



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

PERALTA COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the accompanying basic financial statements of Peralta Community College District (the District) as of and for the year ended June 30, 2011, 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.

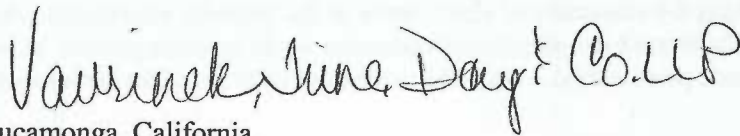
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Peralta Community College District as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 17 and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.



Rancho Cucamonga, California
December 23, 2011



Peralta Community College District

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

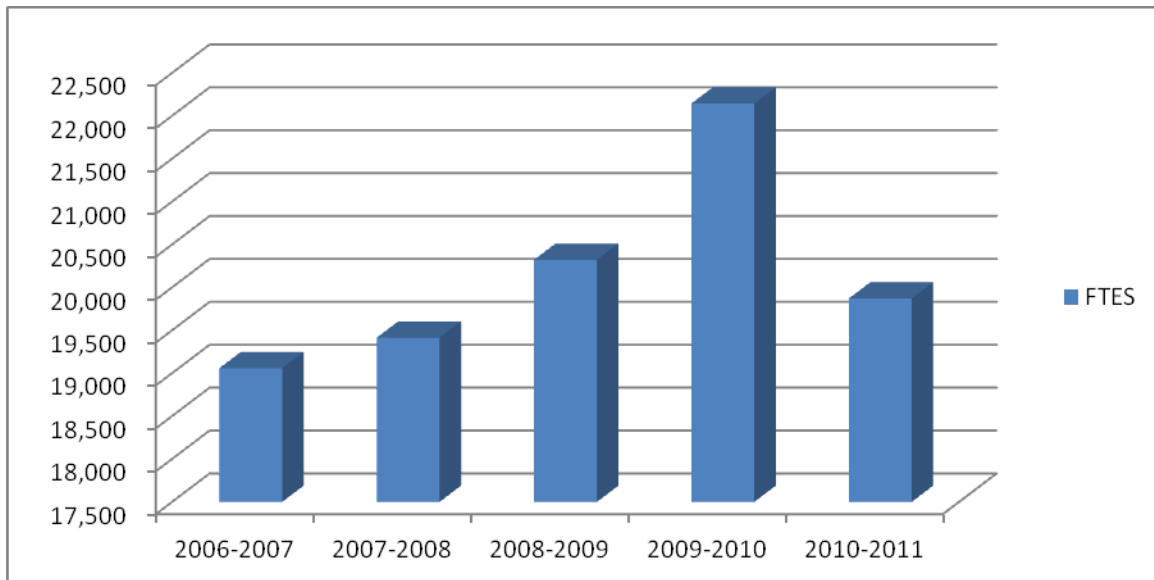
Introduction

The following discussion and analysis provides an overview of the financial position and activities of Peralta Community College District (the District) for the year ended June 30, 2011. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

The Peralta Community College District was founded in 1964 and serves six cities in the East Bay Area including Albany, Alameda, Berkeley, Emeryville, Oakland, and Piedmont. The colleges are Berkeley City College, College of Alameda, Laney College, and Merritt College. The District has a reputation for developing effective approaches to serving the varied interests and needs of its vibrant community. The District serves over 45,065 students, and is one of the top community college districts in California in transferring students into the University of California system. Currently, the District has about 850 full-time employees and over 1,250 part-time faculty and part-time staff.

Selected 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 2010-2011, FTES was 19,871 (including credit and noncredit FTES), as compared to 22,144 in the fiscal year 2009-2010. This represents a 10.26 percent decrease. FTES are generated at the District's four colleges: College of Alameda, Laney College, Merritt College, and Berkeley City College.



Berkeley City College • College of Alameda • Laney College • Merritt College

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Full-Time Equivalent Students	19,058	19,414	20,322	22,144	19,871
Percentage Increase/(Decrease)		1.87%	4.68%	8.97%	-10.26%

- General Fund revenues for the year were \$135.9 million, an increase of five percent from prior year's revenue of \$128.9 million.

- Medical benefits for both employees and retirees decreased nine percent over prior year. The District continues to provide retirees who were hired prior to July 1, 2004, with lifetime medical benefits. For employees hired after July 1, 2004, medical benefits upon retirement are provided until age 65 or Medicare eligibility. The actuarial accrued liability at a seven percent discount rate for the District as valued on June 30, 2010, is \$214 million. The actuarial accrued liability is comprised of \$66 million of liabilities for active employees expected to retire in the future and \$148 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 revocable trust fund, which may be used only to pay or reimburse the District for payment of retiree health benefit costs or related debt service. In January 2006, the bond proceeds were invested in a strategic allocation that mirrors the asset allocation of the California Public Employees' Retirement Systems (CalPERS). For the year ended June 30, 2011, the revocable trust fund has unrealized gains of \$25.6 million.

- The District is using Measures A and E bonds to pay for various capital improvements to our educational facilities. They include, but are not limited to, the following:
 - Investment in our technology infrastructure District-wide.
 - Renovate and construct classrooms and facilities to enhance the community outreach capabilities of the District among the numerous ethnic communities living in and served by the District.
 - District-wide safety systems including disaster preparedness, campus security, and hazardous and toxic waste handling.
 - Technological infrastructure for distance learning.
 - Renovation of student service buildings and facilities at Laney College, Merritt College, and College of Alameda.
 - Landscape improvements at Merritt College.
 - Improvements in laboratories and power supplies District-wide.
 - Cabling and power upgrade for technology.
 - Construction of six story urban campus for Berkeley City College in Berkeley.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2011

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year, and was prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the reader a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities, and net assets.

From the data presented, the reader of the Statement of Net Assets is able to determine the assets available to continue operations of the District. The reader is also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less accumulated depreciation.

The net assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the District for any lawful purpose of the District.

