected by management of the District during the current year. Accordingly, an adjustment has been made to the beginning net assets as of July 1, 2008, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2010, 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 and the Schedule of Other Postemployment Benefits (OPEB) Funding Process, 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.

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 160 through 168 has been presented at the request of District management for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Naurinek, Fine, Day & Co. LLP*

Rancho Cucamonga, California  
August 5, 2010



# Peralta Community College District

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

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This section of the Peralta Community College District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2009. 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 2008-2009, FTES was 20,322 (including credit and noncredit FTES), as compared to 19,414 in the fiscal year 2007-2008. This represented a 2.014 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 \$132.9 million, an increase of 3.9 percent from prior year's revenue of \$127.9 million.
- The District ended the fiscal year 2008-2009 with a net decrease in fund balance in the unrestricted General Fund leaving the ending fund reserve at \$9.1 million. 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 nine 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 seven percent discount rate for the District as of June 30, 2009, is \$130.5 million. The actuarial accrued liability is comprised of \$59.8 million of liabilities for active employees expected to retire in the future and \$70.7 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. For the year ended June 30, 2009, the investment trust fund had unrealized losses of \$13.1 million or 10.2 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, 2009

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- 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, 2009

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### *FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE*

Condensed financial information is as follows:

#### **Statement of Net Assets**

Net assets are the difference between assets and liabilities. Overall, net assets decreased by \$65.4 million as of June 30, 2009. 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>2009</u>	<u>2008*</u>
<b>ASSETS</b>		
Current Assets		
Cash and investments	\$ 316,065	\$ 394,348
Accounts receivable and other assets, net	22,364	17,317
Total Current Assets	<u>338,429</u>	<u>411,665</u>
Noncurrent Assets		
Deferred costs on issuance	9,754	6,370
Capital assets (net of depreciation)	309,654	290,608
Total Assets	<u>657,837</u>	<u>708,643</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	16,557	19,799
Deferred revenue	5,063	2,420
Amounts held in trust for others	1,550	1,481
Current portion of long-term obligations	9,654	7,384
Total Current Liabilities	<u>32,824</u>	<u>31,084</u>
Long-term obligations	<u>552,732</u>	<u>539,924</u>
Total Liabilities	<u>585,556</u>	<u>571,008</u>
<b>NET ASSETS</b>		
Invested in capital assets	84,589	102,597
Restricted for expendable purposes	27,326	23,566
Unrestricted	(39,634)	11,472
Total Net Assets	<u>\$ 72,281</u>	<u>\$ 137,635</u>

\* As restated

# PERALTA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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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>2009</u>	<u>2008*</u>
Operating Revenues		
Tuition and fees	\$ 12,623	\$ 9,403
Other revenues	42	-
Total Operating Revenues	<u>12,665</u>	<u>9,403</u>
Operating Expenses		
Salaries and benefits	124,668	116,042
Supplies and maintenance	46,542	41,737
Student financial aid	18,457	18,447
Depreciation	13,727	7,945
Total Operating Expenses	<u>203,394</u>	<u>184,171</u>
Loss on Operations	<u>(190,729)</u>	<u>(174,768)</u>
Nonoperating Revenues and (Expenses)		
State apportionments	73,235	70,037
Grants and contracts	38,451	37,704
Property taxes	52,909	42,095
State revenues	4,381	4,498
Investment loss	(25,737)	(3,071)
Interest expense	(18,890)	(15,887)
Other nonoperating revenues and transfers	742	4,591
Total Nonoperating Revenues	<u>125,091</u>	<u>139,967</u>
Other Revenues		
State and local capital income	284	(260)
Total Other Revenues	<u>284</u>	<u>(260)</u>
Net Change in Net Assets	<u>\$ (65,354)</u>	<u>\$ (35,061)</u>

\* As restated

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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

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

While State apportionment and property taxes are the primary source of non-capital related revenue, 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>2009</u>	<u>2008*</u>
Cash Provided by (Used in)		
Operating activities	\$ (173,717)	\$ (126,907)
Noncapital financing activities	137,743	108,360
Capital financing activities	(22,127)	65,498
Investing activities	<u>11,490</u>	<u>13,154</u>
Net Change in Cash	(46,611)	60,105
Cash, Beginning of Year	<u>233,290</u>	<u>173,185</u>
Cash, End of Year	<u><u>\$ 186,679</u></u>	<u><u>\$ 233,290</u></u>

\* As restated

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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### *CAPITAL ASSETS AND LONG-TERM OBLIGATIONS*

#### **Capital Assets**

At June 30, 2009, the District had \$309.6 million in a broad range of capital assets including land, buildings, and furniture and equipment. The District also continued to modernize and refurbish various sites within the District. Construction in progress decreased \$52.4 million as these projects were completed and placed in service.

#### **Long-Term Obligations**

At the end of 2008-2009, the District had \$562.4 million in long-term obligations. The increase in long-term obligations was primarily the result of the sale of the General Obligation Bonds, as well as increased OPEB liability and load banking obligations.

### *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 \$5.3 million, the actual results for the year showed a net decrease in fund balance of approximately \$5.6 million, primarily attributed to reduced expenditure allocations by \$2 million.

- The actual expenditures have increased \$6.4 million due to increased salary and medical benefit costs.
- During the fiscal year 2008-2009, the District's contribution to the California Public Employees' Retirement System (CalPERS) increased by approximately \$327,274 to \$2.5 million for the year.
- During the fiscal year 2008-2009, the District's contribution to the California State Teachers' Retirement System (CalSTRS) increased by \$89,284 to \$3.3 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 80 percent of the total sources of revenues received by the District in the general unrestricted fund.
- 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.

# **PERALTA COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2009**

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- Enrollment is expected to be flat to slightly higher for fiscal 2009-2010 due to ongoing funding restrictions.
- Due to the current State Budget deficit and escalating medical costs, a 2009-2010 deficit is anticipated. The District will use reserves to continue to serve our students. The 2009-2010 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 2009-2010 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 8<sup>th</sup> Street, Oakland, California 94606.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2009**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 6,091,437
Restricted cash and cash equivalents	6,145,940
Investments	17,509,877
Restricted investments	286,318,233
Accounts receivable, net	17,335,591
Student loans receivable, net	3,315,762
Prepaid expenses	835,824
Deferred costs on issuance - current portion	346,024
Deferred costs on refunding - current portion	198,921
Inventories	150,528
Other current assets	181,057

**Total Current Assets** 338,429,194

**NONCURRENT ASSETS**

Deferred costs on issuance - noncurrent portion	6,570,870
Deferred costs on refunding - noncurrent portion	3,182,742
Nondepreciable capital assets	91,566,920
Depreciable capital assets, net of depreciation	218,086,999

**Total Noncurrent Assets** 319,407,531

**TOTAL ASSETS** 657,836,725

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	8,988,275
Accrued interest payable	7,568,479
Deferred revenue	5,063,436
Amounts held in custody on behalf of others	1,549,708
Compensated absences payable - current portion	384,000
General obligation bonds payable - current portion	9,269,901

**Total Current Liabilities** 32,823,799

**NONCURRENT LIABILITIES**

Claims liability	1,649,000
Load banking	1,900,000
Compensated absences payable - noncurrent portion	3,537,846
General obligation bond payable - noncurrent portion	357,102,590
Other postemployment benefit bonds - noncurrent portion	178,691,774
Postemployment benefit obligation - noncurrent portion	9,850,919

**Total Noncurrent Liabilities** 552,732,129

**TOTAL LIABILITIES** 585,555,928

**NET ASSETS**

Invested in capital assets, net of related debt	84,589,455
Restricted for:	
Debt service	11,377,589
Capital projects	314,614
Other activities	15,633,648
Unrestricted	(39,634,509)

**TOTAL NET ASSETS** \$ 72,280,797

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

**PERALTA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>OPERATING REVENUES</b>	
Student Tuition and Fees	\$ 18,282,925
Less: Scholarship discount and allowance	<u>(5,659,860)</u>
Net tuition and fees	<u>12,623,065</u>
Other Operating Revenues	<u>42,000</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>12,665,065</u></b>
 <b>OPERATING EXPENSES</b>	
Salaries	88,160,283
Employee benefits	36,507,541
Supplies, materials, and other operating expenses and services	43,092,401
Student financial aid	18,456,998
Equipment, maintenance, and repairs	3,449,441
Depreciation	<u>13,727,241</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>203,393,905</u></b>
<b>OPERATING LOSS</b>	<b><u>(190,728,840)</u></b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
State apportionments, noncapital	73,234,560
Federal grants and contracts	21,602,216
State grants and contracts	16,848,762
Local property taxes, levied for general purposes	26,712,965
Taxes levied for other specific purposes	26,195,961
State taxes and other revenues	4,381,396
Interest income	4,985,863
Realized loss on investments	(17,546,738)
Unrealized loss on investments	(13,176,140)
Interest expense on capital related debt	(18,890,460)
Investment income on capital asset-related debt, net	218,465
Transfer to agency fund	(70,408)
Other nonoperating revenue	<u>594,088</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b><u>125,090,530</u></b>
<b>INCOME BEFORE OTHER REVENUES</b>	<b>(65,638,310)</b>
State revenues, capital	<u>284,233</u>
<b>CHANGE IN NET ASSETS</b>	<b>(65,354,077)</b>
<b>NET ASSETS, BEGINNING OF YEAR (RESTATED)</b>	<b><u>137,634,874</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 72,280,797</u></b>

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

**PERALTA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$ 11,093,933
Sales	42,000
Payments to or on behalf of employees	(118,179,942)
Payments made to students from financial aid	(18,456,998)
Payments to vendors for supplies and services	(48,216,022)
<b>Net Cash Flows From Operating Activities</b>	<b><u>(173,717,029)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State apportionments	66,389,216
Federal and State grants and contracts	37,599,600
Property taxes - nondebt related	8,266,249
Other State revenues	26,712,965
Other nonoperating expenses	(1,224,737)
<b>Net Cash Flows From Noncapital Financing Activities</b>	<b><u>137,743,293</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State capital apportionments	284,233
Taxes levied for other specific purposes	26,195,961
Proceeds from bond issuance	48,725,000
Acquisition and construction of capital assets	(33,929,463)
Principal paid on capital debt and leases	(45,419,212)
Interest received on capital debt	218,465
Interest paid on capital debt and leases	(18,201,846)
<b>Net Cash Flows From Capital and Related Financing Activities</b>	<b><u>(22,126,862)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale (Purchase) of investments	5,457,484
Investment income	6,032,092
<b>Net Cash Flows From Investing Activities</b>	<b><u>11,489,576</u></b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(46,611,022)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>233,290,452</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 186,679,430</u></b>

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



**PERALTA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CASH FLOWS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2009**

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)  
TO NET CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Loss	<u>\$ (190,728,840)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation	13,727,241
Provision for uncollectible receivables	(23,539)
Changes in Operating Assets and Liabilities:	
Receivables, net	2,000,037
Inventories	88,788
Prepaid expenses	(265,048)
Accounts payable and accrued liabilities	(2,128,304)
Deferred revenue	1,241,142
Compensated absences	2,303,050
Funds held for others	68,444
Total Adjustments	<u>17,011,811</u>
<b>Net Cash Flows From Operating Activities</b>	<u><u>\$ (173,717,029)</u></u>

**CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:**

Cash in banks	\$ 12,237,377
Investment in county treasury	174,442,053
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 186,679,430</u></u>

**NONCASH TRANSACTIONS**

Deferred costs on issuance	\$ 346,024
On behalf payments for benefits	1,823,875
<b>Total Noncash Transactions</b>	<u><u>\$ 2,169,899</u></u>

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### **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 of Trustees 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 Berkeley, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and 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 entity does not meet the above criteria for inclusion as a component unit of the District. Additional information is included in Note 18 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 is 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 8<sup>th</sup> Street, Oakland, California 94606.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### *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.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are 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 are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants and are recognized in the fiscal year in which all eligibility requirements are satisfied. Eligibility requirements may include time and/or purpose requirements. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges System's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

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*.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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

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

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted 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**

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **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 \$466,010 for the year ended June 30, 2009.

### **Prepaid Expenses**

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **Inventories**

Inventories consist primarily of operating 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.

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, Refunding Costs, Premiums, and Discounts**

Bond premiums and discounts, as well as issuance costs and refunding 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.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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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. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

### **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 imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

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

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **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. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

### **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 Alameda 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 in the unrestricted General Fund 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 set aside for repayment to the bond holders in the Bond Interest and Redemption Fund.

### **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, 2009

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### 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 year ended June 30, 2009, the District distributed \$679,175 in direct lending through the U.S. Department of Education. This amount has not been included as revenues or expenses within the accompanying financial statements as the amount was passed directly to qualifying students; however, the amount is included on the Schedule of Expenditures of Federal Awards.

### New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Classifications*. The objectives of this Statements is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District does not anticipate a significant impact in reporting as a result of this Statement as fund financial information is not reported.

In April 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements for State and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles: related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than auditing literature. GASB Statement No. 56 is effective immediately.



# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### ***NOTE 3 - DEPOSITS 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. The District's internal investment policy requires asset managers to purchase and hold investments with a rating of Bb or higher.

**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 Alameda County Treasurer, which is recorded on the amortized cost basis.

#### **Other Investments**

The District maintains investments outside the Alameda County Treasurer as allowed by the District's investment policy. The District relies on a third party investment firm to manage the investment portfolio. The investments are stated at fair value as determined by quoted market prices in *The Wall Street Journal* at June 30, 2009.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks - unrestricted	\$ 5,886,437
Cash in revolving	205,000
Cash on hand and in banks - restricted	6,145,940
Total Cash and Cash Equivalents	<u>\$ 12,237,377</u>
Investment in county treasury - unrestricted	\$ 17,509,877
Investment in county treasury - restricted	156,932,176
Investments - restricted	128,443,781
Investment with fiscal agent - restricted	942,276
Total Investments	<u>\$ 303,828,110</u>

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### 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 having the pool purchase 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:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool - Alameda	\$ 179,894,572	315
U.S. Treasury Obligations	4,720,407	28
JP Morgan Money Market Funds	116,752	N/A
European Investment Bank Notes	472,758	N/A
Highmark Money Market Funds	7,314,735	N/A
Common Stock	56,537,154	N/A
Neuberger Berman International Institutional Fund - Mutual Funds	21,774,485	N/A
U.S. Governmental Securities	13,980,406	N/A
Corporate Debt Instruments	23,527,084	N/A
	<u>\$ 308,338,353</u>	

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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, 2009. 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.

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Rating</u>
County Pool - Alameda	\$ 179,894,572	Not rated
U.S. Treasury Mutual Obligations	4,720,407	Aaa
JP Morgan Money Market Funds	116,752	Not rated
European Investment Bank Notes	472,758	Aaa
Highmark Money Market Funds	7,314,735	Not rated
Common Stock	56,537,154	Not rated
Neuberger Berman International Institutional Fund - Mutual Funds	21,774,485	Not rated
U.S. Governmental Securities	13,980,406	Aaa
Corporate Debt Instruments	1,920,842	Not rated
Corporate Debt Instruments	7,299,246	Aa
Corporate Debt Instruments	1,854	A
Corporate Debt Instruments	814,979	A1
Corporate Debt Instruments	2,649,389	A2
Corporate Debt Instruments	1,099,169	A3
Corporate Debt Instruments	7,694,531	Ba
Corporate Debt Instruments	183,388	B1
Corporate Debt Instruments	1,141,336	B3
Corporate Debt Instruments	722,350	Ca
	<u>\$ 308,338,353</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, 2009, the District's bank balance of \$11,602,100 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, 2009**

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***NOTE 4 - ACCOUNTS RECEIVABLE***

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

Federal Government	
Categorical aid	\$ 2,837,153
State Government	
Apportionment	11,137,249
Categorical aid	792,331
Lottery	644,396
Local Sources	
Interest	401,819
Redevelopment funds	579,787
Other local sources	942,856
Total	<u>\$ 17,335,591</u>
Student receivables	\$ 3,781,772
Less allowance for bad debt	(466,010)
Student receivables, net	<u>\$ 3,315,762</u>

***NOTE 5 - PREPAID EXPENSES***

Prepaid expenses consisted of the following:

Insurance	<u>\$ 835,824</u>
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**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

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***NOTE 6 - DEFERRED COSTS ON ISSUANCE AND REFUNDING***

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 are as follows:

Other Postemployment Benefits Bonds 2006 Issuances	\$ 2,996,861
Other Postemployment Benefits Bonds 2009 Refunding	638,450
General Obligation Bonds 2000, Series A	691,825
General Obligation Bonds 2005, Refunding	427,211
General Obligation Bonds 2006, Series A	943,830
General Obligation Bonds 2006, Series B	1,218,717
Total	<u>\$ 6,916,894</u>
Deferred costs on issuance - current portion	\$ 346,024
Deferred costs on issuance - noncurrent portion	<u>6,570,870</u>
	<u>\$ 6,916,894</u>

Unamortized costs on refunding are as follows:

Other Postemployment Benefits Bonds 2009 Refunding - current portion	\$ 198,921
Other Postemployment Benefits Bonds 2009 Refunding - noncurrent portion	<u>3,182,742</u>
	<u>\$ 3,381,663</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the District for the fiscal year ended June 30, 2009, was as follows:

	Balance Beginning of Year*	Additions	Deductions	Balance End of Year
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 11,913,296	\$ -	\$ -	\$ 11,913,296
Furniture and equipment not placed in service	23,638,916	1,847,519	24,179,956	1,306,479
Construction in progress	74,011,520	32,524,591	28,188,966	78,347,145
Total Capital Assets Not Being Depreciated	<u>109,563,732</u>	<u>34,372,110</u>	<u>52,368,922</u>	<u>91,566,920</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	225,115,349	17,786,947	-	242,902,296
Site improvements	17,173,057	8,828,440	-	26,001,497
Software and IT development	16,219,310	15,057,186	-	31,276,496
Machinery and equipment	30,136,737	9,097,738	-	39,234,475
Total Capital Assets Being Depreciated	<u>288,644,453</u>	<u>50,770,311</u>	<u>-</u>	<u>339,414,764</u>
Total Capital Assets	<u>398,208,185</u>	<u>85,142,421</u>	<u>52,368,922</u>	<u>430,981,684</u>
<b>Less Accumulated Depreciation</b>				
Buildings	74,004,531	5,128,412	-	79,132,943
Site improvements	5,207,689	1,010,237	-	6,217,926
Software and IT development	4,865,793	4,749,581	-	9,615,374
Machinery and equipment	23,522,511	2,839,011	-	26,361,522
Total Accumulated Depreciation	<u>107,600,524</u>	<u>13,727,241</u>	<u>-</u>	<u>121,327,765</u>
Net Capital Assets	<u>\$ 290,607,661</u>	<u>\$ 71,415,180</u>	<u>\$ 52,368,922</u>	<u>\$ 309,653,919</u>

Depreciation expense for the year was \$13,727,241.

\* The beginning balance has been restated from the 2007-2008 annual report as follows:

Land	\$ 7,055,791
Construction in progress	(60,919,651)
Buildings	57,947,540
Site improvements	(2,611,288)
Software and IT development	16,219,310
Machinery and equipment	4,589,800
Accumulated depreciation	(5,742,082)
Total	<u>\$ 16,539,420</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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***NOTE 8 - ACCOUNTS PAYABLE***

Accounts payable for the District consisted of the following:

Accrued payroll and benefits	\$ 1,157,327
Construction contractors	3,568,778
Independent contractors and consultants	1,553,352
Vendors and supplies	2,708,818
Total	<u>\$ 8,988,275</u>

***NOTE 9 - DEFERRED REVENUE***

Deferred revenue for the District consisted of the following:

Federal categorical aid	\$ 466,119
State categorical aid	1,597,940
Other State	1,107,775
Lease agreement	886,631
Enrollment fees	470,905
Other local	534,066
Total	<u>\$ 5,063,436</u>

***NOTE 10 - INTERFUND TRANSACTIONS***

**Interfund Receivables and Payables (Due To/Due From)**

Balances owing between funds at year-end were \$31,041,475. 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 balances at June 30, 2009, 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, 2009**

**NOTE 11 - LONG-TERM OBLIGATIONS**

**Summary**

The changes in the District's long-term obligations during the fiscal year 2009 consisted of the following:

	Beginning Balance	Additions	(Amortization)/ Accretion	Deductions	Ending Balance	Due in One Year
General obligation bonds	\$ 374,147,890	\$ -	\$ (910,399)	\$ (6,865,000)	\$ 366,372,491	\$ 9,269,901
2005 Taxable Limited Obligation						
OPEB Bonds	152,824,646	-	4,679,826	(38,225,742)	119,278,730	-
2006 Bond modification and restructuring	10,050,098	-	637,946	-	10,688,044	-
2009 OPEB refunding	-	48,725,000	-	-	48,725,000	-
<b>Total Bonds Payable</b>	<b>537,022,634</b>	<b>48,725,000</b>	<b>4,407,373</b>	<b>(45,090,742)</b>	<b>545,064,265</b>	<b>9,269,901</b>
Other liabilities						
Postemployment benefits obligation	4,932,201	10,668,000	-	(5,749,282)	9,850,919	-
Claims liability	1,691,000	-	-	(42,000)	1,649,000	-
Load banking	-	1,900,000	-	-	1,900,000	-
Compensated absences	3,661,921	259,925	-	-	3,921,846	384,000
<b>Total Long-Term Obligations</b>	<b>\$ 547,307,756</b>	<b>\$ 61,552,925</b>	<b>\$ 4,407,373</b>	<b>\$ (50,882,024)</b>	<b>\$ 562,386,030</b>	<b>\$ 9,653,901</b>

**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. Claims liability is an estimate based on an actuarial. Management is responsible to evaluate the adequacy of the change in value. The Postemployment Benefits Obligation is funded through payments for benefits and is reported within the General Fund. The compensated absences will be paid by the fund for which the employee worked. Load banking obligations are the responsibility of the General Fund in the year the employee utilizes the banked leave time.

**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 outstanding bonds yielded interest rates ranging from 2.62 to 4.52 percent. The bonds were paid in full during 2009.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **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 2010, 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.

### **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.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **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.

### **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.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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.

The outstanding general obligation debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Issued/ Amortized	Redeemed	Bonds Outstanding June 30, 2009
1992 D	4/15/2000	8/01/2009	2.62%-4.52%	\$13,500,000	\$ 425,000	\$ -	\$ 425,000	\$ -
1992 E	5/30/2001	8/01/2010	2.62%-4.52%	10,500,000	665,000	-	325,000	340,000
Subtotal Election of 1992								340,000
1996 A	5/30/2001	8/01/2009	2.62%-4.52%	8,000,000	515,000	-	250,000	265,000
2000 A	5/30/2001	8/01/2031	2.62%-4.52%	27,500,000	18,085,000	-	585,000	17,500,000
2000 B	5/30/2002	8/01/2032	2.00%-5.32%	30,000,000	27,800,000	-	590,000	27,210,000
2000 C	5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	38,310,000	-	745,000	37,565,000
2000 D	7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	53,865,000	-	1,005,000	52,860,000
Subtotal Election of 2000								135,135,000
2001	4/15/2001	8/01/2018	4.00%-5.00%	8,770,000	6,025,000	-	440,000	5,585,000
2002	10/24/2002	8/01/2017	2.00%-4.00%	7,310,000	5,185,000	-	435,000	4,750,000
2005 A	6/01/2005	8/01/2021	2.55%-4.00%	7,285,000	5,990,000	-	290,000	5,700,000
2005 B	8/17/2005	8/01/2025	2.62%-4.52%	32,975,000	32,755,000	-	20,000	32,735,000
Subtotal 2005 Refinancings								38,435,000
2006 A	8/10/2006	8/01/2031	4.00%-5.00%	75,000,000	72,050,000	-	1,755,000	70,295,000
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								170,295,000
Subtotal Bonds								354,805,000
Premiums (net)					12,477,890	(910,399)	-	11,567,491
Total General Obligation Bonds (Net)					<u>\$374,147,890</u>	<u>\$ (910,399)</u>	<u>\$6,865,000</u>	<u>\$ 366,372,491</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**General Obligation Bond - 1992 Election**

The 1992 general obligation bonds mature through 2010 as follows:

Year Ending June 30, <u>2010</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$ 340,000	\$ 9,350	\$ 349,350

**General Obligation Bond - 1996 Election**

The 1996 general obligation bonds mature through 2010 as follows:

Year Ending June 30, <u>2010</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$ 265,000	\$ 6,625	\$ 271,625

**General Obligation Bond - 2000 Election**

The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30, <u>2010</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,935,000	5,988,262	8,923,262
2015-2019	16,565,000	27,784,344	44,349,344
2020-2024	23,990,000	23,098,148	47,088,148
2025-2029	33,000,000	15,760,994	48,760,994
2030-2034	36,375,000	6,578,287	42,953,287
2035-2036	9,065,000	396,875	9,461,875
Total	<u>\$ 135,135,000</u>	<u>\$ 104,996,819</u>	<u>\$ 240,131,819</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**General Obligation Bond - 2001 Refinancing**

The 2001 general obligation bonds mature through 2019 as follows:

Year Ending June 30,	Principal	Interest	Total
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	540,000	164,725	704,725
2015-2019	3,075,000	395,183	3,470,183
Total	<u>\$ 5,585,000</u>	<u>\$ 1,450,035</u>	<u>\$ 7,035,035</u>

**General Obligation Bond - 2002 Refinancing**

The 2002 general obligation bonds mature through 2018 as follows:

Year Ending June 30,	Principal	Interest	Total
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	525,000	97,765	622,765
2015-2018	2,305,000	184,589	2,489,589
Total	<u>\$ 4,750,000</u>	<u>\$ 835,981</u>	<u>\$ 5,585,981</u>

**General Obligation Revenue Bonds - 2005 Refunding**

The general obligation revenue bonds mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
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	2,390,000	1,629,998	4,019,998
2015-2019	13,900,000	6,162,010	20,062,010
2020-2024	13,280,000	2,416,125	15,696,125
2025-2026	3,555,000	120,319	3,675,319
Total	<u>\$ 38,435,000</u>	<u>\$ 17,663,349</u>	<u>\$ 56,098,349</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**General Obligation Bond- 2006 Series A and B**

The general obligation bonds mature through 2038 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,070,000	7,618,550	11,688,550
2015-2019	23,240,000	35,101,719	58,341,719
2020-2024	29,520,000	28,614,269	58,134,269
2025-2029	37,750,000	20,184,250	57,934,250
2030-2034	37,625,000	10,015,625	47,640,625
2035-2038	23,500,000	2,421,250	25,921,250
Total	<u>\$ 170,295,000</u>	<u>\$ 136,134,138</u>	<u>\$ 306,429,138</u>

**Taxable 2005 Limited Obligation Other Postemployment Benefit Bonds**

In December 2005, the District issued \$153,749,832 aggregate principal amount of Taxable 2005 Limited Obligation OPEB (Other Postemployment 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.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2010	\$ -	\$ -	\$ -	\$ -
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015-2019	13,722,061	8,602,939	4,892,873	27,217,873
2020-2024	21,564,024	19,885,976	6,700,290	48,150,290
2025-2029	17,629,966	27,270,034	8,970,915	53,870,915
2030-2034	14,960,240	33,039,760	11,590,568	59,590,568
2035-2039	15,009,131	45,440,869	12,195,203	72,645,203
2040-2044	8,536,134	39,863,866	25,495,875	73,895,875
2045-2049	12,121,796	63,328,204	17,413,748	92,863,748
2050	3,100,738	16,199,262	1,001,670	20,301,670
Subtotal	<u>106,644,090</u>	<u>253,630,910</u>	<u>88,261,142</u>	<u>448,536,142</u>
Accumulated accretion	12,634,640	(12,634,640)	-	-
Total	<u>\$ 119,278,730</u>	<u>\$ 240,996,270</u>	<u>\$ 88,261,142</u>	<u>\$ 448,536,142</u>

**2009 Limited Obligation Other Postemployment Bonds Bond Modification**

The OPEB Bonds issued in 2005 were subject to an amendment where in Lehman Brothers purchased three maturities (2006, 2007, and 2008 except \$135,000). This is outlined in the "Supplement to the Official Statement" dated as of October 25, 2006, relating to the Taxable 2005 Limited Obligation OPEB Bonds. The purpose of the amendment was to convert 2006, 2007, and 2008 original maturities into Bonds maturing August 5, 2049. The vehicle used was a capital accretion type financing that the supplement indicates would fully accrete by August 5, 2009, and would have Bonds that mature through 2050. This is a unique financing structure that was developed to accommodate District wishes to reduce debt service in the initial years of the financing.



**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including accreted interest to date)	Current Interest to Maturity	Total
2010	\$ -	\$ 334,001	\$ 334,001
2011	60,180	666,122	726,302
2012	66,198	662,173	728,371
2013	72,217	657,847	730,064
2014	72,217	653,334	725,551
2015-2019	451,353	3,188,622	3,639,975
2020-2024	613,840	3,023,314	3,637,154
2025-2029	842,526	2,796,885	3,639,411
2030-2034	1,149,446	2,487,896	3,637,342
2035-2039	1,570,709	2,066,633	3,637,342
2040-2044	2,154,459	1,489,467	3,643,926
2045-2049	2,930,788	700,539	3,631,327
2050	704,111	22,003	726,114
Total	<u>\$ 10,688,044</u>	<u>\$ 18,748,836</u>	<u>\$ 29,436,880</u>

**2009 Limited Obligation Other Postemployment Bonds Refunding**

In February 2009, the District refunded a portion of previously issued \$48,725,000 in OPEB Bonds. The refunding was a current refunding and a legal defeasance of the previously issued Bonds. The purpose of the refunding was to convert previously issued Bonds to fixed rate Bonds and to restructure the District's payment obligations. The new refunding Bonds carry interest rates ranging from 4.415 percent to 6.423 percent and mature annually until fiscal year 2015. The proceeds of the refunding were used to refinance a portion of the District's outstanding 2005 Limited Obligation OPEB Bonds, establish a reserve fund for the new Bonds, and pay costs of issuance. Specifically, the proceeds were used to refund or purchase for cancellation those maturities of the 2005 Bonds identified below.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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The Bonds mature through 2015 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2010	\$ -	\$ 2,869,015	\$ 2,869,015
2011	3,660,000	2,788,221	6,448,221
2012	4,785,000	2,590,912	7,375,912
2013	6,120,000	2,309,157	8,429,157
2014	7,720,000	1,921,079	9,641,079
2015-2016	26,440,000	1,928,826	28,368,826
Total	<u>\$ 48,725,000</u>	<u>\$ 14,407,210</u>	<u>\$ 63,132,210</u>

### Other Postemployment Benefit 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, 2009, was \$10,668,000 and contributions made by the District during the year were \$5,749,282, which resulted in an increase to the outstanding net OPEB obligation of \$4,918,718. The total liability at June 30, 2009, was \$9,850,919. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefit plan.

### Claims Liability

At June 30, 2009, the liability for claims liability was \$1,649,000. See Note 14 for additional information.

### Compensated Absences

At June 30, 2009, the liability for compensated absences was \$3,921,846.

### Load Banking

At June 30, 2009, the liability for load banking agreements was \$1,900,000.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**NOTE 12 - INTEREST RATE SWAPS**

**2005 Limited Obligation Other Postemployment Benefit Bonds**

*Objective of the Morgan Stanley interest rate swap.* The District entered into a series of six forward starting floating-to-fixed rate interest rate swaps 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 in November 2006, 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.

*Credit Risk.* As of June 30, 2009, 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 incur cost to obtain replacement swap at the same economic terms.

*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.

*Fair Value.* As of June 30, 2009, the swap has fair values as follows:

Trade ID	Trade Date	Effective Date	Maturity Date	CCY	Original Notional	MTM	Fixed Rate
AUF3X	November 28, 2006	August 5, 2039	August 5, 2049	USD	\$ 134,475,000	\$ (1,281,881)	4.935%
AUF3W	November 28, 2006	August 5, 2031	August 5, 2039	USD	86,650,000	(928,159)	5.055%
AUF3V	November 28, 2006	August 5, 2025	August 5, 2031	USD	57,525,000	(941,515)	5.207%
AUF3U	November 28, 2006	August 5, 2020	August 5, 2025	USD	43,175,000	(431,152)	5.279%
AUF3T	November 28, 2006	August 5, 2015	August 5, 2020	USD	38,450,000	(459,401)	5.158%
AUF3S	November 28, 2006	August 5, 2010	August 5, 2015	USD	33,950,000	(1,550,303)	4.900%

*Objective of the Deutsche Bank interest rate swap.* The District also entered into a 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 as a contingent balanced necessary to offset possible future payments related to the OPEB Bonds. The transaction contained notional amounts that are a percentage of the Capital Accretion Bonds.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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*Terms.* This agreement contained six notional amounts similar to the above. The terms include floating rates based on LIBOR and included a termination option. At the beginning of the year, there remained one notional amount associated with 2005 Series B-6 in the amount of \$69,994,238. This amount was terminated in November 2008. The District received a final termination payment of \$78,000, which has been reflected in the District's financial statements.

### **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.

#### **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 2008-2009, the District contributed \$5,749,282 to the plan, comprised on premiums paid for medical insurance, claims expense, eligible Medicare reimbursements, and life insurance premiums for eligible plan members.

#### **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:

Normal Costs	\$ 10,537,497
Residual amortization	130,503
Total ARC	<u>10,668,000</u>
Contributions made	<u>(5,749,282)</u>
Increase in net OPEB obligation	4,918,718
Net OPEB obligation, beginning of year	4,932,201
Net OPEB obligation, end of year	<u><u>\$ 9,850,919</u></u>

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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The annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2009 was as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$ 10,668,000	54%	\$ 9,850,919

### **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.

In the April 30, 2009, 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 retiree 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 OPEB obligation, but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### *NOTE 14 - RISK MANAGEMENT*

#### **Insurance Coverage**

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 the fiscal year ending June 30, 2009, the District contracted with the Alliance of Schools for Cooperative Insurance Program (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.

#### **Joint Powers Authority Risk Pools**

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.

#### **Claims Liabilities**

The District 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, 2007 to June 30, 2009 (in thousands):

	Workers' Compensation
Liability Balance, July 1, 2007	\$ 1,392,000
Claims and changes in estimates	1,155,480
Claims payments	(856,480)
Liability Balance, June 30, 2008	1,691,000
Claims and changes in estimates	880,893
Claims payments	(922,893)
Liability Balance, June 30, 2009	\$ 1,649,000
Assets available to pay claims at June 30, 2009	\$ 571,093

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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### **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 Trustees 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 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, annual cost-of-living adjustments, 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.

##### **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 2008-2009 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 ending June 30, 2009, 2008, and 2007, were \$3,337,856, \$3,248,572, and \$2,898,855, respectively, and equal 100 percent of the required contributions for each year.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### 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 survivor 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 2008-2009 was 9.428 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2009, 2008, and 2007, were \$2,467,026, \$2,139,752, and \$2,072,317, respectively, and equaled 100 percent of the required contributions for each year.

#### On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to \$1,823,875, \$1,773,946, and \$1,535,411 for the years ending 2009, 2008, and 2007, respectively, (4.517 percent of salaries subject to CalSTRS). These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

#### ***NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES***

The District is a member of the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), 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.

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



# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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During the year ended June 30, 2009, the District made payments of \$34,010, \$568,741, and \$1,384,263 to the Schools Excess Liability Fund (SELF), the Alliance of Schools for Cooperative Insurance Programs (ASCIP), and the Alameda County Schools Insurance Group (ACSIG), respectively.

### ***NOTE 17 - RESTATEMENT OF BEGINNING NET ASSETS***

The financial statements reflect a correction of accumulated accounting errors which were discovered and reconciled by management. Management has accumulated all required information for capital assets, enrollment fees, and prepared the information necessary for financial statement disclosure.

#### Government-Wide Financial Statements

Net assets - beginning of year	\$ 119,110,375
Understatement of capital assets	16,539,420
Understatement of enrollment fees	1,985,079
Net assets - beginning of the year restated	<u><u>\$ 137,634,874</u></u>

### ***NOTE 18 - DISTRICT FINANCIAL CONDITION***

The District is highly dependent upon the State of California for general funding of the unrestricted programs and services, as well as restricted programs. During the past two years, the District has seen a reduction in the funding formula and a reduction in the number of FTES that are approved for funding, as well as cash flow reductions due to apportionment payment delays. As a result of reductions in funding and cash flow for current needs, the District has significantly reduced the expenditures for programs and services. Reductions have been made in the number of course sections offered to students, and vacant staff positions have been left unfilled. As a result of the deferral of apportionment from the 2008-2009 fiscal year to the 2009-2010 fiscal year, the District had a cash deficit of \$25 million which was covered by the capital project fund.