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)
JUNE 30, 2011**

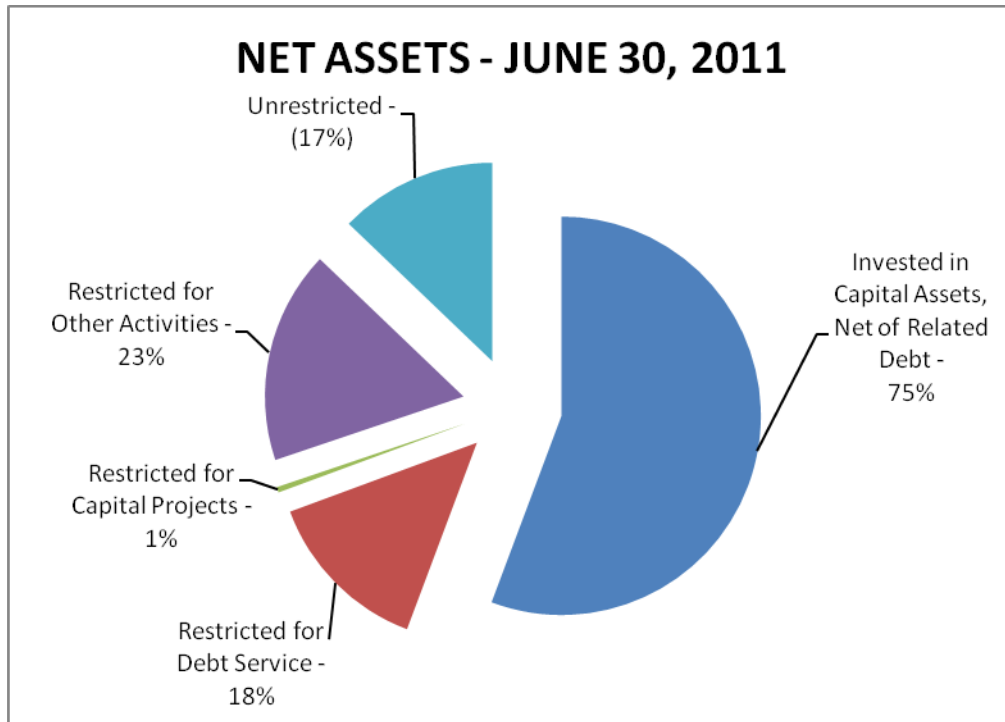
A summary of the Statement of Net Assets as of June 30, 2011 and June 30, 2010, is below:

		NET ASSETS			
		As of June 30,			
(in thousands)		2011	2010	Increase (Decrease)	Percent Change
ASSETS					
Current Assets					
	Cash and investments	\$ 395,427	\$ 398,562	\$ (3,135)	-0.8%
	Accounts receivable	32,176	29,752	2,424	8.1%
	Other current assets	5,248	9,465	(4,217)	-44.6%
	Total Current Assets	<u>432,851</u>	<u>437,779</u>	<u>(4,928)</u>	<u>-1.1%</u>
Noncurrent Assets					
	Deferred costs on issuance	8,853	9,854	(1,001)	-10.2%
	Capital assets (net of depreciation)	353,059	322,396	30,663	9.5%
	Total Noncurrent Assets	<u>361,912</u>	<u>332,250</u>	<u>29,662</u>	<u>8.9%</u>
	TOTAL ASSETS	<u>794,763</u>	<u>770,029</u>	<u>24,734</u>	<u>3.2%</u>
LIABILITIES					
Current Liabilities					
	Accounts payable and accrued liabilities	23,647	21,163	2,484	11.7%
	Deferred revenue	7,318	5,657	1,661	29.4%
	Other current liabilities	26,465	15,748	10,717	68.1%
	Current portion of long-term obligations	15,236	14,894	342	2.3%
	Total Current Liabilities	<u>72,666</u>	<u>57,462</u>	<u>15,204</u>	<u>26.5%</u>
Noncurrent Liabilities					
	Bonds payable	625,101	633,457	(8,356)	-1.3%
	Other long-term liabilities	25,127	20,552	4,575	22.3%
	Long-term obligations	<u>650,228</u>	<u>654,009</u>	<u>(3,781)</u>	<u>-0.6%</u>
	TOTAL LIABILITIES	<u>722,894</u>	<u>711,471</u>	<u>11,423</u>	<u>1.6%</u>
NET ASSETS					
	Invested in capital assets	53,883	65,946	(12,063)	-18.3%
	Restricted for:				
	Debt service	13,212	13,676	(464)	-3.4%
	Capital projects	434	297	137	46.1%
	Other activities	16,763	15,992	771	4.8%
	Unrestricted	<u>(12,423)</u>	<u>(37,353)</u>	<u>24,930</u>	<u>66.7%</u>
	TOTAL NET ASSETS	<u>\$ 71,869</u>	<u>\$ 58,558</u>	<u>\$ 13,311</u>	<u>22.7%</u>

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011



- Approximately 94 percent of the cash balance is cash deposited in the Alameda County Treasury Pool, and approximately six percent is cash deposited in local financial banking institutions. All funds are invested in accordance with Board Policy, which emphasizes prudence, safety, liquidity, and return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash, and the net decrease in cash during fiscal years 2010-2011 and 2009-2010.
- The majority of the accounts receivable balance is from Federal and State sources for apportionment, grant and entitlement programs, and student receivables. Receivables totaling approximately \$16.6 million for the June 2011 apportionment and categorical deferrals, approximately \$6.9 million for reimbursements from Federal and State agencies related to grant awards, and \$7.4 million for student receivables.
- Capital assets had a net increase of \$30.7 million. The District had additions of \$49.5 million related to construction in progress. Depreciation expense of \$18.8 million was recognized during 2010-2011. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2011. Total accounts payable are \$23.6 million; \$5.2 million of the balance was accrued in the Capital Projects fund, Bond fund, and Special Revenue fund related to capital outlay. One million, nine hundred thousand dollars is for amounts due to or on behalf of employees for wages and benefits.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

- The District's noncurrent liabilities primarily consist of bonds payable, related to the issuance of Series B, C, and D of the District General Obligation Bonds, Election 2000, Series A and B of the District General Obligation Bonds, Election 2005, Series A, B, and C of the District General Obligation Bonds, Election 2006, District General Obligation Bonds, Election 2009, and Other Postemployment Benefit Bonds. The face value of these bonds at the time of initial sale totaled \$683 million, and \$640 million represents the remaining long-term debt to satisfy these obligations.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the financial results of the District's operations, as well as its nonoperating activities. The distinction between these two activities involves the concepts of exchange and nonexchange. Operating activities are those in which a direct payment or exchange is made for the receipt of specified goods or services. For example, tuition fees paid by the student are considered an exchange for instructional services. The receipt of State apportionments and property taxes, however, do not include this exchange relationship between the payment and receipt of specified goods or services. These revenues and related expense are classified as nonoperating activities. It is because of the methodology used to categorize between operating and nonoperating combined with the fact that the primary source of funding that supports the District's instructional activities comes from State apportionment and local property taxes, that the results of the District's operations will result in a net operating loss.