Further impacting the District's financial condition is the future debt payments that will be required from the unrestricted General Fund for the OPEB Bond debt. Over the next seven years, the debt service payments on the OPEB Bond are scheduled to increase from \$3.2 million in 2009-2010 to \$18 million in 2015-2016. The impact of these payments will negatively impact the sustainability of the required reserve levels within the unrestricted General Fund and the ability to provide for the educational programs and services in the future. The Bonds were originally sold to provide a revenue stream to offset the District's obligation to provide postemployment medical benefits to retirees. The actuarially determined future obligation of this benefit is in excess of \$130 million. The current value of the OPEB investments is not sufficient to repay the debt and the benefit obligation. The District also provides for the payment of current year medical claims through a self-insurance fund. As of June 30, 2009, the District has an unfunded liability of approximately \$1 million which is ultimately the obligation of the General Fund.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2009**

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The District management is developing a Multi-Year Recovery Plan (MYRP) that will address fiscal stability. Central to that Recovery Plan will be the enhancement of revenue and reduction of expenditures to address the structural budget deficit. The MYRP will include a Corrective Action Matrix that incorporates the 2008-2009 audit recommendations and the June 30, 2010, Accrediting Commission for Community and Junior Colleges recommendations. Specific to those recommendations is fiscal stability. The Peralta Governing Board has committed to adopting a balanced budget and has charged the administration with addressing the structural budget deficit. The District's recent hire of a skilled Chief Financial Officer and the support of the Board in the establishment of three additional finance positions, including the Internal Auditor, have contributed positively to the fiscal recovery effort and plan. Consistent with the recommendation of the External Auditor regarding this position, the District has moved forward with the advertising and posting of the Internal Auditor position.

On July 19, 2010, the District Governing Board conducted a Board Budget Special Workshop with a focus on the 2010-2011 Budget, Other Postemployment Benefits (OPEB), and the proposed District Office restructuring. In addition, the District is engaging a financial adviser that will examine and provide an analysis of the OPEB. The financial adviser will provide recommendations and insight to the District on how to effectively and efficiency manage the OPEB. These recommendations along with the District's own assessment will form the action plan relative to OPEB.

### ***NOTE 19 - COMMITMENT AND CONTINGENCIES***

#### **Deferral of State Apportionments**

The cash flow to the District of certified apportionment payments has been altered due to the current economic crisis at the California State level. As a result, certain apportionments owed to the District for funding of FTES, categorical programs, and construction reimbursements which are attributable to the 2008-2009 fiscal year have been deferred to the 2009-2010 fiscal year. The total amount of cash payments deferred into the 2009-2010 fiscal year was \$11 million. As of July 31, 2009, this amount had been received by the District. These deferrals of apportionment are considered permanent with future funding also being subject to deferral into future years.

#### **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, 2009, the total amount that has been deposited in a separate account owned by the District is \$3,900,996. 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 primarily through the voter approved general obligation bonds.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### *NOTE 20 - SUBSEQUENT EVENTS*

#### **Staffing Reductions**

Subsequent to year end, the District suffered an unanticipated reduction in staffing within the District Business Office. This loss of staffing impacted the District's ability to close the financial accounting records and reconcile the activity for the year within the timelines mandated by the State Chancellor's Office and the Federal awarding agencies under the OMB's Single Audit Act.

#### **Bond Filing Requirements**

The terms and conditions of the various bonds issued by the District require the issuance and distribution of the annual audited financial statements within nine months of the year end (March 31). The District is out of compliance with the continuing disclosure requirements.

#### **Single Audit Filing Requirements**

The compliance requirements of OMB Circular A-133 require the submission of the audited financial statements be issued and distributed to the Single Audit Clearinghouse within nine months of the year end (March 31). The District is out of compliance with this compliance requirement.

#### **General Obligation Bond Issuance**

In September 2009, the District has issued 2009 General Obligation Bonds, Series C of the 2006 election in the amount of \$100,000,000. The bonds have been issued to finance acquisition, construction, and rehabilitation of school facilities as authorized in the specific list of projects approved in the ballot measure (Measure A) authorizing the bonds.

#### **General Obligation Bond Issuance**

In January 2010, the District has issued 2009 General Obligation Refunding Bonds in the amount of \$39,080,000. The bonds have been issued to refund all or a portion of the outstanding principal amount of three previously issued and outstanding series of general obligation bonds of the District.

#### **Accreditation Report**

The District's four Colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges (the Commission). In June 2010, the Commission released its report which placed all four Colleges on "Probation" due to the District's significant deficiencies in meeting Standards III.C, D and IV.A, B. A follow-up report addressing and resolving the findings is due by the District and the Colleges on October 15, 2010.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entity Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
12/11/2008	\$ -	\$ 106,785,000	\$ 106,785,000	\$ -	\$ 52,887,000	202%
4/30/2009	\$ -	\$ 130,503,000	\$ 130,503,000	\$ -	\$ 40,378,023	323%

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***SUPPLEMENTARY INFORMATION***

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# PERALTA COMMUNITY COLLEGE DISTRICT

## DISTRICT ORGANIZATION

**JUNE 30, 2009**

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 Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

### BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Bill Withrow	President	2012
Mr. Cy Gulassa	Vice President	2012
Mr. Nicky González Yuen	Member	2012
Dr. William Riley	Member	2010
Ms. Linda Handy	Member	2010
Ms. Marcie Hodge	Member	2012
Mr. Abel Guillén	Member	2010
Ms. Yvonne Thompson	Student Trustee	2010
Ms. Rita Mouton-Patterson	Student Trustee	2010

### ADMINISTRATION

Mr. Elihu Harris	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 Ikhara	Vice Chancellor, General Services
Mr. Minh Lam	Associate Vice Chancellor, Information Systems
Ms. Gail Waiters	Inspector General
Dr. George Herring	President, College of Alameda
Dr. Betty Inclan	President, Berkeley Community College
Dr. Robert Adams	President, Merritt Community College
Dr. Frank Chong	President, Laney College
Ms. Yvonne Dorrough	Associate Vice Chancellor, Budget and Finance
Mr. Jacob Ng	Associate Vice Chancellor, International Affairs
Mr. James Bracy	Acting Associate Vice Chancellor of Admissions and Records/ Student Services
Mr. Gregory Valentine	Director of Risk Management
Ms. Karen Ulrich	Director of Employee Relations

See accompanying note to supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS</b>			
Direct Funded Programs			
Student Financial Assistance Cluster			
Pell Grants	84.063		\$ 16,050,982
Pell Administration	84.063		130,579
Federal Supplemental Education Opportunity Grants	84.007		1,289,496
Federal Work Study Program	84.033		699,015
Academic Competitiveness Grant	84.375		81,592
Federal Direct Student Loans	84.268		679,175
Federal Family Education Loans	84.032		1,019,060
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER			<u>19,949,899</u>
Maximum Achievement Project (MAP)	84.382A		170,734
Strengthening Institutions Program, Title III	84.031A		176,900
Passed through the California Community College System's Office			
Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C	84.048	08-C01-041	1,013,038
Tech-Prep Education, Title II	84.243	08-139-052	517,646
Passed through the California Department of Education			
Carl D. Perkins - Career and Technical Education Act (CTEA) Regional Tech-Prep Coordination	84.243	CN088316	279,582
Passed through the California Department of Rehabilitation			
Workability	84.126A	26321	232,120
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>22,339,919</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the California Department of Education			
Child Care and Adult Food Program	10.558	1912-4A	69,821
<b>U.S. DEPARTMENT OF LABOR</b>			
WIA Cluster			
Passed through the State of California, EDD			
WIA Bay Area Collaborative Biotechnology	17.258	R766602	65,697
Passed through the County of Alameda			
WIA Adult - One Stop Career Center Operation	17.258	SSGPCP060700008	163,292
WIA Dislocated Workers - One Stop Career Center Operation	17.260		58,347
Passed through San Francisco Community College District			
Bay Area - Biotechnology	17.260	FIO 070823-B	11,940
TOTAL WIA CLUSTER			<u>299,276</u>
TOTAL U.S. DEPARTMENT OF LABOR AND CLUSTER			<u>299,276</u>
<b>NATIONAL SCIENCE FOUNDATION</b>			
Direct Funded			
Environmental Control Technology Education	47.076		108,699
<b>SMALL BUSINESS ADMINISTRATION</b>			
Passed through Humboldt State University			
Small Business Development Center	59.037	08-1026	181,340

See accompanying note to supplementary information.



**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009, CONTINUED**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Direct Funded			
Temporary Assistance for Needy Families	93.558		\$ 230,407
Passed through the Foundation for California Community Colleges			
Temporary Assistance for Needy Families			
- Child Development Careers	93.558	0810-24	25,973
Passed through the Yosemite Community College District			
Child Development Block Grant	93.575	08-09 - 4170	<u>6,772</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>263,152</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			
Direct Funded			
Americorp	94.004		<u>57,212</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 23,319,419</u></u>

See accompanying note to supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Program</b>	<b>Program Entitlements</b>		
	<b>Current Year</b>	<b>Prior Year</b>	<b>Total Entitlement</b>
Board of Finance Assistance Program	\$ 1,101,038	\$ 1,094,684	\$ 2,195,722
Cal Grant B/C	1,124,557	1,723,638	2,848,195
California Articulation Number System	16,000	20,000	36,000
CalWorks	855,040	858,989	1,714,029
Career Advancement	1,666,666	1,666,000	3,332,666
Child Care - Department of Education	920,008	1,038,051	1,958,059
Child Care Tax Bailout	755,417	755,417	1,510,834
Cooperative Agencies Resources for Education	794,935	605,355	1,400,290
Disabled Students programs and Services	2,516,071	2,504,225	5,020,296
Economic Workforce Development - Industry Driven Regional Collaborative (IDRC)	353,943	-	353,943
Economic Workforce Development IDRC - Economically Distressed Areas	318,807	-	318,807
Extended Opportunity Program and Services	3,120,741	3,108,361	6,229,102
Instructional Equipment and Library Materials	205,407	264,759	470,166
Lottery - Prop 20	275,503	9,759	285,262
Matriculation	1,874,660	1,902,918	3,777,578
Nursing Education	511,428	541,029	1,052,457
Nursing Program - Enrollment	-	57,142	57,142
Nursing Program - Associate Degree	278,000	-	278,000
Staff Diversity/Staff Development	20,185	20,054	40,239
Telecommunications/Technology Infrastructure	144,144	189,552	333,696
	<u>\$16,852,550</u>	<u>\$16,359,933</u>	<u>\$ 33,212,483</u>

See accompanying note to supplementary information.

<b>Program Revenues</b>				
<b>Cash Received</b>	<b>Accounts Receivable</b>	<b>Deferred Revenue</b>	<b>Total Revenue</b>	<b>Program Expenditures</b>
\$ 1,099,095	\$ -	\$ 35,221	\$ 1,063,874	\$ 1,063,874
1,124,557	-	-	1,124,557	1,124,558
30,034	-	27,314	2,720	2,720
822,241	3,517	52,024	773,734	773,734
1,335,545	761,820	72,645	2,024,720	2,024,720
917,110	2,898	-	920,008	920,008
755,417	-	-	755,417	755,417
623,539	-	231,473	392,066	392,066
3,718,116	-	23,561	3,694,555	3,694,555
322,158	2,294	-	324,452	324,452
262,179	-	117,255	144,924	144,924
3,221,835	40	339,349	2,882,526	2,882,526
675,733	-	363,281	312,452	312,452
285,262	-	-	285,262	285,262
1,918,195	(50,289)	46,532	1,821,374	1,821,374
387,910	72,051	191,601	268,360	268,360
56,795	-	24,184	32,611	32,611
-	-	-	-	-
101,224	-	70,402	30,822	30,822
273,464	-	3,098	270,366	270,366
<u>\$ 17,930,409</u>	<u>\$ 792,331</u>	<u>\$ 1,597,940</u>	<u>\$ 17,124,800</u>	<u>\$ 17,124,801</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL  
 APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE  
 AS OF JUNE 30, 2009**

<b>CATEGORIES</b>	<u>*(Revised)/ Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
<b>A. Summer Intersession</b>			
1. Noncredit	19	-	19
2. Credit	2,273	-	2,273
<b>B. Summer Intersession</b>			
1. Noncredit	-	-	-
2. Credit	98	-	98
<b>C. Primary Terms</b>			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,858	-	14,858
(b) Daily Census Contact Hours	1,507	-	1,507
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	280	-	280
(b) Credit	282	-	282
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	915	-	915
(b) Daily Census Contact Hours	90	-	90
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
<b>D. Total FTES</b>	<u>20,322</u>	<u>-</u>	<u>20,322</u>
<b>E. Basic Skills courses and Immigrant Education (FTES)</b>			
1. Noncredit	211	-	211
2. Credit	1,223	-	1,223
	<u>1,434</u>	<u>-</u>	<u>1,434</u>

\* Annual report revised as of July 20, 2009.

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, 2009**

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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, 2009, Annual Financial and Budget Report (CCFS-311) Reported Fund Balance	<u>\$ 11,985,561</u>	<u>\$ 18,945,466</u>
Adjustments to Increase (Decrease) Fund Balance		
Investments	-	-
Accounts receivable	212,537	-
Accounts payable	(317,287)	-
Accrued interest	-	-
Deferred revenue	971,793	-
Claims liability	-	-
Due from other funds	257,435	-
Student fees	(1,379,437)	-
Long-term obligations - OPEB Bonds	-	-
Interest expense	-	-
Difference CCFS-311 to general ledger	(247,820)	602
Net Adjustments	<u>(502,779)</u>	<u>602</u>
Audited Fund Balance	<u><u>\$ 11,482,782</u></u>	<u><u>\$ 18,946,068</u></u>

See accompanying note to supplementary information.

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<u>Special Reserve</u>	<u>Capital Projects</u>	<u>Internal Service</u>	<u>Deferred Compensation</u>
<u>\$ 14,572,194</u>	<u>\$ 182,506,938</u>	<u>\$ 272,093</u>	<u>\$ 20,590,137</u>
-	942,276	-	(1,098,058)
(130,773)	-	-	(707)
-	(1,310,567)	-	(274,432)
-	-	-	(149,763)
-	-	-	-
-	-	42,000	-
-	-	-	-
-	-	-	-
-	-	-	(54,354,170)
-	-	-	(5,629,170)
-	(30,979,701)	(1,392,000)	(7,738,268)
<u>(130,773)</u>	<u>(31,347,992)</u>	<u>(1,350,000)</u>	<u>(69,244,568)</u>
<u>\$ 14,441,421</u>	<u>\$ 151,158,946</u>	<u>\$ (1,077,907)</u>	<u>\$ (48,654,431)</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

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**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	\$ 11,482,782
Special Revenue Funds	15,633,648
Debt Service Fund	18,946,068
Capital Projects Funds	151,473,560
Internal Service Fund	(1,077,907)
Fiduciary Funds	<u>(46,711,111)</u>

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

**\$ 149,747,040**

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	430,981,684	
Accumulated depreciation is	(121,327,765)	
Less fixed assets in fiduciary funds	<u>(554)</u>	
Subtotal		309,653,365

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:	3,281,583
Amounts held in trust on behalf of others (Trust and Agency Funds)	(1,549,708)

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.

(7,190,227)

Long-term obligations at year-end consist of:

General obligation bonds payable	354,805,000	
Premium on debt	11,567,491	
Load banking	1,900,000	
Other postemployment benefits obligation	9,850,919	
Compensated absences (vacations) - less current portion	<u>3,537,846</u>	
Subtotal		<u>(381,661,256)</u>

**Total Net Assets**

**\$ 72,280,797**

See accompanying note to supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2009**

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**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.

**Reconciliation**

The following schedule provides reconciliation between revenues reported on the statement of revenues, expenses, and changes in net assets and the related expenditures reported on the schedule of expenditures of Federal awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets		<u>\$ 21,602,216</u>
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS		
Federal Family Education Loans	84.032	1,019,060
Federal Direct Student Loans	84.268	679,175
Other various Federal programs	N/A	18,968
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 23,319,419</u></u>



**PERALTA COMMUNITY COLLEGE DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2009**

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**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
Carl D. Perkins - Career and Technical Education Act (CTEA) Regional Tech-Prep Coordination	84.243	
Cabrillo Community College District		\$ 24,500
Monterey Peninsula Community College District		8,000
San Jose-Evergreen Community College District		24,000
Marin Community College District		60,000
Napa Valley Community College District		15,000
San Francisco Community College District		24,000
		<u>\$ 155,500</u>

**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. The information in this schedule is presented to comply with reporting requirements of the California State System's Office.

**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, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements 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 District's internal 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 internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

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***INDEPENDENT AUDITORS' REPORTS***

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**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 *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Peralta Community College District  
Oakland, California

We have audited the financial statements of the business-type activities of Peralta Community College District (the District) for the year ended June 30, 2009, and have issued our report thereon dated August 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 2009-16 through 2009-43.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting as items 2009-1 through 2009-15.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 through 2009-15 and 2009-31 through 2009-34.

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.

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

*Varinek, Irine Day & Co. LLP*

Rancho Cucamonga, California  
August 5, 2010.



**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, 2009. 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:

Compliance Requirement	Programs Name and Catalog of Federal Domestic Assistance (CFDA) Number	Finding Number
Circular A-133 Reporting	All Federal Programs	2009-31
Special Tests - Return to Title IV	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 Direct Student Loans (CFDA #84.268), Federal Family Educational Loans (CFDA #84.032), and Academic Competitiveness Grant (CFDA #84.375)	2009-32
Special Tests - EZ Audit Filing	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), Academic Competitiveness Grant (CFDA #84.375), and Federal Direct Student Loans (CFDA #84.268)	2009-33
Equipment Management	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)	2009-34
Procurement, Suspension, and Debarment	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II, Regional Tech-Prep Coordination (CFDA #84.243) and Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)	2009-35
Subrecipient Monitoring 24 CFR 84 §84.51 Monitoring and Reporting Program Performance	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Regional Tech-Prep Coordination (CFDA #84.243) (California Department of Education Agreement #CN088316)	2009-36
Eligibility	U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Pell Grant Program (CFDA #84.063) and Federal Work Study Program (CFDA #84.033)	2009-37
Verification	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), Academic Competitiveness Grant (CFDA #84.375), and Federal Direct Student Loans (CFDA #84.268)	2009-38

Compliance Requirement	Programs Name and Catalog of Federal Domestic Assistance (CFDA) Number	Finding Number
Pell Disbursements	U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Pell Grant Program (CFDA #84.063)	2009-39
Allowable Costs	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)	2009-40
Reporting	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048) and Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II (CFDA #84.243) (Grant Agreement #08-139-052)	2009-41
Activities Allowed and Unallowed	U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Work Study Program (CFDA #84.033)	2009-42
Cash Management	U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Supplemental Education Opportunity Grant (CFDA #84.007), Federal Pell Grant Program (CFDA #84.063), Federal Work Study (CFDA #84.033), and Academic Competitiveness Grant (CFDA #84.375)	2009-43

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, 2009.

### Internal Control Over Compliance

The management of Peralta Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Peralta Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Peralta Community College District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies 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 2009-31 through 2009-43 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. Material weaknesses are described in the schedule as item 2009-31 through 2009-34.

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.

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

Vaurinek, Time, Day & Co., LLP.

Rancho Cucamonga, California  
August 5, 2010





## REPORT ON STATE COMPLIANCE

Board of Trustees  
Peralta Community College District  
Oakland, California

We have audited the compliance of Peralta Community College District (the District) with the types of compliance requirements described in Section 400 of the California State System's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California. The specific requirements are described below.

We conducted our audit of compliance 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have 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.

### 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

### Apportionments

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 426: Students Actively Enrolled

## **Fiscal Operations**

Section 421: Salaries of Classroom Instructors (50% Law)

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

In our opinion, Peralta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported and are described in the accompanying schedule of findings and questioned costs as items 2009-44 through 2009-53.

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.

This report is intended solely for the information of the Board of Trustees, Audit and Finance 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 5 Co. LLP*

Rancho Cucamonga, California  
August 5, 2010

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PERALTA COMMUNITY COLLEGE DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</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>Yes</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>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	
84.063, 84.007, 84.033, 84.375, 84.268, 84.032	Student Financial Aid Cluster	<u>Qualified</u>
84.048	Carl D. Perkins - CTEA Title I, Part C	<u>Qualified</u>
84.243	Carl D. Perkins - CTEA Tech-Prep Education, Title II Carl D. Perkins - CTEA Regional Tech-Prep	<u>Qualified</u>
84.243	Coordination	<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>
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.007, 84.033, 84.375, 84.268, 84.032	Student Financial Aid Cluster
84.048	Carl D. Perkins - CTEA Title I, Part C
84.243	Carl D. Perkins - CTEA Tech-Prep Education, Title II
84.243	Carl D. Perkins - CTEA Regional Tech-Prep Coordination

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 699,583</u>
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Auditee qualified as low-risk auditee?	<u>No</u>
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**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, 2009

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

### MATERIAL WEAKNESSES

#### 2009-1 DISTRICT FINANCIAL REPORTING

##### Criteria or Specific Requirement

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for the timely reporting of financial information to management and those charged with governance.

##### Condition

*Material Weakness* - Financial information related to the activity of the various funds of the District individually, as well as in total, was not accessible for management to review, reconcile, and report to the Board of Trustees during the 2008-2009 fiscal year.

##### Context

The District financial statements comprise nine (9) governmental funds which are made up of 54 subfunds. Revenues from Federal, State, and local sources are accounted for within the funds, as well as the corresponding expenditures which include salaries, benefits, and construction costs. Total activity on an entity-wide basis is in excess of \$250 million.

##### Effect

The financial decisions that affect the District's short- and long-term fiscal stability are at risk when the most current financial information is not available in a timely matter.

##### Recommendation

A financial activity report for all funds should be developed and provided to the management and the Board of Trustees on a monthly basis. This report should include current month activity, as well as year to date activity and should be reviewed by the Audit and Finance Committee, as well as the full Board of Trustees.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Management Response and Corrective Action Plan

During fiscal year 2008-2009, financial activity reports were available at the detail account level via PeopleSoft screen displays, or alternatively at summary levels suitable for the Finance Office. Also, a "College Variance Report" was available providing year-to-date budget/expenditure data by object by department (cost center). During January and February 2010, a new flexible financial status report called the "Monthly Expenditure Report" based on the PeopleSoft query functionality (PDF and Excel output) was developed and disseminated to management to monitor the various funds' status month by month at the individual account level and at a summary level. After use of the new report, a committee of College Business Managers was created to refine the report, provide more flexibility as to the level of detail (including transaction detail if desired), and ease of use for the ordinary managers of the District. This committee continues to meet bi-monthly with IT to evaluate the usefulness of reports and to modify reports as needed. District finance also continues to meet with IT to create reports as needed for State, local, and Federal reporting requirements. Ad hoc queries are also available to users to provide timely summary and detail level budget, encumbrance, and expenditure data on an as needed basis.

### 2009-2 DISTRICT BUDGET MONITORING

#### Criteria or Specific Requirement

California *Education Code* Section 42127 (2) requires community college districts within the State of California to annually adopt a budget of anticipated revenues and expenditures for all governmental funds. Additionally, districts are required to monitor the adopted budget to prevent overspending of expenditures.

#### Condition

*Material Weakness* - The monitoring of the anticipated revenues and expenditures for the 2008-2009 fiscal year has been hampered by the Financial Accounting System. The current programming does not provide effective reports for the monitoring of the accounts.

#### Context

The District's expenditures from governmental funds are in excess of \$250 million annually. The *Education Code* requires the Board of Trustees to approve budget adjustments to expenditure accounts in excess of the originally adopted budget.

#### Effect

The District is out of compliance with the California *Education Code*, as well as sound internal control procedures that require an effective monitoring of the revenue and expenditure activity of the District, as well as comparisons to the adopted budget.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

The annual budget must be prepared, presented to the public and the Board of Trustees, and adopted within the specified time periods. The monitoring of the annual budget as compared to the actual expenditures and revenues must become a high priority of management. A regular report to the Board of Trustees must be prepared noting significant variances between the adopted budget and the actual activity within the revenue and expenditure accounts. Activity which results in an excess of expenditures over the adopted budget must be Board approved with a budget transfer identifying the source of the funding for the expenditure or a decrease in another expenditure account.

### **Management Response and Corrective Action Plan**

The Board of Trustees adopted a Tentative 2008-2009 Budget on June 24, 2008. The Board of Trustees did not adopt a final budget for 2008-2009 as required. The Board of Trustees adopted a Tentative 2009-2010 budget on July 17, 2009; however, the final budget for 2009-2010 was not adopted until April 27, 2010. Budget monitoring reports for the 2009-2010 operating budget began in February 2010 and have been submitted monthly to the Audit/Budget Committee of the Board of Trustees. During the 2010-2011 fiscal year, the District will make regular budget revisions as necessary. A budget calendar has been developed and will be adhered to for the 2010-2011 fiscal year. The Business and Planning Committee has reviewed and assisted with the development of the budget calendar.

### **2009-3 QUARTERLY FINANCIAL REPORTING**

#### **Criteria or Specific Requirement**

The California Community Colleges Chancellor's Office requires that each community college district reports the financial activity of the General Fund on a quarterly basis via the CCFS-311Q report and the districts' total revenues and expenditures for the fiscal year end via the CCFS-311 by October 10 of each year. This report is also required to include the adopted budget for the subsequent fiscal year.

#### **Condition**

*Material Weakness* - The CCFS-311Q reports for the quarters ending September 2008, December 2008, March 2009, and June 2009 were not submitted to the Chancellor's Office during the year as required. Additionally, the annual CCFS-311 was not prepared and submitted until May 2010.

#### **Context**

The periodic reporting of financial information is the primary monitoring tool by the State Chancellor's Office to view changes in activities and the possible impact to the financial stability of the District. Each of these reports is to be reviewed and approved by the Board of Trustees prior to submission.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Effect

The District is out of compliance with the reporting requirements established by the State Chancellor's Office.

### Recommendation

A calendar of financial activity reporting requirements should be provided to the Board of Trustees on an annual basis. Within the required timelines provided by the California State Chancellor's Office, the CCFS-311 Qs should be prepared, reviewed, and approved by the Board of Trustees and submitted to the State Chancellor's Office. In accordance with the instructions of the State Chancellor's Office for the Annual Financial and Budget Report requirements, the annual activity of all funds of the District are to be made available to the public on or before September 30 of each year and submitted to the Chancellor's Office no later than October 10 of each year.

### Management Response and Corrective Action Plan

The required CCFS-311 and CCFS-311Q reports were not completed during 2008-2009. The Recovery Team believes that the conversion to PeopleSoft coupled with a lack of accountability led to the inability of filing these State reports. In May 2010, the final CCFS-311 report for 2008-2009 and the 3<sup>rd</sup> quarter report of the CCFS-311Q for 2009-2010 were completed and will be filed with the State Chancellor's Office. It is expected that the subsequent reports will be completed in a timely fashion.

## 2009-4 OVERSIGHT AND MONITORING

### Criteria or Specific Requirements

Acceptable internal control procedures include the ability of an organization to function in the face of a crisis. This is demonstrated through standard reporting, segregation of duties, and personnel training.

### Condition

*Material Weakness* - Due to various weaknesses in the automated financial reporting system, a limited number of personnel have the ability to access, review, monitor, and report on financial activity occurring through the various District accounts and funds. This issue has been ongoing since the original implementation of the PeopleSoft accounting software. The Information Systems personnel continue to have the ability to initiate and process financial transactions. Accounting personnel have not been properly trained on all aspects of the accounting system to allow for cross training and review of transactions that have been posted. Reporting directly from the financial accounting software has not been developed to provide for timely analysis of financial data including year to date activity and budget to actual activity.

Further complicating the issue was the unexpected illness and absence of key accounting office personnel at the time of the closing period with no back up or plan for others to assist in the process.



# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Context**

As noted in the findings above, the District processes transactions in excess of \$250 million each year. The weaknesses in the internal controls surrounding the financial accounting system have continued to impact all functions of the District and College Accounting Offices.

### **Effect**

The lack of sufficient training, cross training, and segregation of duties has allowed the District to fall behind in the monitoring and reporting of financial activity for several years. The unexpected illness and absence within the District Business Office staffing created delays in the closing timelines. As reporting and reconciliations continue to be delayed, the final effect for the 2008-2009 fiscal year is that the District's books and records were not closed until May 2010, which has impacted virtually all programs and services of the District.

### **Recommendation**

A formal comprehensive review of the PeopleSoft automated accounting system must be undertaken as soon as possible. The weaknesses in the system described above have continued to grow and have been exacerbated by a lack of proper internal control and written processes and training to allow the users of the information to properly analyze transactions in a timely manner. Individuals within the Information Systems Department should not have access to initiate and process transactions. The Accounting and Finance Department should be properly cross trained in key areas to allow for continuity in the processing and reconciliation of transactions throughout the year to better avoid situations when one individual is not available to do the work.

### **Management Response and Corrective Action Plan**

Weak internal controls have been a continuing issue. Effective March 2010, the procedure for posting within the Finance Department has been changed to require an additional review and approval. With the employment of an interim CFO beginning May 2010, a project list of additional needed corrections and staffing requirements, especially with respect to the functioning of the computer system, has been developed. At this time, the staffing has yet to be identified to respond to all the issues. The District has changed user access to eliminate override capability by staff positions and fully utilize system controls to enforce budget controls and purchasing match rules. The District anticipates that this change will be a significant positive corrective action to this issue. Override exceptions will only be under the purview of the supervisor/manager. Finance staff is being trained to do tasks formally being completed by IT such as posting of the monthly payroll. Maintenance of accounting system controls are now done in finance rather than IT. Staff will be trained to further increase knowledge of the system. Accounting system codes and tables which were once maintained in the IT area are now being setup and maintained within the Business Department.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-5 CORRECTIVE ACTION PLAN

#### Criteria or Specific Requirement

Industry standards and best business practices, as well as Federal requirements for Federal grants and contracts, require a methodology to be established to monitor all comments and the subsequent implementation of recommendations presented to the District through a corrective action plan.

#### Condition

*Material Weakness* - During the 2009 year, the District implemented a monitoring procedure of all comments presented in the 2007-2008 annual audited financial report. While this report was presented during the year to the Audit and Finance Committee, the implementation of the majority of the recommendations was not accurately reported, and material weaknesses and significant deficiencies reported in prior years have remained uncorrected and are reported in the current year comments.

#### Context

The prior year annual audited financial report contained nine (9) material weakness comments and ten (10) significant deficiencies related to the financial statements; five (5) comments related to noncompliance with Federal awards; and six (6) comments related to noncompliance with State program laws and recommendations. Many of these comments had been rolled forward from the prior two and three years of audit reports.

#### Effect

By not preparing, monitoring, and reviewing the status of the corrective action plan, the District remains at risk of continued noncompliance with Federal and State laws and regulations and deficiencies in financial reporting and monitoring that could place the District in jeopardy of losing funding, having errors and omissions in the financial statement reporting go undetected, and/or continued noncompliance with Board approved policies and procedures.

#### Recommendation

The District needs to take seriously the recommendations made regarding improper reporting, weaknesses in internal control, and Federal and State noncompliance. A corrective action plan that will address the progress of implementation of all comments and instances of noncompliance must be prepared and provided to the Chancellor, the Audit and Finance Committee, and the Board of Trustees on a regular basis. Timelines should be established for the implementation, taking into account the necessary tools needed including monetary resources, personnel, technology, and time.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Management Response and Corrective Action Plan

The District will take seriously the recommendations made regarding reporting, weaknesses in internal controls, and Federal and State noncompliance. The Fiscal Adviser will assist the District in developing a recovery matrix/corrective action plan that will address the progress of implementation of all comments and noncompliance issues. This plan will be provided regularly to the Chancellor, Audit and Finance Committee, Board of Trustees, State Chancellor, and ACCJC progress reports. The plan will include the timelines, resources needed, accountability provisions, and other key elements.

In addition, FCMAT is reviewing some of the grants and will provide findings and recommendations for improvement. The District will address the FCMAT recommendations.

### 2009-6 OTHER POSTEMPLOYMENT BENEFITS (OPEB) BOND INVESTMENT ACTIVITIES

#### Criteria or Specific Requirement

Proper internal controls over reporting and monitoring of District assets require a system that will allow for the oversight and reporting of investment activities.

#### Condition

*Material Weakness* - The District currently maintains a wide array of investments outside the control of the District Business Office as the result of issuance of OPEB Bonds. These investments are held in trust for the payment of the District's postemployment benefit obligations on behalf of retirees, as well as the repayment of the bond obligation. The investments include a variety of stocks, bonds, mutual funds, government securities, and other investment vehicles and are primarily managed through Union Bank, as well as residual amounts in the original Deutsche Bank. Personnel at the District have not properly reviewed and reconciled the activity within the investment portfolio during the year. It was noted that monthly statements received from the trustee during the 2008-2009 fiscal year were left unopened and not reviewed for months after receipt and months after the fiscal year end. The monthly activity including the accounting for interest, dividends, transfers, purchases, and sales has not been reviewed or posted to the District's accounting records within the Deferred Compensation Trust Fund. Realized and unrealized gains and/or losses on the investments were not analyzed and posted to the accounting records.

The investment policy requires the investment manager to only include investments in the portfolio with a rating of Bb or above at June 30, 2009. Approximately \$2 million of the purchased investments were below this threshold.

We noted a transfer from the investment account with Union Bank in the amount of \$1 million that is for the benefit of the District, but for which there was no formal, documented authorization of instruction letter.

A residual balance of \$41,000 has remained in Deutsche Bank which should have been included in the transfer of assets to the Union Bank account. This balance does not appear to be included in any of the postings of activity of investment revenues or balances.

We were unable to locate minutes of meeting of the OPEB Trust Investment Committee noting a review or analysis of the holdings within the Trust.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Context**

The book value of investments at June 30, 2009, was approximately \$142 million. The unrealized loss on the value of the investments as of the year end was \$19 million bringing the stated fair value to approximately \$123 million.

### **Effect**

Errors or omissions in the reported activity within the investments could go undetected for an extended period of time by not reviewing or monitoring the statements on a monthly basis.

### **Recommendation**

The District's Chief Financial Officer should receive, review, and reconcile the monthly investment activity, post the change in the investments to the District's Deferred Compensation Trust Fund, and provide an analysis of the investment gains and losses to the Audit and Finance Committee on a monthly basis.

A formal letter of instruction, with signed and appropriate authorizations, should be developed and maintained within the records of the District to support transfers and payments from the investment account.

The residual balance that remains with Deutsche Bank must be brought into the general ledger activity and accounting reconciliation as all other accounts.

### **Management Response and Corrective Action Plan**

As of April 2010, the Union and Deutsche Bank accounts have been reconciled through June 30, 2009, and the activity was posted in the general ledger.

The District will assign the CFO the responsibility to review and reconcile the investment activity, post the change in the investments to the Deferred Compensation Trust Fund, and provide an analysis of the investment gains and losses to the Audit and Finance Committee on a regular basis.

## **2009-7 SWAP INVESTMENT ACTIVITY**

### **Criteria or Specific Requirement**

Industry standards and proper internal control practices require adequate knowledge, monitoring, and oversight of debt agreements.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Condition**

*Material Weakness* - The District has issued over \$153 million in Taxable Limited OPEB Bonds. In an effort to manage the interest rate risk associated with the bonds, the District has entered into various forward Interest Rate SWAP Agreements. There is not a formal policy in place related to the use of the interest rate swap agreements.

### **Context**

Interest rate SWAP Agreements are a sophisticated investment tool to mitigate the uncertainty of interest rate risk for long-term obligations. A formal policy provides guidance and support for the decisions related to these agreements for management and the Board of Trustees to follow.

### **Effect**

The ability to provide for an adequate risk analysis related to the Swap Agreements is impaired by not having a written policy in place as a benchmark or standard to follow. Subsequent to year end, the rating agencies associated with the issuance have downgraded the District's bond rating in part as a result of the lack of a formal policy.

### **Recommendation**

The District should work with the Bond Financial Advisor to prepare, review, and adopt a formal policy related to the use of Interest Rate Swap Agreements. The activity and analysis related to these agreements should be brought to the Audit and Finance Committee on a monthly basis.

### **Management Response and Corrective Action Plan**

The District will work with Bond Counsel to prepare, review, and adopt a formal policy related to the use of interest rate swap agreements. The activity and analysis related to these agreements will be brought forward to the Audit and Finance Committee on a regular basis.

## **2009-8 CASH IN COUNTY ACCOUNT RECONCILIATIONS**

### **Criteria or Specific Requirement**

Adequate internal controls over the account activity require a system of reconciliation of the primary depository accounts to ensure the proper recognition of revenues and expenses.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Condition**

*Material Weakness* - The Cash in County reconciliation was not performed during the year. As noted in the 2007-2008 report, reconciliations in the prior year were not completed until January 2009. Without a timely and regular reconciliation, it is difficult to accurately determine whether anticipated deposits have been received and recorded within the proper general ledger account, or whether expenses have been posted appropriately. The process of the reconciliation requires knowledge of transfers to and from the OPEB Investment Trust, as well as notices of cancellation of issued warrants and outstanding warrants from the County Treasurer.

### **Context**

The County Treasurer is the primary depository of the District's funds. The County Treasurer also processes all commercial and payroll warrants.