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)
JUNE 30, 2011**

The Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2011 and June 30, 2010, is summarized below:

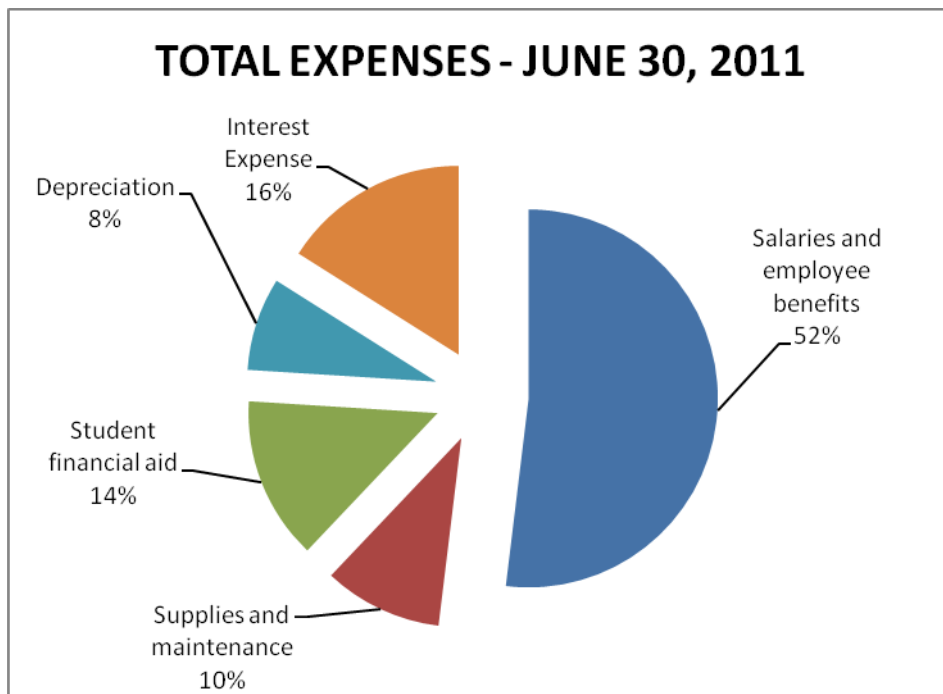
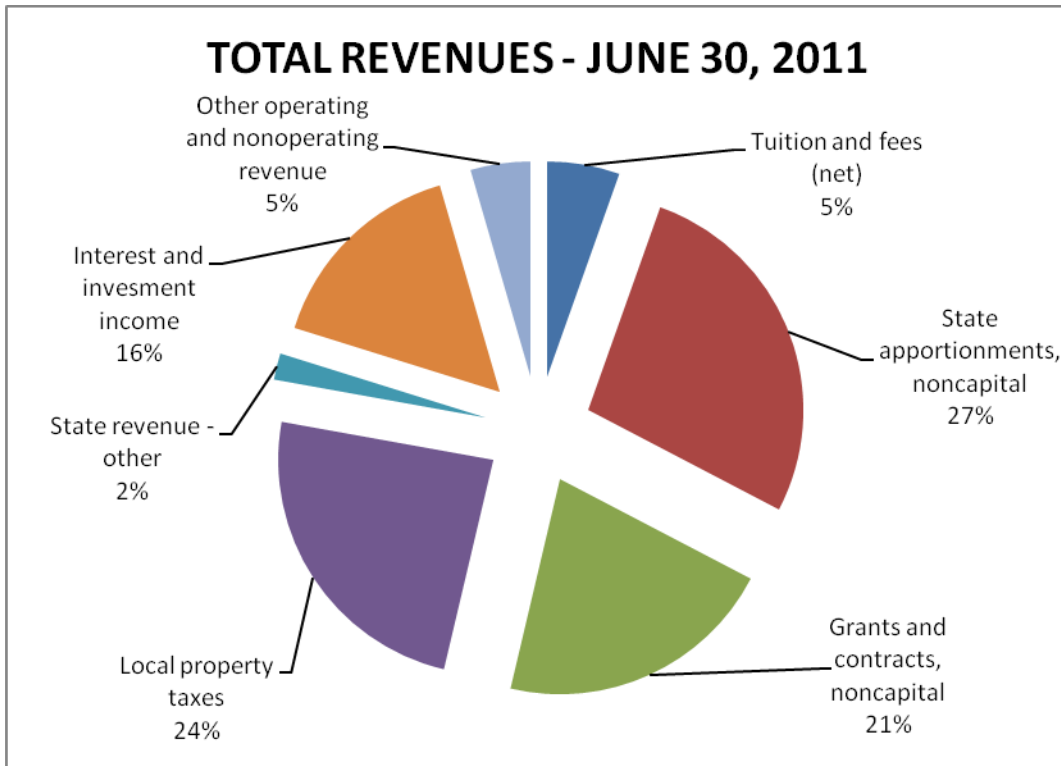
**Statement of Revenues, Expenses, and Changes in Net Assets
for the Years Ended June 30,**

(in thousands)	2011	2010	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees	\$ 13,524	\$ 13,031	\$ 493	3.8%
Other revenues	353	-	353	100%
Total Operating Revenues	<u>13,877</u>	<u>13,031</u>	<u>846</u>	<u>6.5%</u>
Operating Expenses				
Salaries and benefits	122,525	120,005	2,520	2.1%
Supplies and maintenance	23,949	51,396	(27,447)	-53.4%
Student financial aid	32,845	28,503	4,342	15.2%
Depreciation	18,818	14,319	4,499	31.4%
Total Operating Expenses	<u>198,137</u>	<u>214,223</u>	<u>(16,086)</u>	<u>-7.5%</u>
Loss on Operations	<u>(184,260)</u>	<u>(201,192)</u>	<u>16,932</u>	<u>8.4%</u>
Nonoperating Revenues and (Expenses)				
State apportionments	67,700	66,017	1,683	2.5%
Grants and contracts	52,327	44,676	7,651	17.1%
Property taxes	60,038	59,044	994	1.7%
State revenues	4,927	4,604	323	7.0%
Net investment income	1,189	6,574	(5,385)	-81.9%
Other nonoperating revenues and transfers	11,201	6,286	4,915	78.2%
Total Nonoperating Revenues	<u>197,382</u>	<u>187,201</u>	<u>10,181</u>	<u>5.4%</u>
Other Revenues				
State and local capital income	189	268	(79)	-29.5%
Total Other Revenues	<u>189</u>	<u>268</u>	<u>(79)</u>	<u>-29.5%</u>
Net Increase (Decrease) in Net Assets	<u>\$ 13,311</u>	<u>\$ (13,723)</u>	<u>\$ 27,034</u>	<u>197.0%</u>

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011



PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

- The primary components of tuition and fees are the \$26 per unit enrollment fee that is charged to all students registering for classes and the additional \$199 per unit fee that is charged to all non-resident students.
- Personnel costs account for 52 percent of operating expenses in fiscal year 2011 compared to 51 percent in 2010. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, equipment, and maintenance and depreciation expense.
- The principal components of the District's nonoperating revenue are: noncapital Federal and State grants, State apportionment, local property taxes, other State funding, and interest income. With the exception of interest income, all of this revenue is received to support the District's instructional activities. The amount of State general apportionment received by the District is dependent upon the number of FTES generated and reported to the State, less amounts received from enrollment fees and local property taxes. Increases in either of these latter two revenue-categories leads to a corresponding decrease in apportionment.
- A schedule of functional expenses is displayed below:

	Salaries	Employee Benefits	Supplies, Material, and Other Operating Expenses and Services	Student Financial Aid	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	\$ 40,797,382	\$ 12,139,642	\$ 1,730,912	\$ 59,939	\$ 512,865	\$ -	\$ 55,240,740
Academic support	4,534,195	1,710,852	512,717	22,782	162,133	-	6,942,679
Student services	12,294,483	5,726,590	6,460,033	39,813	72,088	-	24,593,007
Plant operations and maintenance	8,802,105	22,470,873	12,262,259	581	(26,146)	-	43,509,672
Instructional support services	6,785,626	2,961,757	201,406	-	1,107	-	9,949,896
Community services and economic development	63,359	29,081	332,061	-	841	-	425,342
Ancillary services and auxiliary operations	2,142,047	1,041,405	1,419,089	-	-	-	4,602,541
Student aid	-	-	-	32,722,163	-	-	32,722,163
Physical property and related acquisitions	658,719	366,602	-	-	307,563	-	1,332,884
Unallocated expense	-	-	-	-	-	18,817,947	18,817,947
Total	\$ 76,077,916	\$ 46,446,802	\$ 22,918,477	\$ 32,845,278	\$ 1,030,451	\$ 18,817,947	\$ 198,136,871

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2011

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for nonoperating, noninvesting, and noncapital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The Statement of Cash Flows for the fiscal years ended June 30, 2011 and June 30, 2010, is summarized below:

Statement of Cash Flows for the Years Ended June 30,

(in thousands)

	<u>2011</u>	<u>2010</u>
Cash Provided by (Used in)		
Operating activities	\$ (159,189)	\$ (184,018)
Noncapital financing activities	159,797	143,573
Capital financing activities	(62,267)	87,047
Investing activities	21,981	12,165
Net Change in Cash	<u>(39,678)</u>	<u>58,767</u>
Cash, Beginning of Year	<u>243,435</u>	<u>184,668</u>
Cash, End of Year	<u><u>\$ 203,757</u></u>	<u><u>\$ 243,435</u></u>

- Cash receipts from operating activities are from student tuition and from Federal, State, and local grants. Use of cash is for payments to employees, vendors, and students related to the instructional program.
- State apportionment received based on the workload measures generated by the District accounts for 43 percent and 44 percent of noncapital financing for both fiscal years 2011 and 2010. Cash receipts from Federal and State grants represent 32 percent in 2011 and 29 percent in 2010, respectively. Cash received from property taxes accounts for 18 percent in fiscal year 2011 and 19 percent in fiscal year 2010, respectively, of the cash generated in this section.
- The majority of the activity in the capital and related financing activities is for the purchase of capital assets (buildings, building improvements, and equipment).

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

- Cash from investing activities is purchase of investments and investment income for interest earned on cash in bank and cash invested through the Alameda County pool, and on investments with local banking institutions. Approximately \$1.1 million and \$1.2 million were received from the Alameda County pool for fiscal years 2011 and 2010, respectively.

Other Post Benefit Obligations

Governmental Accounting Standards Board (GASB issued in 2004) Accounting Standards No. 43 and No. 45 are for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees. The District had an actuarial study performed in 2010 to identify the cost and amount needed to fund on an annual basis retiree health benefits. This study determined the District's Unfunded Actuarial Accrued Liability to be \$214 million.

Economic Factors that May Affect the Future

The District enters its fiscal year 2011-2012 with much uncertainty that is directly attributed to the financial crisis at the State level. This is an ongoing crisis that began years ago as the State continually carried over multi-billion dollar budget shortfalls that effectuated in budget cuts for most sectors of the State budget, community colleges included. In response to these State cuts, the District has been forced to reduce and more carefully manage services provided to its constituents. For example, during fiscal year 2009-2010, the District served 22,144 full-time equivalent students. For fiscal year 2011-2012, it is expected that the District will only be compensated for serving 17,890 full-time equivalent students. Should the District serve only those students which it is funded for, this would equate to a reduction of services to the students of 19 percent over a three-year period. Further, this trend of reduced funding from the State is likely to continue. In November of 2011, the Legislative Analyst Office released a report projecting that the State will end its 2011-2012 fiscal year with a \$3.7 billion deficit and further projects that the State will begin the 2012-2013 fiscal year with a \$10 billion deficit.

As the fiscal year 2011-2012 progresses, the District is exercising diligence in monitoring all budgets and continues to spend within its parameters. As the budget development begins for fiscal year 2012-2013, the District will carefully watch and evaluate the Governor's January budget proposal, as well as any changes contained with the May revision. Working through the shared governance structures, the 2012-2013 budget will contain plans to deal with potential and significant reductions in order to ensure the institution remains financially strong and maintains the ability to carry out its core mission to educating students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need any additional financial information, contact the District at: Peralta Community College District, 333 East 8th Street, Oakland, California 94606.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2011**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,961,981
Restricted cash and cash equivalents	8,654,802
Restricted investments	382,809,727
Interest rate SWAP	3,501,337
Accounts receivable	24,758,780
Student receivable	7,417,247
Prepaid expenses	585,195
Deferred costs on issuance - current portion	404,441
Deferred costs on refunding - current portion	596,764
Inventories	161,087
Total Current Assets	<u>432,851,361</u>

NONCURRENT ASSETS

Deferred costs on issuance - noncurrent portion	7,261,433
Deferred costs on refunding - noncurrent portion	1,591,371
Nondepreciable capital assets	110,161,766
Depreciable capital assets, net of depreciation	242,897,142
Total Capital Assets	<u>353,058,908</u>
Total Noncurrent Assets	<u>361,911,712</u>
TOTAL ASSETS	<u>794,763,073</u>

LIABILITIES

CURRENT LIABILITIES

Deficit cash in county treasury	20,166,582
Accounts payable	14,398,494
Deferred cash outflows	3,501,337
Accrued interest payable	9,247,987
Deferred revenue	7,318,400
SWAP liability	2,796,622
General obligation bonds payable - current portion	10,385,000
Other postemployment benefits bonds - current portion	4,851,198
Total Current Liabilities	<u>72,665,620</u>

NONCURRENT LIABILITIES

Claims liability	2,778,000
Load banking	1,246,101
Compensated absences payable - noncurrent portion	2,834,048
General obligation bonds payable - noncurrent portion	441,576,495
Other postemployment benefits bonds - noncurrent portion	183,524,460
Postemployment benefits obligation - noncurrent portion	18,269,394
Total Noncurrent Liabilities	<u>650,228,498</u>
TOTAL LIABILITIES	<u>722,894,118</u>

NET ASSETS

Invested in capital assets, net of related debt	53,883,215
Restricted for:	
Debt service	13,211,722
Capital projects	434,587
Other activities	16,762,670
Unrestricted	(12,423,239)
TOTAL NET ASSETS	<u>\$ 71,868,955</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2011**

OPERATING REVENUES

Student Tuition and Fees	\$ 19,709,386
Less: Scholarship discount and allowance	(6,185,481)
Net tuition and fees	<u>13,523,905</u>
Other Operating Revenues	<u>353,456</u>
TOTAL OPERATING REVENUES	<u><u>13,877,361</u></u>

OPERATING EXPENSES

Salaries	76,077,916
Employee benefits	46,446,802
Supplies, materials, and other operating expenses and services	22,918,477
Student financial aid	32,845,278
Equipment, maintenance, and repairs	1,030,451
Depreciation	<u>18,817,947</u>
TOTAL OPERATING EXPENSES	<u><u>198,136,871</u></u>