### **Effect**

The delay in the reconciliation process has been a significant contributing factor to the delay in the reporting process for the District for the past four years. Internal control over the account has been substantially compromised.

### **Recommendation**

Cash accounts must be reconciled each month. A standard procedure must be put in place to ensure the reconciliation has been completed and supervisory personnel have reviewed the reconciliation for completeness and accuracy. When transfers of funds from the outside trust fund are requested, a notation and accounts receivable should be established within the District's general ledger to alert management and others of the anticipated receipt of the funds. A listing of all cancelled warrants, along with the date and authorization of the cancellation, must be prepared and maintained as support for the monthly reconciliation.

### **Management Response and Corrective Action Plan**

The District will revisit its policy and procedures regarding cash reconciliation and revise and implement as necessary. The procedures will address monthly reconciliation and supervisory personnel's responsibility related to completeness and accuracy. When the transfer of funds occurs from an outside trust fund, proper accounting procedures will be established to account for the transaction within the District's general ledger. The transfer in question was embedded in a deposit to the Alameda County Treasurer. The procedure for properly recording transfers will be reviewed with the fiscal staff.

## **2009-9 BANK ACCOUNT RECONCILIATIONS**

### **Criteria or Specific Requirement**

Adequate internal controls over the account activity require a system of reconciliation of all bank accounts to ensure the proper recognition of revenues and expenses.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Condition**

*Material Weakness* - Bank accounts for the various activities of the District were not reconciled as of June 30, 2009, until May 2010. This has been a consistent finding for the past four years.

### **Context**

The District Office maintains 11 bank accounts to record the deposits and expenses for such items as employee tax payments, student financial aid, credit card activity, and small purchases through the Revolving Cash account, as well as other small activities. The activities through these accounts are not recorded within the general ledger until a reimbursement with the County Treasurer is requested or deposits are transmitted to the County Treasurer.

### **Effect**

The delay in the reconciliation process has been a significant contributing factor to the delay in the reporting process for the District for the past four years. The activity recorded through these accounts may have a budgetary impact to the District by not recording the transactions on a timely basis. Internal control over the account has been substantially compromised.

### **Recommendation**

Cash accounts must be reconciled each month. A standard procedure must be put in place to ensure the reconciliation has been completed and supervisory personnel have reviewed the reconciliation for completeness and accuracy.

### **Management Response and Corrective Action Plan**

The District will revisit its policy and procedures regarding cash reconciliation and revise and implement as necessary. The procedures will address monthly reconciliation and supervisory personnel's responsibility related to completeness and accuracy.

## **2009-10 INTERNAL AUDIT FUNCTION**

### **Criteria or Specific Requirement**

Industry standards and sound business practices require a system of internal control designed to prevent and detect errors and omissions in the accounting and reporting of financial activity.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Condition**

*Material Weakness* - The District's operations and functions have continued to become highly dependent on the automated financial accounting system and are increasingly decentralized to the four College campus Business Offices. Each College campus has responsibility for student attendance and accounting activity, trust fund activity, student financial aid, and the various programs and services offered at the specific College campus. The District Business Office personnel do not adequately monitor these decentralized activities. Additionally, the District is in the midst of on-going construction programs and other projects that have a financial impact to the District, but are not currently monitored at the District Office level.

### **Context**

The District is currently serving over 58,000 students throughout four College campuses focusing on various educational programs. Over 3,400 individuals are employed by the District including teachers, administrators, and support services. Programs offered by the District include Federal student financial aid and other programs and State funded counseling programs, as well as financial grants to students. Current construction activities include over \$60 million in projects that take place throughout the District.

### **Effect**

Policies and procedures approved by the Board of Trustees may not be consistently implemented and followed at each location and department of the Colleges. Errors or omission in implementing procedures may go undetected for a significant period of time without the oversight and monitoring of the administrative function of the Business Office. Compliance with Federal and State laws and regulations may not be effectively monitored to ensure questioned costs are not reported. The external audit should not be relied upon to ensure proper internal controls are in place throughout the District within the various programs and services the District provides.

### **Recommendation**

As recommended in prior years, the District should consider the use of an Internal Auditor that reports directly to the Chancellor, with timely reports being made to the Audit and Finance Committee through the Chancellor. The Internal Auditor should develop a risk assessment program and perform regular reviews of the programs, services, and activities throughout the District, report the results to management and the Audit and Finance Committee, and follow up on areas of noncompliance noted within both the internal and external audit reports.

### **Management Response and Corrective Action Plan**

The District has initiated a plan to staff critical finance functions as described in 2009-4 above. The staffing of an Internal Audit position is in process. The District is currently relying on external consultants to perform the duties normally performed by key fiscal positions.



# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-11 CAPITAL ASSET ACCOUNTING

#### **Criteria or Specific Requirement**

Industry standards and best business practices require a system of internal control over capital asset accounting that will allow the District personnel to properly record the purchases and depreciation of capital assets, as well as safeguarding equipment purchased for use throughout the District.

#### **Condition**

*Material Weakness* - During the 2008-2009 year, the District utilized the services of an outside accountant to bring the accounting records related to the capital assets current and record the purchases, deletions, and depreciation activity within the capital asset accounts. This effort has provided adequate accounting records to remove the qualification of the Independent Auditors' Report noted in the 2007-2008 annual audit specific to the capital assets. However, the ability of District personnel to continue to monitor, record, and reconcile these accounts is at risk. The final reconciliation of the capital assets was the primary responsibility of the consultant, and District personnel were not involved in the process.

#### **Context**

Total capital assets, including construction in process, is recorded with an initial cost of over \$425 million with annual depreciation expense of approximately \$8 million.

#### **Effect**

The possibility exists that the efforts of the consultant in the current year to reconcile the capital asset financial statement balances will be unwound in future years without dedicated and trained District personnel to perform this function.

#### **Recommendation**

The District should identify and train appropriate level personnel in the proper accounting of the capital assets including buildings, land, construction in process, and equipment, as well as the corresponding depreciation expense. Coordination of the duties of the personnel should be shared jointly by the purchasing department, as well as the accounting department to ensure all transactions meeting the capitalization threshold have been properly identified, capitalized, and depreciated and included within the accounting records.

#### **Management Response and Corrective Action Plan**

The District has identified and will train an appropriate level staff member to assist with the accounting of the capital assets. An Accounting Technician was assigned this function in April 2010 and is in the process of being trained by a CIBER consultant.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-12 FINANCIAL ACCOUNTING SYSTEM PROCEDURES

#### Criteria or Specific Requirement

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

#### Condition

*Material Weakness* - The District implemented the PeopleSoft financial accounting system during the 2005-2006 fiscal year. Since that time, the audit has identified a series of material weaknesses in the set-up of the system, posting, and reconciliation of transactions and security access parameters of the system. These weaknesses have not been sufficiently addressed to provide the Colleges, the Finance Department, the Administrative managers, and the Board of Trustees sufficient financial information on a timely basis to make proper decisions about the financial position and future stability of the District.

As identified in previous comments, the Information Systems' personnel have been granted access to the processing activities and report writing in an effort to obtain financial information. The hierarchy of the security access levels has not been sufficiently identified to prevent unauthorized posting that can be independently identified.

Department managers have been unable to utilize the PeopleSoft financial accounting system to properly monitor their budgets related to grant contracts, personnel costs, and other components of the budget under their responsibility.

While year-end records have been reconciled and presented for audit, the internal monitoring of the activities during the year is compromised. The year-end reconciliation process requires an extraordinary amount of time and is controlled primarily by one individual.

#### Context

All financial transactions flow through the PeopleSoft accounting system except student financial aid. The monitoring of the programs and budget to actual activity is a key component in the internal control structure and the ability of the District to demonstrate compliance with program guidelines for expenditures.

#### Effect

The District has not been able to sufficiently monitor financial transactions, provide budget to actual variance reports, report financial activity to the District's Board of Trustees and the State Chancellor's Office, or timely and accurately close the accounting records of the District.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

A thorough review of the capabilities of the PeopleSoft financial accounting software system must be undertaken immediately. Programs need to be customized to fit the reporting requirements of the District and budget monitoring requirements of the individual program managers. It is imperative that the District has the ability to access and monitor all financial activity that goes through the financial accounting system.

A schedule of training related to the accounting system, report writing, and queries should be set and posted for the end users. This training should focus with those individuals that need to prepare financial reports of activity which will aid in the closing process.

Standard reports that are accessible for all business managers and program managers to allow for review and reconciliation of amounts posted must be written and made available.

### **Management Response and Corrective Action Plan**

The District agrees that financial accounting system procedures need to be reviewed, documented, and improved. Programs will be customized to fit the reporting requirements of the District. Training will focus on the individuals that need to prepare financial reports of activity that aids in the closing process. Improvements in reporting procedures have begun as noted in 2009-1 above. The District will continue to invest resources to make these improvements.

## **2009-13 STUDENT FINANCIAL AID ACCOUNTING**

### **Criteria or Specific Requirement**

Industry standards and best accounting practices require an internal control structure and accounting system that ensures all financial activity is captured and appropriately classified.

### **Condition**

*Material Weakness* - The District implemented the REGENT Student Financial Aid Accounting software to provide for the file maintenance, financial aid award, and disbursement of financial aid to students throughout the District during the 2008-2009 year. The system was intended to integrate the financial aid accounting with the PeopleSoft financial accounting programs and provide for a more transparent accounting of the financial aid awards. The system was not properly tested and did not allow for the accurate disbursement of financial aid to students. Subsequently, the decision was made at two Colleges to abandon the REGENT system and return to the SAFE student financial aid system in January and May 2009. The remaining two Colleges continued to use the REGENT system through year end.

Due to the limitation of the REGENT system, calculations of the individual awards and the amounts due to students and disbursed were calculated outside the REGENT system and required significant reconciliations during the closing process.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Context

The four Colleges annually award over \$16 million in Federal student financial aid and \$2.5 million in State funded student financial aid.

### Effect

The District is at risk of improperly awarding and disbursing Federal and State student financial aid. Additionally, the possibility exists that students will not receive their awards within the required disbursement period.

### Recommendation

A comprehensive student financial aid accounting system must be investigated and reviewed for implementation by the District. Prior to actual "go-live" implementation, the system should be tested to ensure it will function as demonstrated, and all awards and disbursements will be properly and accurately accounted for.

### Management Response and Corrective Action Plan

The conversion from the REGENT Financial Aid system to SAFE was done in May 2009 to correct the deficiencies noted above. The District is satisfied that financial aid is now accurately disbursed to students. However, as of this time, the SAFE system is not yet integrated with the PeopleSoft finance system for the posting of financial aid revenue and expenditures. The entries to the PeopleSoft finance system are currently done manually, but an electronic feed from the SAFE system to finance is being built for fiscal year 2011.

## 2009-14 STUDENT ENROLLMENT FEE REPORTING

### Criteria or Specific Requirement

California Community Colleges Chancellor's Office *Budget and Accounting Manual* requires a system of internal controls to accurately report the earned enrollment fee revenue.

### Condition

*Material Weakness* - As noted in the prior year audit report, the accounting for student enrollment fees for each semester was negatively impacted by the implementation of a new student accounting system. Activity at year end 2008 was held within the College campuses' trust funds and not properly included in the District's unrestricted General Fund. During the 2009 year, the reconciliation of the fee income was completed for both years with the result of a restatement of \$1.9 million. Student fees are collected at the College campuses and are not remitted to the District Office on a regular and scheduled timeline for appropriate review, reconciliation, and reporting.

### Context

The District reports over \$9 million of student tuition and fee income.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Effect**

The components of the State apportionment revenue may not be properly computed as student enrollment fees are one of the three components. The amounts received at the College campuses may not be included in the apportionment calculation if the receipts are not transmitted timely and intact.

### **Recommendation**

A consistent procedure should be reviewed and put in place for the required accounting and remittance of all student fees.

### **Management Response and Corrective Action Plan**

The District contracted to correct this issue in February 2010. This project is completed and student information is now accurately reflected in the financial system of the District.

## **2009-15 WRITTEN PROCEDURE MANUALS**

### **Criteria or Specific Requirement**

Industry standards and best practices related to internal controls require documentation of approved procedures related to the Business and Finance Offices be available for reference.

### **Condition**

*Material Weakness* - As noted within the prior years' reports, the District Business Office procedures for recording transactions, journal entries, accruals, payroll, and other functions have not been documented in writing. The procedures related to the four College campus Business Offices have not been documented and are not consistent. Other departments which require the documentation of approved practices include the student financial aid office and student attendance accounting.

### **Context**

Substantially all functions of the District are required to follow approved policies and procedures.

### **Effect**

Without written documentation of the approved procedures, there remains inconsistent application of procedures and practices at each College Business Office. Without written procedures within the District's Business Office, there is not the ability to cross train staff and ensure that the approved policies are followed. Additionally, written procedures will generally include key dates and timelines for reporting.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Recommendation

Written procedure manuals should be developed for all functions throughout the District including the College Business Offices and the District Business Office. The procedures should be available to the appropriate staff and document the approved procedures, as well as the key dates for reporting.

### Management Response and Corrective Action Plan

The Board of Trustees has some written policies (e.g. travel, contractors); however, written policies and procedures are still needed for the vast majority of administrative functions. The District agrees that written procedure manuals need to be developed for all functions throughout the District. The District will address this need.

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

### SIGNIFICANT DEFICIENCIES

#### FINANCIAL ACCOUNTING SYSTEM PROCEDURES

#### 2009-16 INFORMATION SYSTEMS

##### 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.

##### Condition

*Significant Deficiency* - 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

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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

### **Management Response and Corrective Action Plan**

The District has recently employed a new CFO and is advertising for new fiscal management positions. The District will be asking the new CFO and the new Vice Chancellor of Educational Services to evaluate the controls within the software system to ensure adequacy. The review will include recommendations including whether there is a need to employ an independent service provider.

## **2009-17 ACCRUAL ACCOUNTS**

### **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.

### **Condition**

*Significant Deficiency* - 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 2009-4 above.

### **Effect**

The financial statements reported to the Board of Trustees 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 significantly. The ability of the District financial personnel to report timely, accurate information to the Board of Trustees and others has been impacted by this comment.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **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**

The District will institute adequate controls over the year-end closing processing to ensure that all valid accruals have been included within the financial activity. The District will provide training of District staff to ensure accounting principles are followed.

## **2009-18 OTHER POSTEMPLOYMENT BONDS**

### **Criteria or Specific Requirement**

Industry standards and proper internal controls over account activity require a system of reconciliation, review, and monitoring necessary to ensure that all activities of the District are captured in the financial reporting process.

### **Condition**

*Significant Deficiency* - The Other Postemployment Bonds activities do not include processes to monitor, reconcile, and record transactions that occur in the trustee accounts established when bonds are issued or refunded.

### **Context**

When OPEB financing transactions occur, a variety of accounts are established with the District's trustee. They are established for specific purposes that include debt service on the outstanding obligation, payment of costs of issuance, bond retirements, and other purposes. During 2008-2009, the District issued \$48,725,000 in refunding bonds.

### **Effect**

The issuance of refunding bonds was not properly reflected in the District ledgers nor was miscellaneous dividends that accumulate in the trustee bank accounts.

### **Recommendation**

The assets in these accounts belong to the District and should be monitored, reconciled, summarized, and recorded in the District ledgers on a regular and timely basis during the year.



# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Management Response and Corrective Action Plan**

The District will monitor, reconcile, and summarize the assets in the OPEB accounts on a regular and timely basis.

### **2009-19 RECONCILIATION OF RETIREES ELIGIBILITY**

#### **Criteria or Specific Requirement**

Best accounting practices require an adequate system of internal control to reconcile the retirees with eligibility to receive postemployment benefits with the actual benefits paid for.

#### **Condition**

*Significant Deficiency* - The District provides postemployment health benefits to retirees meeting certain eligibility standards. These benefits also apply to eligible dependents and for the majority of retirees are granted as "lifetime". The District has not regularly requested these retirees to positively affirm the continued status of the dependents or the retirees.

#### **Context**

Currently, the District provides health benefits to over 600 retired employees at an annual cost of over \$5.3 million.

#### **Effect**

By not requiring an annual affirmation from each of the retired employees, the possibility exists that the District is paying benefits on behalf of retirees or their dependents that are no longer eligible to receive the benefits due to death or other circumstances.

#### **Recommendation**

The District should implement an annual procedure to request a positive affirmation from retirees that they and their dependents continue to remain eligible for the health care benefits.

### **Management Response and Corrective Action Plan**

The District began an affirmative audit enrollment process for dependents in April 2010. The District anticipates that this audit will determine the retirees and their dependents that are eligible.

### **2009-20 LOAD BANKING**

#### **Criteria or Specific Requirement**

The Community College *Budget and Accounting Manual* and the Internal Revenue Code Regulation 1.451-2(a) require the proper accounting and reporting of income that is earned by employees.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Condition

*Significant Deficiency* - The District has not received information relative to the accumulated banked leave of faculty. This information has historically been maintained by the four College Business Offices. Once this liability was brought to the District and additional analysis was performed, it was noted the current policy allows faculty to request a "cash out" of the accrued balance at their discretion. This is a direct violation of the Internal Revenue Code Regulation noted above which states:

"Income although not actually reduced to a taxpayer's possession is constructively received by the individual in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been given. However, income is not constructively received if the taxpayer's control of its receipt is subject to substantial limitations or restrictions."

This is commonly referred to as "Constructive Receipt". Under this regulation, income is taxable at the earliest date that the income could have been received. In accordance with the *Budget and Accounting Manual*, earnings of all employees participating in the load banking program should be reported as income and subject to taxes when such excess services are rendered when a "cash out" option is provided under the program.

### Context

The total load banking liability for the four Colleges is in excess of \$1.9 million. Current policy and contract language allows instructors to request all or a part of the balance in their load banking account to be paid.

### Effect

The District is out of compliance with the Internal Revenue Service's Regulation and requirements of the *Budget and Accounting Manual*.

### Recommendation

Policies should be revised to conform with current regulations as required by the Internal Revenue Service section noted above. The practice of allowing employees to cash out of the banked balance must be stopped immediately. Annually, a full accounting of the liability at each of the Colleges must be provided to the District Business Office for appropriate accounting.

### Management Response and Corrective Action Plan

The District received the records for load banking from the campuses for the 2009 fiscal year in March 2010 and will continue to obtain annual load banking records to accrue the liability for year-end financial reporting. In addition, the District will modify its load banking policy to eliminate the employee's option of cashing out their load banking balance in whole or in part to comply with IRS regulations.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-21 COMPENSATED ABSENCES

#### Criteria or Specific Requirement

Proper internal controls over compensation require the accumulation, review, and recording of compensated absences including vacation and load banking.