OPERATING LOSS

(184,259,510)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	67,700,314
Federal grants and contracts	41,686,223
State grants and contracts	10,641,481
Local property taxes, levied for general purposes	28,886,048
Taxes levied for other specific purposes	31,151,708
State taxes and other revenues	4,927,080
Interest income	13,307,159
Net unrealized gain on investments	25,627,048
Interest expense on capital related debt	(37,809,990)
Investment income on capital asset-related debt, net	64,600
Other nonoperating revenue	<u>11,200,635</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>197,382,306</u></u>

INCOME BEFORE OTHER REVENUES

13,122,796

Local revenues, capital

188,507

CHANGE IN NET ASSETS

13,311,303

NET ASSETS, BEGINNING OF YEAR

58,557,652

NET ASSETS, END OF YEAR

\$ 71,868,955

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,859,293
Other operating income	353,456
Payments to or on behalf of employees	(117,325,929)
Payments made to students from financial aid	(24,230,276)
Payments to vendors for supplies and services	(32,845,278)
Net Cash Flows From Operating Activities	<u>(159,188,734)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	67,964,754
Federal and State grants and contracts	50,507,078
Property taxes - nondebt related	28,886,048
Other State revenues	4,365,163
Other nonoperating revenues	8,073,662
Net Cash Flows From Noncapital Financing Activities	<u>159,796,705</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

State capital apportionments	188,507
Taxes levied for other specific purposes	31,151,708
Proceeds from bond issuance	6,160,250
Acquisition and construction of capital assets	(47,868,128)
Principal paid on capital debt and leases	(13,790,180)
Interest received on capital debt	64,600
Interest paid on capital debt and leases	(38,174,076)
Net Cash Flows From Capital and Related Financing Activities	<u>(62,267,319)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(17,415,620)
Investment income	39,396,553
Net Cash Flows From Investing Activities	<u>21,980,933</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

(39,678,415)

243,435,098

\$ 203,756,683

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011**

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS
FROM OPERATING ACTIVITIES**

Operating Loss	<u>\$ (184,259,510)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation	18,817,947
Changes in Operating Assets and Liabilities:	
Receivables, net	1,673,386
Inventories	21,552
Prepaid expenses	831,759
Accounts payable and accrued liabilities	(3,757,053)
Deferred revenue	2,908,156
Compensated absences	(766,196)
Claims liability	968,222
Load banking	(653,899)
Other postemployment benefits	5,026,902
Total Adjustments	<u>25,070,776</u>
Net Cash Flows From Operating Activities	<u><u>\$ (159,188,734)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 12,616,783
Investment in county treasury	191,139,900
Total Cash and Cash Equivalents	<u><u>\$ 203,756,683</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 1,538,968</u></u>
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The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

	Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 492,602	\$ 1,362,598
Accounts receivable	9,037	-
Fixed assets	2,555	-
Total Assets	<u>504,194</u>	<u>\$ 1,362,598</u>
 LIABILITIES		
Accounts payable	135,096	\$ -
Due to student groups	23,143	1,362,598
Total Liabilities	<u>158,239</u>	<u>\$ 1,362,598</u>
 NET ASSETS		
Unreserved	345,955	
Total Net Assets	<u>\$ 345,955</u>	

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Trust Funds
ADDITIONS	
Local revenues	<u>\$ 164,718</u>
DEDUCTIONS	
Services and operating expenditures	<u>155,245</u>
Change in Net Assets	<u>9,473</u>
Net Assets - Beginning	<u>336,482</u>
Net Assets - Ending	<u><u>\$ 345,955</u></u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

- **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 with the inclusion of the statements as a discretely presented component unit. Financial statements for the Foundation can be obtained from the Foundation's Business Office at 333 East 8th Street, Oakland, California 94606.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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. For the District, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor'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. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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 Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. 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 Chancellor's Office's *Budget and Accounting Manual*.

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets - Primary Government
 - Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Assets
 - Statement of Changes in Fiduciary Net Assets
- 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 represent 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, 2011, 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.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required to be set aside by the District for the purpose of satisfying certain requirements.

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.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2011.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing 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, 2011

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, retirement credit for unused sick leave is applicable to all classified employees who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic 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.

Noncurrent Liabilities

Noncurrent liabilities include bonds payable, compensated absences, claims payable, load banking, and OPEB obligations with maturities greater than one year.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" and represent the difference between assets and liabilities. 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, 2011

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.

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 certain District property. 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.

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*.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 of the primary government as of June 30, 2011, consist of the following:

Cash on hand and in banks - unrestricted	\$ 3,836,129
Cash in revolving - unrestricted	125,852
Cash on hand and in banks - restricted	6,875,376
Cash with fiscal agent - restricted	1,779,426
Total Cash and Cash Equivalents	<u>\$ 12,616,783</u>
Investment in county treasury - unrestricted	\$ (20,166,582)
Investment in county treasury - restricted	211,306,482
Investments - restricted	171,503,245
Total Investments	<u>\$ 362,643,145</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Deposits and investments of the fiduciary funds as of June 30, 2011, consist of the following:

Cash on hand and in banks \$ 1,855,200

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	\$ 191,380,253	520
U.S. Treasury Obligations	3,918,051	N/A
JP Morgan Money Market Funds	1,843,612	N/A
European Investment Bank Notes	57,218	N/A
Highmark Money Market Funds	7,032,212	N/A
Common Stock	80,105,872	N/A
Neuberger Berman International Institutional Fund - Mutual Funds	31,625,539	N/A
U.S. Governmental Securities	26,305,126	N/A
Corporate Debt Instruments	20,615,615	N/A
	<u>\$ 362,883,498</u>	

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Total Fair Value	Rating
County Pool - Alameda	\$ 191,380,253	Not Rated
U.S. Treasury Mutual Obligations	3,918,051	Aaa
JP Morgan Money Market Funds	1,843,612	Not Rated
European Investment Bank Notes	57,218	Aaa
Highmark Money Market Funds	7,032,212	Not Required
Common Stock	80,105,872	Not Required
Neuberger Berman International Institutional Fund - Mutual Funds	31,625,539	Not Required
U.S. Governmental Securities	26,305,126	Aaa
Corporate Debt Instruments	1,378,301	Aaa
Corporate Debt Instruments	1,815,481	Aa
Corporate Debt Instruments	3,415,894	A
Corporate Debt Instruments	615,947	A1
Corporate Debt Instruments	884,548	A2
Corporate Debt Instruments	2,354,951	A3
Corporate Debt Instruments	2,463,229	Ba
Corporate Debt Instruments	5,253,476	B3
Corporate Debt Instruments	1,128,279	Ca
Corporate Debt Instruments	1,305,509	Not Rated
	<u>\$ 362,883,498</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, 2011, the District's bank balance of \$12,391,619 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, 2011

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consisted primarily of intergovernmental grants, entitlements, and other local sources.

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 6,853,778
State Government	
Apportionment	14,856,241
Categorical aid	117,782
Lottery	1,666,162
Local Sources	
Other local sources	1,264,817
Total	<u>\$ 24,758,780</u>
Student receivables	<u>\$ 7,417,247</u>

Trust fund accounts receivable consist of amounts owed to the Associated Student Government from students.

NOTE 5 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

	<u>Primary Government</u>
Insurance	\$ 547,149
Other various prepayments	38,046
Total	<u>\$ 585,195</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2005 Issuances	\$ 2,847,019
Other Postemployment Benefits Bonds 2009 Refunding	413,114
General Obligation Bonds 2000, Series D	634,013
General Obligation Bonds 2005, Refunding	370,683
General Obligation Bonds 2006, Series A	860,462
General Obligation Bonds 2006, Series B	1,133,317
General Obligation Bonds 2006, Series C	888,300
General Obligation Bonds 2009, Refunding	518,966
Total	<u>\$ 7,665,874</u>
Deferred costs on issuance - current portion	\$ 404,441
Deferred costs on issuance - noncurrent portion	7,261,433
Total	<u>\$ 7,665,874</u>

Unamortized costs on refunding are as follows:

Other Postemployment Benefits Bonds 2009 Refunding - current portion	\$ 596,764
Other Postemployment Benefits Bonds 2009 Refunding - noncurrent portion	1,591,371
Total	<u>\$ 2,188,135</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the fiscal year ended June 30, 2011, was as follows:

	Balance Beginning of Year	Additions/ Adjustments	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 11,913,296	\$ -	\$ -	\$ 11,913,296
Furniture and equipment not placed in service	1,306,479	-	1,306,479	-
Construction in progress	72,960,978	49,481,199	24,193,707	98,248,470
Total Capital Assets Not Being Depreciated	<u>86,180,753</u>	<u>49,481,199</u>	<u>25,500,186</u>	<u>110,161,766</u>
Capital Assets Being Depreciated				
Buildings	271,798,751	-	-	271,798,751
Site improvements	29,552,265	24,193,707	-	53,745,972
Software and IT development	31,276,496	-	-	31,276,496
Machinery and equipment	39,230,205	1,306,479	-	40,536,684
Total Capital Assets Being Depreciated	<u>371,857,717</u>	<u>25,500,186</u>	<u>-</u>	<u>397,357,903</u>
Total Capital Assets	<u>458,038,470</u>	<u>74,981,385</u>	<u>25,500,186</u>	<u>507,519,669</u>
Less Accumulated Depreciation				
Buildings	84,844,897	5,418,253	-	90,263,150
Site improvements	7,537,643	1,408,489	-	8,946,132
Software and IT development	14,364,955	7,761,017	-	22,125,972
Machinery and equipment	28,895,319	4,230,188	-	33,125,507
Total Accumulated Depreciation	<u>135,642,814</u>	<u>18,817,947</u>	<u>-</u>	<u>154,460,761</u>
Net Capital Assets	<u>\$ 322,395,656</u>	<u>\$ 56,163,438</u>	<u>\$ 25,500,186</u>	<u>\$ 353,058,908</u>

Depreciation expense for the year was \$18,817,947.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable consisted of the following:

	<u>Primary Government</u>
Apportionment	\$ 1,260,913
Accrued payroll and benefits	1,973,371
Construction contractors	5,941,014
Independent contractors and consultants	3,083,144
Vendors and supplies	2,140,052
Total	<u>\$ 14,398,494</u>

	<u>Fiduciary Funds</u>
Vendors and supplies	<u>\$ 135,096</u>

NOTE 9 - DEFERRED REVENUE

Deferred revenue consisted of the following:

	<u>Primary Government</u>
Federal categorical aid	\$ 641,636
State categorical aid	1,582,737
Enrollment fees	4,764,888
Other local	329,139
Total	<u>\$ 7,318,400</u>

NOTE 10 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2011, the District did not have any amounts owed between the primary government and the fiduciary funds.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2011 fiscal year, the District did not transfer any funds from the primary government to or from the fiduciary funds.

NOTE 11 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the fiscal year 2011 consisted of the following:

	Beginning	Additions	(Amortization)		Ending	Due in
	Balance		Accretion	Deductions	Balance	One Year
General obligation bonds	\$ 462,751,803	\$ -	\$ (720,308)	\$ (10,070,000)	\$ 451,961,495	\$ 10,385,000
2005 Taxable Limited Obligation						
OPEB Bonds	125,802,236	-	6,880,558	-	132,682,794	-
2006 Bond modification and restructuring	10,688,044	-	-	(60,180)	10,627,864	66,198
2009 OPEB refunding	48,725,000	-	-	(3,660,000)	45,065,000	4,785,000
Total Bonds Payable	647,967,083	-	6,160,250	(13,790,180)	640,337,153	15,236,198
Other liabilities						
Postemployment benefits obligation	13,242,492	13,217,137	-	(8,190,235)	18,269,394	-
Claims liability	1,809,778	968,222	-	-	2,778,000	-
Load banking	1,900,000	-	-	(653,899)	1,246,101	-
Compensated absences	3,984,244	-	-	(1,150,196)	2,834,048	-
Total Long-Term Obligations	\$ 668,903,597	\$ 14,185,359	\$ 6,160,250	\$ (23,784,510)	\$ 665,464,696	\$ 15,236,198

Description of Obligations

Payments on the general obligation bonds are made by the bond interest and redemption fund with local tax collections. Debt service payments on the Other Postemployment Benefits (OPEB) Bonds will be made from the Unrestricted General Fund. Workers' compensation claims liability is an estimate based on an actuarial study completed by a third party specialist. Actual claims paid will be made from the Self-Insurance Fund. 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 fund the employees' salaries are charged. 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Bonded Debt

General Obligation Bonds, Election 2000, Series B

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

General Obligation Bonds, Election 2000, Series C

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

General Obligation Bonds, Election 2000, Series D

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

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.

2005 General Obligation Revenue Bonds, Series A

In June 2005, the Golden West Schools Financing Authority 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 bonds mature beginning August 1, 2006 through August 1, 2021, with interest yield rates ranging from 3.00 to 4.00 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 rates ranging from 3.00 to 5.00 percent.

2006 General Obligation Bonds, Series A

In August 2006, the District issued \$75,000,000 of General Obligation Bonds, Election of 2006, Series A. Voters authorized \$390,000,000 in June of 2006. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities. The bonds mature beginning August 1, 2007 through August 1, 2031, with interest yield rates ranging from 4.00 to 5.00 percent.

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 are being issued to finance the acquisition, construction, and rehabilitation of District facilities. The bonds mature beginning August 1, 2009 through August 1, 2037, with interest yield rates ranging from 5.00 to 5.25 percent.

2006 General Obligation Bonds, Series C

In August 2009, the District issued \$100,000,000 of General Obligation Bonds, Election of 2006, Series C. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities. The bonds mature beginning August 1, 2012 through August 1, 2039, with interest yield rates ranging from 2.00 to 5.50 percent.