#### Condition

*Significant Deficiency* - Balances owed to employees for compensated balances and load banking earned have not been adequately reviewed and consistently calculated. We were unable to see a consistent notification to the Human Resources Department when vacation or leave time is used. The vacation liability calculation also includes an accumulation of the leave balance owed to an employee even when the balance has been paid on a current basis as noted in comment 2009-20. The load banking reports are maintained primarily at the four College campuses, and there is not a consistent methodology to accumulate and report the balance that is due or used. The balance that has accumulated to employees has consistently increased indicating individuals are not taking the time off that is due to them.

#### Context

The vacation liability report includes approximately \$3.9 million in accumulated unpaid vacation and "comp time" liability.

#### Effect

The balances of unpaid compensated absences may be overstated due to the calculation errors noted. Additionally, since this liability is owed to employees, the balance that is paid upon retirement is an unbudgeted expense which would negatively impact the District's ending balance in the event a significant number of employees retired or separated from the District.

#### Recommendation

Internal controls over the various compensated absence balance should be strengthened to ensure that all employee absences are properly recorded and accumulated. While the District has instituted a cap on the balance of vacation time that may accumulate, managers should work with employees to encourage the vacation time be used as is intended. The four College campuses should work to provide a consistent methodology for reporting load banking balances. The outstanding balances should be reported to the Human Resources Department and/or Finance Department on a regular basis and at least annually to close the District's accounting records.

#### Management Response and Corrective Action Plan

In March 2010, a consistent format was developed for the Colleges to use to account for load banking accrual, usage, and liability. Changes are being made to the process for accruing and reporting vacation balances to correct errors.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-22 DISASTER RECOVERY AND STRATEGIC PLANNING

#### Criteria or Specific Requirement

Best practices require a plan to allow for the ongoing use of Information Systems data in the event of unforeseen circumstances. A plan for future development and programming requirements is also necessary.

#### 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. The District has not implemented an effective strategic plan that allows the District to plan for future use of plans within their Information Systems. Calendared timelines of software upgrades and development of new programs is not currently prepared or maintained.

#### 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 and Corrective Action Plan

The District will continue to review and implement the draft DRP. The DRP will be comprehensive and be tested on an annual basis. The DRP will include procedures that will ensure recovery and restoration of the systems in the event of a disaster. The IT department will develop a functional strategic plan for the Information Systems Department. This plan, including goals and objectives, will lay out procedures for the advancement of the IT Department.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-23 SCHEDULE EXPENDITURES OF FEDERAL AWARDS (SEFA)/SCHEDULE OF EXPENDITURES OF STATE AWARDS (SESA)

#### Criteria or Specific Requirement

Circular A-133 requires the auditee to prepare a 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 subrecipient, 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.

#### Condition

*Significant Deficiency* - A complete SEFA/SESA was prepared by the District for both the Federal and State categorical programs; however, we noted several errors and omissions in the initial reporting. Federal programs were reported on the SEFA as State Categorical Programs. There were also some errors noted within the recordings of the total revenue and expenditures. All errors noted required post closing audit adjustments.

#### 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/SESA and also review its existing format of its SEFA/SESA to ensure that it includes all above noted required elements.

#### Management Response and Corrective Action Plan

The District will review its procedures and format over the collection of data to be included in the SEFA/SESA to ensure that it includes the required elements.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-24 AUDIT ADJUSTMENTS

#### 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.

#### Condition

*Significant Deficiency* - During the year, District staff did not post prior year audit adjustments to the General Fund, Capital Project funds, Special Reserve fund, Self-Insurance fund, or the Deferred Comp Trust (OPEB) identified in the 2007-2008 annual audit.

#### Effect

Post year-end entries to beginning fund balance of \$4,993,374 were necessary to reconcile beginning balance to the prior year audited financial statements. This has hampered the ability of management to accurately report financial data to the Board of Trustees.

#### Recommendation

The District must post all approved audit adjustments immediately after the audited financial statements are approved.

#### Management Response and Corrective Action Plan

The District will post all approved audit adjustments after the audited financial statements are approved.

### 2009-25 COLLEGE BUSINESS OFFICE ACTIVITY

#### 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*.

#### 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. It was noted that there is not a consistent definition of what is locally controlled revenue and what is District revenue.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### Effect

Monies defined by the BAM and the *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 District is at risk of noncompliance with the *Education Code* by not understanding and following the guidance in the BAM.

### Recommendation

The District 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 trust funds belonging to the District should be forwarded immediately with a full reconciliation and accounting.

A consistent procedure for identifying District money and remitting the funds to the District Office should be established and provided to each College Business Manager.

### Management Response and Corrective Action Plan

The District will review the current guidelines for receipt and use of monies that are General Fund monies to be deposited within the District accounts. All activity of these receipts will be reconciled in a timely manner and provided to the District Office. Trust funds will be forwarded with a reconciliation and accounting.

## 2009-26 INTERFUND TRANSFERS AND DUE TO/DUE FROM

### Criteria or Specific Requirement

Industry standards and proper internal controls over account activity require a system of reconciliation, review, and monitoring necessary to ensure that all activities of the District are captured in the financial reporting process.

### Condition

*Significant Deficiency* - Interfund Transfers and Due To/Due From activities do not include processes to monitor, reconcile, and record transactions correctly as they have occurred. These activities are being posted to the general ledger incorrectly and without proper review. In addition, entries are posted that are not properly balanced or are one-sided. The accounts are not being reviewed and reconciled periodically throughout the year to ensure that postings are correct.

### Effect

Interfund Transfers and Due To/Due From activities were not properly reflected in the District's general ledger and required multiple post-closing adjustments.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

Transactions recorded in the accounts should be reviewed by management prior to being posted to the general ledger to ensure that they are appropriate and in balance. In addition, the accounts should be periodically reviewed to ensure that they are properly reconciled.

### **Management Response and Corrective Action Plan**

Transactions recorded in the accounts will be reviewed by management prior to being posted to the general ledger. Posting authority has been limited to managers and supervisors who have experience and authority to review transactions. The accounts will be periodically reviewed to ensure that they are properly reconciled.

## **2009-27 ALLOWANCE FOR DOUBTFUL ACCOUNTS**

### **Criteria or Specific Requirement**

Industry standards and proper internal controls over account activity require that accounts be analyzed and reviewed throughout the year to ensure that activities are accounted for appropriately. In addition, the account should be analyzed at year end to ensure that amounts reported in the District financial statements are appropriate.

### **Condition**

*Significant Deficiency* - The Allowance for Doubtful Accounts account activity does not include a process to analyze the balance or current year activities. The District does not have a formal process to reconcile and account for accounts that are deemed to be uncollectible.

### **Effect**

The Allowance for Doubtful Accounts account was not properly presented in the District's general ledger and required post-closing adjustments to properly state for the financial statement presentation.

### **Recommendation**

The District should review and analyze the account throughout the year to ensure that it is properly adjusted for current year activities.



# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Management Response and Corrective Action Plan**

The District will develop a process to analyze accounts throughout the year to ensure that it is properly adjusted for current year activities. The District is also in the process of implementing a new module in the student finance system that will enable us to set up payment plans for students, send dunning notices, send periodic account statements, and write off and age accounts. Implementation of the module is scheduled for December 2010. Currently, we are sending out notices to students enrolled in the current semester that their enrollments will be cancelled unless they pay their fees before classes begin. The District takes the collection of student accounts seriously and will reconcile receivables going forward.

### **2009-28 ACCOUNTING FOR EXPENSES**

#### **Criteria or Specific Requirement**

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for the disbursement of payments to be completed in a way that mitigates the risk of unauthorized disbursements and ensures that payments are properly recorded.

#### **Condition**

*Significant Deficiency* - The District appears to have segregation of duties deficiencies within their Finance Department. Expenditures appear to be inappropriately classified or approved. Members of the Finance Department have payable and purchasing functions within the District financial systems. The lack of a clear process for recording expenses has led to inappropriate classification of short-term capital projects as maintenance expenses. Also, it was noted the approval of travel expenses appears to be deficient.

#### **Context**

Of the 32 expenditures reviewed for classification, 12 were noted to be classified incorrectly. Of the ten travel expenditures reviewed, six did not have an approved travel form and one was incorrectly classified. User access within PeopleSoft was reviewed for all individuals employed within the Budget and Finance and Purchasing Departments; all three employees in management positions had overlapping duties with no clear segregation of duties.

#### **Effect**

Without proper controls and procedures in place, the District runs the risk of making unauthorized disbursements for unauthorized expenses. The additional risk of potential management override of controls exists as there is no segregation of duties among management.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

The District should review their disbursement policies and procedures and ensure all Accounts Payable staff are familiar with District policy. Accounts Payable staff should ensure that expenditures are properly classified and all pertinent documents are present prior to disbursement of funds for payment. The District would also benefit from the review of user access granted to all management in the PeopleSoft financial system to ensure a clear segregation of duties exists and that management override of controls is mitigated.

### **Management Response and Corrective Action Plan**

The District will review their disbursement policies and procedures to ensure all accounts payable staff are familiar with District policy. Accounts Payable staff will ensure that expenditures are properly classified and all pertinent documents are present prior to disbursement of funds for payment. The District will review user access in the PeopleSoft financial system relative to segregation of duties and management override issues.

## **2009-29 EMPLOYEE CONTRACTS**

### **Criteria or Specific Requirement**

Industry standards and best practices require that a system of internal control be in place to ensure that contracts and other binding agreements are approved within a reasonable period of time.

### **Condition**

*Significant Deficiency* - The District entered into employment contracts with multiple employees that were not formally approved and accepted by the Chancellor within a reasonable period of time. In some cases, the contracts were not approved by the Chancellor for a period of up to 12 months. Of the seven employment contracts reviewed, five of the contracts were not approved by the Chancellor in a timely manner. It was noted that increases in management salaries were not applied consistently using a specific criteria.

### **Effect**

By not approving the contracts and salary increases within a reasonable amount of time, unauthorized payments have been made to employees.

### **Recommendation**

The District should ensure that employment contracts and salary increases are approved and accepted by the Chancellor within a week of the employee's acceptance.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2009

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### **Management Response and Corrective Action Plan**

The District will ensure that employment contracts and salary increases are approved and accepted by the Chancellor within 30 days of the employee's acceptance.

### **2009-30 JOURNAL ENTRIES**

#### **Criteria or Specific Requirement**

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

#### **Condition**

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

#### **Effect**

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

#### **Recommendation**

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

#### **Management Response and Corrective Action Plan**

Written procedures will be prepared to provide guidance to staff on the proper controls and procedures. Access to posting of journal entries is no longer widely disseminated. Only managers and supervisors can post journal entries. Staff prepare journal entries and submit them to managers for review and approval.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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

### MATERIAL WEAKNESSES

#### 2009-31 A-133 REPORTING

##### **Federal Program Affected**

All Federal programs

##### **Compliance Requirement**

Circular A-133 Reporting

##### **Criteria or Specific Requirement**

Districts must have the audit completed and the data collection form submitted within the earlier of thirty days after receipt of the auditors' report or nine months after the end of the audit period.

##### **Condition**

*Material Weakness* - The District failed to submit their OMB Circular A-133 audit report and their data collection form prior to the due date.

##### **Questioned Costs**

None.

##### **Context**

The District expended over \$23 million in Federal monies in the 2008-2009 fiscal year.

##### **Effect**

The District is out of compliance with Federal compliance requirements. Reporting of the expenditures to the various agencies is impaired, and the District's future Federal awards may be reduced.

##### **Cause**

The District had not closed its financial ledgers in a timely manner, and the audit had not been completed within nine months of the end of the fiscal year.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

The District should implement a reporting calendar that provides for timely closing of the District financial ledgers and completion of the audit and related required filings.

### **Management Response and Corrective Action Plan**

The District will implement a reporting calendar that provides for timely closing of the District's financial ledgers and completion of the audit and related required filings.

## **2009-32 RETURN TO TITLE IV**

### **Federal Program 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 Direct Student Loans (CFDA #84.268), Federal Family Educational Loans (CFDA #84.032), and Academic Competitiveness Grant (CFDA #84.375)

### **Compliance Requirement**

Special Tests - Return to Title IV

### **Criteria or Specific Requirement**

34 CFR 668.22(j): The auditee is required to "return the amount of Title IV funds for which it is responsible under paragraph (g) as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew..."

### **Condition**

*Material Weakness* - The Student Financial Aid Offices at the four Colleges did not complete the Return to Title IV calculations during the fall term for 2008-2009. Two of the Colleges (Merritt and Vista) were unable to complete the calculations in the spring term.

### **Questioned Costs**

None.

### **Context**

The District provided over \$16.1 million of Pell grant aid during the year.

### **Effect**

The District is not in compliance with the Federal Return to Title IV requirements.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Cause**

The District encountered problems while implementing a new financial aid system that prevented them from disbursing aid and reporting within the required time frame. This also impaired the College's compliance with Return to Title IV. Further, we found that there were not uniform calculation procedures in place.

### **Recommendation**

Accounting policies should be developed that provide uniform calculation procedures for each of the colleges that provides for the return of the institutional share of Return to Title IV calculations. Further, routine timelines for running reports to identify students who withdrew should be included in the policies. Records should include support that the reports are run in a timely manner and provide evidence that all students who have completely withdrawn are identified and a calculation performed.

### **Management Response and Corrective Action Plan**

Accounting policies will be developed that provide uniform calculation procedures for each of the Colleges that provides for the return of the institutional share of Return to Title IV calculations. Timelines for running reports to identify students who withdrew will be included in the policies. Records will include support that the reports are run in a timely manner and provide evidence that all students who have completely withdrawn are identified and a calculation performed.

## **2009-33 STUDENT FINANCIAL AID REPORTING**

### **Federal Program 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), Academic Competitiveness Grant (CFDA #84.375), and Federal Direct Student Loans (CFDA #84.268)

### **Compliance Requirement**

Special Tests - EZ Audit Filing

### **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](http://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, 2009

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### **Condition**

*Material Weakness* - 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 2009 fiscal year end until after the March 31, 2010, filing deadline.

### **Questioned Costs**

None.

### **Context**

The District's student financial aid expenditures of over \$19.9 million have not been reported to the Department of Education.

### **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.

### **Cause**

Financial reporting for the District has been delayed due to issues noted in findings 2009-1 through 2009-53.

### **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 will implement procedures to provide the College Student Financial Aid Offices with the required information and timelines to submit the appropriate reports to the DOE. The College Student Financial Aid Offices will develop appropriate procedures to ensure the EZ-Audit is completed in a timely manner, reviewed, and submitted.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-34 EQUIPMENT MANAGEMENT

#### **Federal Program Affected**

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)

#### **Compliance Requirement**

Equipment Management

#### **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.

#### **Condition**

*Material Weakness* - The District has not maintained an inventory control system that satisfies the compliance criteria noted above. Equipment purchased with CTEA Title I, Part C funds have not been identified as being used within the program. Equipment purchased with Federal dollars is defined at the \$500 cost level.

#### **Questioned Costs**

None.

#### **Context**

During the current fiscal year, the District spent approximately \$292,000 on capital outlay.

#### **Effect**

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

#### **Cause**

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



# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

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. Written procedures should be prepared that provide evidence of appropriate controls over inventory. The inventory results should be assessed by appropriate administrators to ensure that equipment purchased through the Federal programs is safeguarded and accounted for.

### **Management Response and Corrective Action Plan**

A physical inventory of the federally purchased equipment will be taken on a bi-annual basis and reconciled with records of purchases of the equipment. Written procedures will be prepared that provide evidence of appropriate controls over inventory. The inventory results will be assessed by the appropriate administrators to ensure that equipment purchased through the Federal programs is safeguarded and accounted for in a timely manner.

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

### **SIGNIFICANT DEFICIENCIES**

#### **2009-35 PROCUREMENT, SUSPENSION, AND DEBARMENT**

##### **Federal Program Affected**

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II, Regional Tech-Prep Coordination (CFDA #84.243) and Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #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.*

##### **Condition**

*Significant Deficiency* - The District does not have policies and procedures in place necessary to ensure that the District is not violating Federal suspension and debarment regulations.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Questioned Costs**

None.

### **Context**

The OMB created compliance requirements in response to Executive Orders 12549 and 12689. These Executive Orders prohibit non-Federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Though the District is not the primary contractor, it acts as the fiscal agent on behalf of the State and is responsible for disbursing Federal awards to other governmental agencies and vendors.

### **Effect**

The District is not in compliance with the regulations.

### **Cause**

While no evidence was found that indicates that any of these parties contracted with during the year for services are suspended or debarred, the District failed to recognize and appropriately develop policies and procedures to comply with the regulations.

### **Recommendation**

The District must verify that entities contracted with for services are not suspended or debarred or otherwise excluded from providing services. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction which states the entity is not suspended or debarred. The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

### **Management Response and Corrective Action Plan**

The District has monitored the grant sub recipients for compliance with program performance since December 2009. Signed MOUs have been received from the five campuses that participated in the Tech Prep grant. In addition, time and effort verification has been completed District-wide for all 2008-2009 awards and forward. The Director of Grants and Workforce Development will continue to ensure compliance.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-36 SUBRECIPIENT MONITORING

#### Federal Program Affected

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Regional Tech-Prep Coordination (CFDA #84.243) (California Department of Education Agreement #CN088316)

#### Compliance Requirement

Subrecipient Monitoring  
24 CFR 84 §84.51 Monitoring and Reporting Program Performance

#### Criteria or Specific Requirement

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.

#### Condition

*Significant Deficiency* - 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 \$155,500. 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 acts as a fiscal agent on behalf of the State and provides Federal award funding to 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

This is a condition reported in the previous year. Corrective action was not performed in a timely manner and continues.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Effect**

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

### **Recommendation**

The District needs to better understand timelines for corrective action and implement calendars for correction timelines. Additionally, the subrecipient agreements must be reviewed and changed to include all required notices, terms, and conditions for the subrecipient.

### **Management Response and Corrective Action Plan**

The District has monitored the grants' subrecipients for compliance with program performance since December 2009. Signed MOUs have been received from the five campuses that participated in the Tech Prep grant. In addition, time and effort verification has been completed District-wide for all 2008-2009 awards and forward. The Director of Grants and Workforce Development will continue to ensure compliance.

The District will ensure that they will better understand the timelines for corrective action and will effectively monitor the grants' subrecipients for compliance. The subrecipient agreements will be reviewed and changed to include all required notices, items, and conditions for subrecipient agreements.

## **2009-37 STUDENT FINANCIAL AID ELIGIBILITY**

### **Federal Program Affected**

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Pell Grant Program (CFDA #84.063) and Federal Work Study Program (CFDA #84.033)

### **Compliance Requirement**

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

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Condition

*Significant Deficiency* - Instances where aid was over awarded/disbursed were found at three of the four campuses.