2009 Refunding General Obligation Bonds

In December 2009, the District issued, in the amount of \$39,080,000, the Refunding General Obligation Bonds to advance refund the Peralta Community College District, General Obligation Bonds, Election 2000, Series A, a portion of Series B, and 2001 Refunding General Obligation Bonds. The bonds mature beginning August 1, 2010 through August 1, 2031, with interest yield rates ranging from 2.00 to 5.50 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

The outstanding general obligation debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Issued/ Amortized	Redeemed	Bonds Outstanding June 30, 2011
2000 B	5/30/2002	8/01/2032	2.00%-5.32%	\$ 30,000,000	\$ 9,130,000	\$ -	\$ 680,000	\$ 8,450,000
2000 C	5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	36,780,000	-	815,000	35,965,000
2000 D	7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	51,820,000	-	1,075,000	50,745,000
Subtotal Election of 2000								95,160,000
2002	10/24/2002	8/01/2017	2.00%-4.00%	7,310,000	4,295,000	-	470,000	3,825,000
2005 A	6/01/2005	8/01/2021	3.00%-4.00%	7,285,000	5,395,000	-	320,000	5,075,000
2005 B	8/17/2005	8/01/2025	3.00%-5.00%	32,975,000	32,260,000	-	1,115,000	31,145,000
Subtotal 2005 Refinancings								36,220,000
2006 A	8/10/2006	8/01/2031	4.00%-5.00%	75,000,000	68,470,000	-	1,900,000	66,570,000
2006 B	11/15/2007	8/01/2037	5.00%-5.25%	100,000,000	98,415,000	-	1,665,000	96,750,000
2006 C	8/26/2009	8/01/2039	2.00%-5.50%	100,000,000	100,000,000	-	-	100,000,000
Subtotal Election of 2006								263,320,000
2009	12/17/2009	8/01/2031	2.00-5.50%	39,080,000	39,080,000	-	2,030,000	37,050,000
Subtotal Bonds								435,575,000
Premiums (net)					17,106,803	-	720,308	16,386,495
Total General Obligation Bonds (Net)					\$ 462,751,803	\$ -	\$ 10,790,308	\$ 451,961,495

General Obligation Bond - 2000 Election

The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,995,000	\$ 4,209,781	\$ 6,204,781
2013	2,085,000	4,123,806	6,208,806
2014	2,170,000	4,038,106	6,208,106
2015	2,245,000	3,941,675	6,186,675
2016	2,350,000	3,830,494	6,180,494
2017-2021	13,290,000	17,407,419	30,697,419
2022-2026	16,775,000	13,682,116	30,457,116
2027-2031	26,110,000	9,850,188	35,960,188
2032-2036	28,140,000	3,132,437	31,272,437
Total	\$ 95,160,000	\$ 64,216,022	\$ 159,376,022

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

General Obligation Bond - 2002 Refunding

The 2002 general obligation bonds mature through 2018 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 490,000	\$ 131,710	\$ 621,710
2013	505,000	115,411	620,411
2014	525,000	97,765	622,765
2015	545,000	78,631	623,631
2016	565,000	57,950	622,950
2017-2018	1,195,000	48,008	1,243,008
Total	<u>\$ 3,825,000</u>	<u>\$ 529,475</u>	<u>\$ 4,354,475</u>

General Obligation Revenue Bonds - 2005 Refunding

The general obligation revenue bonds mature through 2026 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,530,000	1,506,980	4,036,980
2016	2,635,000	1,376,830	4,011,830
2017-2021	15,340,000	4,674,843	20,014,843
2022-2026	10,230,000	1,139,801	11,369,801
Total	<u>\$ 36,220,000</u>	<u>\$ 13,861,127</u>	<u>\$ 50,081,127</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

General Obligation Bond - 2006 Series A, B, and C

The general obligation bonds mature through 2040 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 4,545,000	\$ 10,585,588	\$ 15,130,588
2013	5,260,000	10,444,838	15,704,838
2014	6,040,000	10,263,963	16,303,963
2015	6,865,000	10,049,613	16,914,613
2016	6,505,000	9,777,538	16,282,538
2017-2021	37,430,000	54,865,413	92,295,413
2022-2026	47,960,000	44,141,900	92,101,900
2027-2031	61,465,000	30,407,513	91,872,513
2032-2036	56,390,000	15,161,125	71,551,125
2037-2040	30,860,000	2,507,750	33,367,750
Total	<u>\$ 263,320,000</u>	<u>\$ 198,205,241</u>	<u>\$ 461,525,241</u>

General Obligation Bond - 2009 Refunding

The 2009 general obligation bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,845,000	\$ 1,821,450	\$ 3,666,450
2013	1,940,000	1,729,200	3,669,200
2014	1,275,000	1,645,700	2,920,700
2015	1,320,000	1,590,200	2,910,200
2016	1,395,000	1,524,200	2,919,200
2017-2021	6,395,000	6,695,500	13,090,500
2022-2026	11,400,000	4,785,656	16,185,656
2027-2031	9,860,000	1,727,919	11,587,919
2032	1,620,000	85,050	1,705,050
Total	<u>\$ 37,050,000</u>	<u>\$ 21,604,875</u>	<u>\$ 58,654,875</u>

Taxable 2005 Limited Obligation Other Postemployment Benefits Bonds

In December 2005, the District issued \$153,749,832 aggregate principal amount of Taxable 2005 Limited Obligation OPEB (Other Postemployment Benefits) Bonds to fund 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 fixed rate Bonds, and \$133,734,832 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 5.52 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Accreted Interest	Interest	Total
2012	\$ -	\$ -	\$ -	\$ -
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017-2021	23,633,293	14,816,707	6,112,523	44,562,523
2022-2026	19,866,112	23,308,888	6,818,363	49,993,363
2027-2031	17,162,316	32,137,684	10,246,358	59,546,358
2032-2036	12,447,282	34,377,718	15,621,900	62,446,900
2037-2041	13,348,159	43,526,841	12,980,190	69,855,190
2042-2046	9,185,735	47,989,265	27,239,715	84,414,715
2047-2050	11,001,193	57,473,807	9,242,093	77,717,093
Subtotal	<u>106,644,090</u>	<u>253,630,910</u>	<u>88,261,142</u>	<u>448,536,142</u>
Accumulated accretion	26,038,704	(26,038,704)	-	-
Total	<u>\$ 132,682,794</u>	<u>\$ 227,592,206</u>	<u>\$ 88,261,142</u>	<u>\$ 448,536,142</u>

2006 Limited Obligation Other Postemployment Benefits Bonds Modification

The OPEB Bonds issued in 2005 were subject to an amendment wherein Lehman Brothers purchased three maturities (2006, 2007, and 2008 except \$135,000) in 2006. 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 August 1, 2049. 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, 2011

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Interest	Total
2012	\$ 66,198	\$ 662,173	\$ 728,371
2013	72,217	657,847	730,064
2014	72,217	653,334	725,551
2015	78,235	648,632	726,867
2016	84,253	643,554	727,807
2017-2021	511,534	3,128,442	3,639,976
2022-2026	698,093	2,941,318	3,639,411
2027-2031	956,869	2,684,611	3,641,480
2032-2036	1,299,897	2,335,001	3,634,898
2037-2041	1,781,341	1,857,318	3,638,659
2042-2046	2,437,307	1,202,668	3,639,975
2047-2050	2,569,703	333,813	2,903,516
Total	<u>\$ 10,627,864</u>	<u>\$ 17,748,711</u>	<u>\$ 28,376,575</u>

2009 Limited Obligation Other Postemployment Benefits Bonds Refunding

In February 2009, the District refunded a portion of previously issued 2005 fixed rate 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 4.42 percent to 6.42 percent and mature annually through August 1, 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.