### Questioned Costs

College	Program	Amount	Over/Under	Reason
Merritt	Pell	\$ 995	Over	Student received payment that was not recorded in financial aid system.
Berkeley City	Pell	\$ 7,546	Over	Two students did not have high school diplomas and did not pass an Ability to Benefit test.
Alameda	FWS	\$ 1,601	Over	Work Student program disbursements resulted in the total awarded to exceed the student need.
Total		\$10,142		

### Context

We tested a total of 159 student files at the four College campuses for Pell, FSEOG, FFEL, and ACG programs. For each student, we examined all the aggregate total awards from all programs to assess if the awards were less than or equal to the student overall need. The test included all funding sources Federal, State, and local. The number of errors noted equaled four.

### Effect

The total questioned cost is \$10,142.

### Cause

Errors result from the challenges of packaging aid and reporting within the District systems in a year when a new system implementation failed. The financial aid departments operated in crisis conditions during much of the fiscal period.

### Recommendation

Student financial aid files must be carefully reviewed for all components of eligibility. Routine schedules should be developed, reviewed, and reconciled by program directors on a regular basis to track financial aid awards.

### Management Response and Corrective Action Plan

The District is in the process of hiring an internal auditor. This position will improve the error rates for Federal, State, and local programs. Routine schedules will be developed, reviewed, and reconciled by program directors on a regular basis to track financial aid awards.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-38 STUDENT FINANCIAL AID VERIFICATION

#### **Federal Program 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), Academic Competitiveness Grant (CFDA #84.375), and Federal Direct Student Loans (CFDA #84.268)

#### **Compliance Requirement**

Verification

#### **Criteria or Specific Requirement**

An institution may participate under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria. (20 USC 1094a; HEA section 487A) (*FSA Handbook 2009-2010 Application and Verification Guide*, page AVG-82 <http://ifap.ed.gov/fsahandbook/attachments/0910AVG.pdf>). An institution not participating under an ED-approved QAP is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by the central processor, based on edits specified by ED, to verify the information specified in 34 CFR section 668.56.

#### **Condition**

*Significant Deficiency* - Berkeley City College did not verify the required minimum number of students.

#### **Questioned Costs**

None.

#### **Context**

The College opted not to verify all the students selected by the processor for verification and instead elected to verify only the required minimum. Having made this election, the College was required to appropriately demonstrate that it met the 30 percent requirement. The definition of applicant should consider all Institutional Student Information Records (ISIR) that the College was provided or the number of students awarded as reported in the FISAP.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Effect**

The verification processes supports eligibility determinations. Ineligible students may have been awarded.

### **Cause**

The College made a decision based on advice of a consultant in crisis conditions that existed during a failed implementation of a new financial aid system. They did not appropriately determine the required minimum based on their own definition of the number of applicants.

### **Recommendation**

Berkeley City College should reconsider its approach to verification and develop a business process that provides a clear calculation of the numbers verified if it plans to only verify the minimum required.

### **Management Response and Corrective Action Plan**

Berkeley City College will review and reconsider its approach to verification and develop a business process that provides a more clear calculation of the numbers verified if it continues to only verify the minimum.

## **2009-39 STUDENT FINANCIAL AID PELL DISBURSEMENTS**

### **Federal Program Affected**

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Pell Grant Program (CFDA #84.063)

### **Compliance Requirement**

Pell Disbursements

### **Criteria or Specific Requirement**

Pell Payment Data (OMB No. 1845-0039): All schools receiving Pell grants submit Pell payment data to the Department of Education through the Common Origination and Disbursement (COD) System.

### **Condition**

*Significant Deficiency* - The Pell Payment Data of sixty-two (62) students was not reported to the Department of Education through the COD within thirty (30) calendar days after the actual disbursement date.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Questioned Costs**

None. The Pell grant was disbursed to the students.

### **Context**

The District disbursed over \$16.1 million in Pell payments to students during the year ended June 30, 2009.

### **Effect**

The Pell payment data was not reported to the Department of Education through the COD system in a timely manner.

### **Cause**

The District encountered problems while implementing a new financial aid system that prevented them from disbursing aid to students and reporting the payments to COD within the required time frame.

### **Recommendation**

The District should provide greater oversight of reporting problems and allocate appropriate resources where necessary to help the Colleges meet the requirements for timely reporting.

### **Management Response and Corrective Action Plan**

The District will provide greater oversight of reporting problems and allocate appropriate resources where necessary and available to help the Colleges meet the requirements for timely reporting.

## **2009-40 TIME AND EFFORT REPORTING**

### **Federal Program Affected**

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)

### **Compliance Requirement**

Allowable Costs



# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Criteria or Specific Requirement

The requirements for allowable costs/cost principles are contained in the A-102 Common Rule, OMB Circular A-110 (2 CFR section 215.27), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. Cost principles are contained in:

**OMB Circular A-21, "Cost Principles for Educational Institutions" (2 CFR part 220)** – All institutions of higher education are subject to the cost principles contained in OMB Circular A-21, which incorporates the four Cost Accounting Standards Board (CASB) Standards and the Disclosure Statement (DS-2) requirements, as described in OMB Circular A-21, sections C.10 through C.14 and Appendices A and B.

### Condition

*Significant Deficiency* - The District did not provide support as described in the A-21 Circular in support of wages charged to the program.

### Questioned Costs

None.

### Context

We sampled 10 employees, including administrators and faculty, that represent approximately 25 percent of the salaries charged to the grant. While the salaries appear to be reasonable and necessary for the program objectives, the District did not provide required supporting documentation as outlined in the A-21 Circular. Further, there does not appear to be adequate policies and procedures necessary to support that the District has controls over compliance objectives.

### Effect

Without effective controls, unreasonable expenditures may be charged to the grant.

### Cause

Procedures and controls over compliance do not clearly specify how the time certification process should be completed.

### Recommendation

The District needs to better assess compliance risks to better develop appropriate compliance objects and necessary controls.

### Management Response and Corrective Action Plan

The District will better assess the compliance risks to better develop appropriate compliance objectives and necessary controls.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-41 FINANCIAL REPORTING

#### **Federal Program Affected**

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048) and Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II (CFDA #84.243) (Grant Agreement #08-139-052)

#### **Compliance Requirement**

Reporting

#### **Criteria or Specific Requirement**

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

#### **Condition**

*Significant Deficiency* - CTEA Title I, Part C - The District's quarterly interim reports submitted during the year did not agree to the financial activity reported in the general ledger. Additionally, we noted the 1<sup>st</sup> and 2<sup>nd</sup> quarter reports to the agency were not submitted within the timeframe required by the oversight agency.

*Significant Deficiency* - CTEA Tech-Prep Education, Title II - The District's quarterly interim reports submitted during the year did not agree to the financial activity reported in the general ledger. Additionally, we noted the 2<sup>nd</sup> and 3<sup>rd</sup> quarter reports did not meet the percentage of the total allocation required to be expended.

#### **Questioned Costs**

None.

#### **Context**

We tested all four quarterly reporting periods.

#### **Effect**

Allocations of Federal funds through the oversight agency may be impacted when reports are incomplete, inaccurate, or untimely.

#### **Cause**

The District did not have readily available financial information. It appears that there is not adequate oversight of the reporting timelines.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

A reporting calendar should be used to document timelines for reporting. Supervisory personnel should monitor the reporting timelines. Each report should be reviewed to verify that it is supported by actual costs recorded in the financial system.

### **Management Response and Corrective Action Plan**

A reporting calendar will be used to document timelines for reporting. Supervisory personnel will monitor the reporting timelines. Every report will be reviewed to verify that it is supported by actual costs recorded in the financial system.

## **2009-42 FEDERAL WORK STUDY AWARDS**

### **Federal Program Affected**

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Work Study Program (CFDA #84.033)

### **Compliance Requirement**

Activities Allowed and Unallowed

### **Criteria or Specific Requirement**

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

### **Condition**

*Significant Deficiency* - The information within the financial aid system for payments to students for the Federal Work Study Program had not been adequately reconciled to the payroll records contained in the financial ledgers.

### **Questioned Costs**

None.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Context

We compared totals by campus to totals in the financial aid system and found differences in three of the four Colleges that indicate that reconciliations are not adequately performed. The differences noted are contained in the table below.

College	Differences noted	Explanation
Merritt	\$ 17,537	General ledger records indicate more disbursed than is recorded in the Financial Aid system.
Alameda	\$ (10, 203)	Financial aid records indicate more disbursed than is recorded in the general ledger.

### Effect

Federal Work Study awards must be closely monitored to ensure that the amount available to the College to be awarded to students is effectively utilized.

### Cause

The College had implemented a new financial aid system and had not been able to enter work study program data in the system, thereby impairing their ability to appropriately monitor the awarding and disbursing of program dollars. Then in mid-year, a decision was made to abandon the new system and return to the old system. This required the data to be input into the system and reconciled while continuing through the award period. The resources of the Department had been stretched beyond the capabilities of time and effort.

### Recommendation

Reconciliation processes need to be performed on a monthly basis and subject to an appropriate level of review. Communication between the department and central administration needs improvement to ensure that resources of the District are allocated where needed.

### Management Response and Corrective Action Plan

Peralta Financial Aid Offices will set up an internal tracking spreadsheet. All students receiving a Federal Work Study award will be recorded on the tracking sheet based on the monthly timesheet data. When salary posts in PeopleSoft, the monthly totals will be compared. As the legacy programmer extracts the detail from PeopleSoft Payroll for upload to SAFE, each Financial Aid Office will compare their internal spreadsheet to the PeopleSoft extract. Discrepancies will be corrected through Payroll adjustments submitted to the College Business Office.

The Peralta District Director will require each Financial Aid Office to report funding balances or correction data on a monthly basis.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-43 FEDERAL DRAW DOWNS

#### Federal Program Affected

U.S. Department of Education (DOE), Student Financial Aid Cluster: Federal Supplemental Education Opportunity Grant (CFDA #84.007), Federal Pell Grant Program (CFDA #84.063), Federal Work Study (CFDA #84.033), and Academic Competitiveness Grant (CFDA #84.375)

#### Compliance Requirement

Cash Management

#### Criteria or Specific Requirement

Under the advanced method, the District request must not exceed the amount immediately needed to disburse funds to students or parents.

#### Condition

*Significant Deficiency* - The District does not have in place a policy over drawing down Federal funds. The District also does not have an effective control to ensure that all draw downs are reviewed and approved by an individual other than the person responsible for requesting the draw downs.

#### Questioned Costs

There are no questioned costs related to this finding due to the District not being allowed to exceed their allocated amount for student financial aid.

#### Context

During the 2008-2009 fiscal year, the District drew down approximately \$14.5 million.

#### Effect

The District can be placed on the reimbursement method where the funds will have to be approved by the awarding agency prior to being able to draw down any funds.

#### Cause

The District has not adopted a policy over drawing down Federal funds.

# PERALTA COMMUNITY COLLEGE DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Recommendation**

The District should adopt a policy that determines the procedure for drawing down Federal funds. The District should implement a control to ensure proper segregation of duties over drawing down funds and verify that the amount is reviewed and approved.

### **Management Response and Corrective Action Plan**

The District will adopt a policy/administrative regulation that determine the procedure for drawing down Federal funds. The District will implement a control to ensure proper segregation of duties over drawing down funds and verifying that the amount is reviewed and approved.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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

### **2009-44 ASSESSMENT OF CAPITAL OUTLAY FEES FOR NONRESIDENT STUDENTS**

#### **Criteria or Specific Requirement**

Sound internal controls require a process to review programming of the student fee modules that ensures students are properly classified and assessed fees in accordance with established rates and procedures.

#### **Condition**

Nonresident students are required to be assessed and paid enrollment fees and capital outlay fees in accordance with amounts approved by the Board of Trustees and published in the Course Catalogues and on the website. For the District, the capital outlay fee is a maximum of \$144 per year. In testing the capital outlay fees assessed to nonresident international students, we noted the current programming of the student system does not cap the amount of the fee assessed and charged during the year. During the 2008-2009, approximately 325 students were charged in excess of \$9,000 in capital fees than were approved.

#### **Recommendation**

The programming of the student fees should be reviewed and updated to allow for the maximum amount of the capital outlay fee for international students. The program should calculate the fees charged not just for the current term, but accumulate the fee for the full year. The District should attempt to reimburse the affected students the amount overcharged.

#### **Management Response and Corrective Action Plan**

Correction of this issue in the system is part of the reconfiguration of the Student Fee system discussed in 2009-13 above. The individual errors noted are being corrected manually.

### **2009-45 CCFS-320 ATTENDANCE REPORTING**

#### **Criteria or Specific Requirement**

The CCFS-320 Attendance Report is the primary reporting of the FTES generated within the District for apportionment funding purposes. Systems are required to be in place to ensure the accuracy of the reporting by the individual Colleges and the District.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Condition

In testing the supporting documentation and underlying calculations of the Annual CCFS-320 Attendance Report, we noted 11 line items that were not properly supported or agreed to the underlying documentation. The errors were presented to the District staff and a revised CCFS-320 Attendance Report was provided with all items corrected.

### Questioned Costs

None.

### Context

The District reports FTES for each College and the District as a whole three times during each year. The total annual FTES reported for the District was 20,322.33. The errors originally noted in the audit would have under reported the FTES by 13.72.

### Recommendation

Care should be taken in calculating and preparing the CCFS-320 Attendance Reports. Supporting documentation should be carefully reviewed and a procedure to cross check and verify the amounts to be reported prior to presenting to the Chancellor for signature and submission to the State Chancellor's Office should be completed.

### Management Response and Corrective Action Plan

The District will take care in calculating and preparing the CCFS-320 Attendance Reports. The supporting documents will be carefully reviewed and a procedure to cross check and verify the amounts reported will be completed prior to submittal. Prior to submission to the State, the CCFS-320 Attendance Report will be reviewed by the Vice Chancellor for Educational Services and the Vice Chancellor for Finance and Administration.

## 2009-46 CONCURRENT ENROLLMENT

### Criteria or Specific Requirement

*Education Code* Section 48800 and the California Community College District's *Contracted District Audit Manual* (CDAM): Section 427.

### Condition

The Concurrent Enrollment application form that was posted to the District's website did not contain all of the required information per the *Education Code* Section 48800. This form is generally available to high school students who want to enroll in course sections offered by the District's four Colleges. The Concurrent Enrollment application form that is handed out in the instructional offices of the Colleges does contain all the proper components.



# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Questioned Costs**

There were no questioned costs associated with this finding.

### **Recommendation**

The Director of Admissions and Records should review all enrollment forms posted to the website for consistency with approved forms and compliance with *Education Code* requirements.

### **Management Response and Corrective Action Plan**

The Director of Admission and Records will review the enrollment forms posted to the website for consistency with approved forms and compliance with *Education Code* requirements.

## **2009-47 RESIDENCY DETERMINATION**

### **Criteria or Specific Requirement**

California Community College District's *Contracted District Audit Manual*: Section 425. Each district must provide assurance that only the attendance of California residents is claimed for State support of credit classes.

### **Condition**

From a sample of 60 students selected for residency determination, one (1) student was classified as a resident at Merritt College and enrolled in 12.5 credit units. The student is in fact an International student and should not have been included in the accumulation of credit FTES. Additionally, the student paid only the \$20/unit enrollment fee rather than the nonresident tuition of \$181/unit. We also noted one (1) student at Berkeley City College that was properly classified as a nonresident and enrolled in three credit units and charged the proper tuition rate; however, the units earned were included in the calculation of resident FTES for State apportionment purposes.

### **Questioned Costs**

As no other exceptions were noted, there are no questioned costs for this finding as the District's reported FTES exceed the actual funded FTES.

### **Recommendation**

Written procedures should be prepared and provided to all Admissions and Records Offices at the College campuses noting the requirements for the classification of student for enrollment purposes. The verification of the residency status should be consistently applied and documented to ensure that only the FTES generated by California residents are included in the CCFS-320 Attendance Reports.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Management Response and Corrective Action Plan**

The District will develop written procedures and provide them to all Admissions and Records Offices at the College campuses. The verification of the residency status will be consistently applied and documented.

### **2009-48 CALWORKS - MONITORING AND ELIGIBILITY**

#### **Criteria or Specific Requirement**

California Community College District's *Contracted District Audit Manual*: Section 333. Each district must provide assurance that CalWORKs program State and TANF funds are expended within guidelines for eligible CalWORKs students.

#### **Condition**

A process is not in place to ensure that all students receiving services under the CalWORKs program are eligible in accordance with the grant requirements. At College of Alameda, two (2) students selected for testing did not have the eligibility verification for the term they received benefits; at Berkeley City College, five (5) students tested did not have the eligibility verification for the term they were receiving benefits.

#### **Questioned Costs**

There were no questioned costs associated with this finding.

#### **Recommendation**

Documentation of the verification process for students receiving CalWORKs benefits must be included in the file for each term benefits are provided. The verification process is to be completed on a term by term basis and an annual verification is not sufficient.

#### **Management Response and Corrective Action Plan**

Documentation of the verification process for students receiving CalWORKs benefits will be included in the file for each term benefits are provided.

### **2009-49 CALWORKS - REPORTING**

#### **Criteria or Specific Requirement**

Reports of expenditures within the CalWORKs program are required to be submitted to the State Chancellor's Office by August 31 following year end.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Condition

Three of the four Colleges (Berkeley City, Laney, and Merritt) had not completed and filed the expenditure report within the proper timeline. Due to the inability to finalize the District's general ledger as noted previously, we were unable to determine whether the reports that were submitted were prepared accurately and included all activity attributable to the CalWORKs program funding.

### Questioned Costs

There are no questioned costs associated with this finding.

### Recommendation

Timelines of required categorical reporting must be documented and sent to all program directors with a follow-up by supervisory personnel to ensure the reporting is complete and accurate. It is necessary to ensure the general ledger is posted timely and accurately for all categorical programs in order to ensure the accuracy of the reporting.

### Management Response and Corrective Action Plan

Documentation of categorical reporting will occur and will be forwarded to all program directors. Supervisory personnel will ensure the reporting is complete and accurate.

## 2009-50 STUDENTS ACTIVELY ENROLLED

### Criteria or Specific Requirement

CCR, Title 5 Sections 58003.1, 58004, 58005, and 58051  
California Community College District's *Contracted District Audit Manual*: Section 426. Each district may only claim for apportionment purposes the attendance of students actively enrolled as of census day. An internal review system must be in place to ensure that census day parameters are properly set up to ensure attendance is properly calculated and reported.

### Condition

As noted in the prior year audit, the District was claiming apportionment for all drops occurring on census day. In order to count that apportionment within the FTES calculation, established procedures must be in place to identify and remove inactive students as of census day from the rosters. There is not an identifiable procedure to affirm that instructors are actively monitoring the attendance and active enrollment of student within their class. Personnel in the Admissions and Records Offices do not have the ability to identify the instructors that have not appropriately turned in their attendance rosters on census day. Without this information, all students enrolled in the class that have not dropped the course are included in the FTES calculation whether or not they are actually attending the course.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### **Questioned Costs**

The District re-submitted the Annual CCFS-320 Attendance Report for the exceptions noted during the audit; however, the total questioned costs could not be determined. Reported FTES are in excess of funded FTES.

### **Recommendation**

A program should be written to allow the Admissions and Records Office to identify the rosters that have not been properly turned in by instructors. Follow up with instructors who have not complied with the requirements to identify students who are not enrolled should be completed by the Admissions and Records Office.

### **Management Response and Corrective Action Plan**

A program will be written allowing the Admissions and Records Office to identify the rosters that have been turned in by the instructors to determine completeness and accuracy.

## **2009-51 USE OF MATRICULATION FUND**

### **Criteria or Specific Requirement**

Per CCR, Title 5, Section 55512 (b), each district shall provide for a review of the revenue and expenditures of the matriculation program as part of its annual financial audit. Districts are required to use local funds to support at least 75 percent of the credit matriculation activities with the remaining expenditures claimable against the State credit matriculation allocation. Reportable conditions occur if total expenditures do not exceed four times the amount claimed for State reimbursement to confirm the 75/25 percent match requirements.

### **Condition**

The District is required to submit an annual expenditure report to the State to verify the 75/25 percent match requirements for the use of matriculation funds were met. The District failed to submit the report within the required time. The District receives over \$1.5 million in State matriculation funding.

### **Questioned Costs**

There is no questioned costs associated with this finding.

### **Recommendation**

The District should identify an individual that would be responsible to monitor State compliance issues related to all compliance areas and ensure that deadlines are met and reports are accurate.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### Management Response and Corrective Action Plan

The District will identify an individual that will monitor State compliance issues related to all compliances areas and ensure that deadlines are met and reports are accurate and filed in a timely manner.

### 2009-52 SALARIES OF CLASSROOM INSTRUCTORS – 50% LAW

#### Criteria or Specific Requirement

California *Education Code* Section 84362 requires that a minimum of 50 percent of the District's Current Expense of Education be expended for "Salaries of Classroom Instructors". Additionally, Section 421 of the State Chancellor's Office *Contracted District Audit Manuel* provides additional instruction that lottery funds are to be accounted for within a separate account or subfund must be set up to account for the expenditure of lottery funds which are excluded from the calculation.

#### Condition

As noted in the prior two years' audits, the District has established a separate fund to account for the expenditures of lottery funds restricted for instructional materials under Proposition 20; however, the District has not established a separate subfund to account for the expenditures charged against the unrestricted portion of lottery funds. After year end, it was determined the lottery funds were used to pay for utilities within the District for reporting purposes. This is a recordkeeping finding and does not impact the District's compliance with the requirement to spend 50 percent of the District's Current Expenses of Education be expended for Salaries of Classroom Instructors.

#### Questioned Costs

There are no questioned costs as a result of this finding.

#### Recommendation

The District must set up the appropriate subfund or account within the general ledger to identify the expenditures associated with the lottery revenue.

#### Management Response and Corrective Action Plan

The District will set up the appropriate subfund or account within the general ledger to identify the expenditures associated with the lottery revenue.

# PERALTA COMMUNITY COLLEGE DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### 2009-53 ENROLLMENT FEES REPORTING

#### 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*

#### 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. We noted the District had made the correction to the CCFS-323 report upon notification of the error.

#### 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.

#### Management Response and Corrective Action Plan

The District will take care when completing the required reporting forms for the State System's Office. A reconciliation of amounts to be reported to the general ledger will be signed off by supervisory personnel prior to submitting the documents.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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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*

#### **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.

##### **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 and Finance 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.

##### **Current Status**

Not implemented. See current year finding 2009-5.

### **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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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 of Trustees. 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Not implemented. See current year finding 2009-1 and 2009-4.

### **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.

### **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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Not implemented. See current year finding 2009-1 and 2009-4.

### **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* requires the use of full accrual accounting within Trust Funds.

#### **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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Not implemented. See current year finding 2009-6.

## 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.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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- 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.

### Current Status

Improved. See current year finding 2009-11.

## 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.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### Effect

The financial statements reported to the Board of Trustees 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 of Trustees 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.

### Current Status

Improved. See current year finding 2009-17.

## 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.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Implemented.

### **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.

#### **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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Implemented.

## **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.

### **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 cannot 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **Current Status**

Improved. See current year finding 2009-25.

### **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.

### **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 and Finance Committee and assist with the implementation of comments noted in external audit reports.

### **Current Status**

Not implemented. See current year finding 2009-10.

### **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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Improved. See current year findings 2009-17 and 2009-28.

## **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.

### **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.

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

**PERALTA COMMUNITY COLLEGE DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**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.

**Current Status**

Not implemented. See current year finding 2009-15.

**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.

**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.

**Current Status**

Not implemented. See current year finding 2009-30.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### DISASTER RECOVERY AND STRATEGIC PLANNING

#### 2008-14 Criteria or Specific Requirement

##### 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.

##### Current Status

Not implemented. See current year finding 2009-22.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

#### 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 requirement are included in the annual submission of the CCFS-311 report.

#### Current Status

Not implemented. See current year finding 2009-3.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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 subrecipient, 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.

#### 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.

#### Current Status

Not implemented. See current year finding 2009-23.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

#### 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.

#### Current Status

Not implemented. See current year finding 2009-24.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Improved. See current year finding 2009-25.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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."

#### 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 of Trustees 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.

#### Current Status

Not implemented. See current year finding 2009-7.



# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### FEDERAL AWARD FINDINGS

#### 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

##### 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)	<u>1,950</u>	<u>-</u>
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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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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.

### **Current Status**

Improved. See current year finding 2009-37.

## **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](http://www.IFAP.ed.gov) to the Department of Education.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Not implemented. See current year finding 2009-33.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

#### **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 do not contain the key elements necessary to ensure compliance with program performance.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Not implemented. See current year finding 2009-36.

### 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.*

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Not implemented. See current year finding 2009-35.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### **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.

### **Current Status**

Not implemented. See current year finding 2009-34.

# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### *STATE AWARD FINDINGS*

#### **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.

##### **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.

##### **Current Status**

Not implemented. See current year finding 2009-50.



# PERALTA COMMUNITY COLLEGE DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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*

#### 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. We noted the District had made the correction to the CCFS-323 report upon notification of the error.

#### 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.

#### Current Status

Not implemented. See current year finding 2009-53.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Not implemented. See current year finding 2009-46.

### 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.

### 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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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### 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.

### Current Status

Not implemented. See current year finding 2009-49.

### 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."

### 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**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**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.

**Current Status**

Not implemented. See current year finding 2009-48.

**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*

**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 are 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.

**Current Status**

Not implemented. See current year finding 2009-52.

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*ADDITIONAL SUPPLEMENTARY INFORMATION*

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**PERALTA COMMUNITY COLLEGE DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEETS  
JUNE 30, 2009**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,091,437	\$ -	\$ -
Investments	17,988,877	1,183,617	13,861,634
Accounts receivable	14,950,666	8,610	579,787
Student loans receivable, net	3,315,762	-	-
Due from other funds	6,041,475	-	-
Prepaid expenses	835,824	-	-
Inventories	150,528	-	-
Other current assets	181,057	-	-
<b>Total Assets</b>	<u>\$ 49,555,626</u>	<u>\$ 1,192,227</u>	<u>\$ 14,441,421</u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 8,009,408	\$ -	\$ -
Due to other funds	25,000,000	-	-
Deferred revenue	5,063,436	-	-
<b>Total Liabilities</b>	<u>38,072,844</u>	<u>-</u>	<u>-</u>
<b>FUND EQUITY</b>			
Fund Balances			
Reserved	1,029,702	-	-
Unreserved			
Designated	8,177,626	-	-
Undesignated	2,275,454	1,192,227	14,441,421
<b>Total Fund Equity</b>	<u>11,482,782</u>	<u>1,192,227</u>	<u>14,441,421</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 49,555,626</u>	<u>\$ 1,192,227</u>	<u>\$ 14,441,421</u>

See accompanying note to additional supplementary information.

<b>Debt Service Fund</b>	<b>Capital Projects Funds</b>		
<b>Bond Interest and Redemption</b>	<b>Revenue Bond Project</b>	<b>Capital Outlay Projects</b>	<b>Total</b>
\$ -	\$ -	\$ 3,900,996	\$ 9,992,433
18,946,068	314,616	123,568,517	175,863,329
-	-	-	15,539,063
-	-	-	3,315,762
-	-	25,000,000	31,041,475
-	-	-	835,824
-	-	-	150,528
-	-	-	181,057
<u>\$ 18,946,068</u>	<u>\$ 314,616</u>	<u>\$ 152,469,513</u>	<u>\$ 236,919,471</u>
\$ -	\$ 2	\$ 1,310,567	\$ 9,319,977
-	-	-	25,000,000
-	-	-	5,063,436
<u>-</u>	<u>2</u>	<u>1,310,567</u>	<u>39,383,413</u>
-	-	-	1,029,702
-	-	-	8,177,626
18,946,068	314,614	151,158,946	188,328,730
<u>18,946,068</u>	<u>314,614</u>	<u>151,158,946</u>	<u>197,536,058</u>
<u>\$ 18,946,068</u>	<u>\$ 314,616</u>	<u>\$ 152,469,513</u>	<u>\$ 236,919,471</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Child Development</u>	<u>Special Reserve</u>
<b>REVENUES</b>			
Federal revenues	\$ 4,053,112	\$ 69,821	\$ -
State revenues	89,580,282	1,689,234	-
Local revenues	39,283,231	48,651	1,056,333
<b>Total Revenues</b>	<u>132,916,625</u>	<u>1,807,706</u>	<u>1,056,333</u>
<b>EXPENDITURES</b>			
Current Expenditures			
Academic salaries	54,449,552	-	-
Classified salaries	30,263,625	973,393	-
Employee benefits	29,258,280	382,935	-
Books and supplies	2,616,939	65,075	-
Services and operating expenditures	20,104,833	39,782	-
Capital outlay	2,208,498	-	-
Debt service - principal	-	-	-
Debt service - interest and other	545,085	-	-
<b>Total Expenditures</b>	<u>139,446,812</u>	<u>1,461,185</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(6,530,187)</u>	<u>346,521</u>	<u>1,056,333</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	6,707,016	-	2,000,000
Operating transfers out	(4,463,905)	-	-
Other uses	(1,362,879)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>880,232</u>	<u>-</u>	<u>2,000,000</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(5,649,955)</u>	<u>346,521</u>	<u>3,056,333</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>17,132,737</u>	<u>845,706</u>	<u>11,385,088</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 11,482,782</u>	<u>\$ 1,192,227</u>	<u>\$ 14,441,421</u>

See accompanying note to additional supplementary information.



<b>Debt Service Fund</b>	<b>Capital Project Funds</b>		
<b>Bond Interest and Redemption</b>	<b>Revenue Bond Project</b>	<b>Capital Outlay Projects</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ 4,122,933
-	-	284,233	91,553,749
26,414,426	9,463	4,049,643	70,861,747
<u>26,414,426</u>	<u>9,463</u>	<u>4,333,876</u>	<u>166,538,429</u>
-	-	-	54,449,552
-	17,195	296,593	31,550,806
-	-	123,733	29,764,948
-	12,188	56,329	2,750,531
-	1,273	20,148,894	40,294,782
-	-	23,619,066	25,827,564
6,865,000	-	-	6,865,000
18,483,376	-	-	19,028,461
<u>25,348,376</u>	<u>30,656</u>	<u>44,244,615</u>	<u>210,531,644</u>
<u>1,066,050</u>	<u>(21,193)</u>	<u>(39,910,739)</u>	<u>(43,993,215)</u>
-	-	-	8,707,016
-	-	-	(4,463,905)
-	-	-	(1,362,879)
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,880,232</u>
1,066,050	(21,193)	(39,910,739)	(41,112,983)
17,880,018	335,807	191,069,685	238,649,041
<u>\$ 18,946,068</u>	<u>\$ 314,614</u>	<u>\$ 151,158,946</u>	<u>\$ 197,536,058</u>

**PERALTA COMMUNITY COLLEGE DISTRICT**

**PROPRIETARY FUNDS  
BALANCE SHEET  
JUNE 30, 2009**

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	<b>Internal Service Fund</b>
<b>ASSETS</b>	
Investments	\$ 571,093
<b>LIABILITIES AND FUND EQUITY</b>	
<b>LIABILITIES</b>	
Claim liabilities	\$ 1,649,000
<b>FUND EQUITY</b>	
Retained deficit	(1,077,907)
<b>Total Liabilities and Fund Equity</b>	<b>\$ 571,093</b>

See accompanying note to additional supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

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	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Sales revenues	\$ -
<b>OPERATING EXPENSES</b>	
Services and other operating expenditures	-
<b>Operating Income</b>	<b>-</b>
<b>NONOPERATING REVENUES</b>	
Adjustment to actuarial	42,000
Interest income	12,623
<b>Total Nonoperating Revenues</b>	<b>54,623</b>
<b>NET INCOME</b>	54,623
<b>RETAINED DEFICIT, BEGINNING OF YEAR</b>	<u>(1,132,530)</u>
<b>RETAINED DEFICIT, END OF YEAR</b>	<u><u>\$ (1,077,907)</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, 2009**

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	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating income	\$ -
Net Cash Flows from Operating Activities	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	12,623
Net Cash Provided from Investing Activities	12,623
Net change in cash and cash equivalents	12,623
Cash and cash equivalents - Beginning	558,470
Cash and cash equivalents - Ending	<u>\$ 571,093</u>

See accompanying note to additional supplementary information.

**PERALTA COMMUNITY COLLEGE DISTRICT**

**FIDUCIARY FUNDS  
BALANCE SHEETS  
JUNE 30, 2009**

	<b>Trust Funds</b>			
	<b>Deferred Compensation Trust</b>	<b>Associated Students Trust</b>	<b>Student Financial Aid</b>	<b>Scholarship and Loan</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 355,191	\$ 233,702	\$ 19,965
Investments	128,443,781	-	-	-
Accounts receivable	401,819	36,369	1,358,340	-
Deferred costs on issuance	7,016,974	-	-	-
Fixed assets	-	554	-	-
<b>Total Assets</b>	<b>\$ 135,862,574</b>	<b>\$ 392,114</b>	<b>\$ 1,592,042</b>	<b>\$ 19,965</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Overdraft	\$ -	\$ -	\$ 1,050,093	\$ -
Accounts payable	-	3,250	49,048	-
Accrued interest	378,252	-	-	-
Due to other funds	5,446,979	-	99,289	-
Due to student groups	-	102,978	-	-
Other postemployment benefit bonds	178,691,774	-	-	-
<b>Total Liabilities</b>	<b>184,517,005</b>	<b>106,228</b>	<b>1,198,430</b>	<b>-</b>
<b>FUND EQUITY</b>				
Fund Balances				
Unreserved				
Undesignated	(48,654,431)	285,886	393,612	19,965
<b>Total Fund Equity</b>	<b>(48,654,431)</b>	<b>285,886</b>	<b>393,612</b>	<b>19,965</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 135,862,574</b>	<b>\$ 392,114</b>	<b>\$ 1,592,042</b>	<b>\$ 19,965</b>

See accompanying note to additional supplementary information.

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**Agency Fund**

<b><u>Other Trust</u></b>	<b><u>Total</u></b>
\$ 1,636,086	\$ 2,244,944
-	128,443,781
-	1,796,528
-	7,016,974
-	554
<b><u>\$ 1,636,086</u></b>	<b><u>\$ 139,502,781</u></b>

\$ -	\$ 1,050,093
-	52,298
-	378,252
495,207	6,041,475
1,140,879	1,243,857
-	178,691,774
<b><u>1,636,086</u></b>	<b><u>187,457,749</u></b>

-	(47,954,968)
<b><u>-</u></b>	<b><u>(47,954,968)</u></b>

<b><u>\$ 1,636,086</u></b>	<b><u>\$ 139,502,781</u></b>
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**PERALTA COMMUNITY COLLEGE DISTRICT**

**FIDUCIARY FUNDS  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Trust Funds</b>				<b>Total</b>
	<b>Deferred Compensation Trust</b>	<b>Associated Students Trust</b>	<b>Student Financial Aid</b>	<b>Scholarship and Loan</b>	
<b>REVENUES</b>					
Federal revenues	\$ -	\$ -	\$ 17,479,283	\$ -	\$ 17,479,283
State revenues	-	-	1,371,327	-	1,371,327
Local revenues	401,819	90,879	-	9,949	502,647
<b>Total Revenues</b>	<b>401,819</b>	<b>90,879</b>	<b>18,850,610</b>	<b>9,949</b>	<b>19,353,257</b>
<b>EXPENDITURES</b>					
Current Expenditures					
Services and operating expenditures	275,182	221,093	-	-	496,275
<b>Total Expenditures</b>	<b>275,182</b>	<b>221,093</b>	<b>-</b>	<b>-</b>	<b>496,275</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>126,637</b>	<b>(130,214)</b>	<b>18,850,610</b>	<b>9,949</b>	<b>18,856,982</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	1,133,460	70,408	-	-	1,203,868
Operating transfers out	(5,446,979)	-	-	-	(5,446,979)
Other sources	54,218	-	-	-	54,218
Other uses	(39,528,393)	-	(18,456,998)	-	(57,985,391)
<b>Total Other Financing Sources (Uses)</b>	<b>(43,787,694)</b>	<b>70,408</b>	<b>(18,456,998)</b>	<b>-</b>	<b>(62,174,284)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(43,661,057)</b>	<b>(59,806)</b>	<b>393,612</b>	<b>9,949</b>	<b>(43,317,302)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>(4,993,374)</b>	<b>345,692</b>	<b>-</b>	<b>10,016</b>	<b>(4,637,666)</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ (48,654,431)</b>	<b>\$ 285,886</b>	<b>\$ 393,612</b>	<b>\$ 19,965</b>	<b>\$ (47,954,968)</b>

See accompanying note to additional supplementary information.

# PERALTA COMMUNITY COLLEGE DISTRICT

## NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2009

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### *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 as reported to the State Chancellor's Office. The governmental funds are presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. Activity between funds has not been eliminated. 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 not a required component of the financial statements in accordance with GASB Statements No. 34 and No. 35 and is presented at the request of the District management.