The Bonds mature through 2016 as follows:

Year Ending June 30,	Principal	Interest	Total
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	9,630,000	1,388,973	11,018,973
2016	16,810,000	539,853	17,349,853
Total	<u>\$ 45,065,000</u>	<u>\$ 8,749,974</u>	<u>\$ 53,814,974</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$12,812,000 and contributions made by the District during the year were \$8,190,235. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$927,000 and \$(521,863), respectively, which resulted in an increase to the net OPEB obligation of \$5,026,902. As of June 30, 2011, the net OPEB obligation was \$18,269,394. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Claims Liability

At June 30, 2011, the liability for claims liability was \$2,778,000. See Note 14 for additional information.

Compensated Absences

At June 30, 2011, the liability for compensated absences was \$2,834,048.

Load Banking

At June 30, 2011, the liability for load banking agreements was \$1,246,101.

NOTE 12 - INTEREST RATE SWAPS

2005 Limited Obligation Other Postemployment Benefits 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. As of June 30, 2011, the 2005 Series B-1 through B-6 have a fair market value of \$6,297,959. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.90 percent, 5.16 percent, 5.28 percent, 5.21 percent, 5.06 percent, and 4.94 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, 2011, 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

Derivative Instrument Types

Hedge Effectiveness. As of June 30, 2011, derivative instrument B-1 under governmental activities no longer meets the criteria for effectiveness and, thus, is considered to be an investment derivative instrument. Accordingly, the accumulated changes in its fair value in fiscal year 2011 of \$684,538 is reported within the investment revenue classification for the year ended June 30, 2011. The other interest rate swaps, B-2 through B-6, are considered to be hedging derivative instruments and are identified above as fair value hedges, change in market values are shown as deferred cash out flows on the Statement of Net Assets.

The District used the dollar-offset method to evaluate hedge effectiveness for the interest rate swaps and rate cap. This method evaluates effectiveness by comparing the changes in expected cash flows or fair values of the potential hedging derivative instrument with the changes in expected cash flows or fair values of the hedgeable item.

Fair Values

Fair values for the District's derivative instruments were estimated using the following methods:

Interest Rate Swaps. Fair values for the interest rate swaps were estimated using the zero-coupon method, which calculates the future net settlement payments, assuming that current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Trade ID	Trade Date	Effective Date	Maturity Date	Currency	Original Notional	Market Value	Fixed Rate
AUF3X	November 28, 2006	August 5, 2039	August 5, 2049	USD	\$ 134,475,000	\$ (2,796,622)	4.94%
AUF3W	November 28, 2006	August 5, 2031	August 5, 2039	USD	86,650,000	(937,836)	5.06%
AUF3V	November 28, 2006	August 5, 2025	August 5, 2031	USD	57,525,000	(247,796)	5.21%
AUF3U	November 28, 2006	August 5, 2020	August 5, 2025	USD	43,175,000	(471,691)	5.28%
AUF3T	November 28, 2006	August 5, 2015	August 5, 2020	USD	38,450,000	(813,787)	5.16%
AUF3S	November 28, 2006	August 5, 2010	August 5, 2015	USD	33,950,000	(1,030,277)	4.90%

NOTE 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011, the District contributed \$8,190,235 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:

Annual required contribution	\$ 12,812,000
Interest on net OPEB obligation	927,000
Adjustment to annual required contribution	<u>(521,863)</u>
Annual OPEB Cost	13,217,137
Contributions made	<u>(8,190,235)</u>
Increase in net OPEB obligation	5,026,902
Net OPEB obligation, beginning of year	<u>13,242,492</u>
Net OPEB obligation, end of year	<u><u>\$ 18,269,394</u></u>

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Costs	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 10,668,000	\$ 5,749,282	54%	\$ 9,850,919
2010	12,408,000	9,016,427	73%	13,242,492
2011	13,217,137	8,190,235	62%	18,269,394

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 221,198,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 221,198,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll	<u>\$ 37,033,320</u>
UAAL as Percentage of Covered Payroll	<u>597%</u>

The above noted actuarial accrued liability was based on the June 2010 actuarial valuation. 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.

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 June 30, 2010, actuarial valuation, the entity age normal method was used. The actuarial assumptions included a 7.0 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 5.0 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, 2011

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, 2011, 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.

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, 2009 to June 30, 2011:

	Workers' Compensation
Liability Balance, July 1, 2009	\$ 1,649,000
Claims and changes in estimates	160,778
Liability Balance, June 30, 2010	1,809,778
Claims and changes in estimates	968,222
Liability Balance, June 30, 2011	\$ 2,778,000

At June 30, 2011, the Internal Service Fund had retained deficits in the amount of \$2,883,703.

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).

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 8.00 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 2010-2011 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, 2011, 2010, and 2009, were \$3,338,029, \$3,233,338, and \$3,337,856, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and 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 7.00 percent of their salary (7.00 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 2010-2011 was 10.707 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2011, 2010, and 2009, were \$2,624,203, \$2,574,555, and \$2,467,026, respectively, and equaled 100 percent of the required contributions for each year.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 \$1,538,968, \$1,664,847, and \$1,823,875, for the years ending 2011, 2010, and 2009, respectively, (4.267 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.

During the year ended June 30, 2011, the District made payments of \$40,188, \$650,467, and \$1,156,992 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 - 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. While the District reported 19,871.16 FTES for the year ended June 30, 2011, the funding was limited to 19,501.12 FTES resulting in lost revenues of approximately \$2 million. Cash flow reductions due to apportionment payment delays are continuing to be a challenge for the District. As described in Note 18, over \$14.8 million in cash payments was deferred from the 2010-2011 fiscal year into the 2011-2012 year. 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. Activities in other District funds which impact the operations of the General Fund include the self-insured expenses which are recorded in the Internal Service fund. Expenses exceeded revenues by \$1.6 million and resulted in the ending retained deficit of \$2.9 million. This amount will need to be funded through transfers in from the General Fund which may negatively impact future operations.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

While the District's General Fund ending reserve balances met the State Chancellor's Office and Board approved policies, the cash balance of the General Fund was negative \$14 million, due primarily to the deferral of State apportionments noted below, and required the District to borrow funds from other restricted resources of the District. Future plans for the District include additional transfers to the Self-Insurance Fund, obtaining Tax and Revenue Anticipation Notes to prevent the negative cash balances and internal borrowings, and closely monitoring the Board approved budget.

NOTE 18 - 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. The State legislature has not enacted a budget as of June 30, 2011, for the 2011-2012 fiscal year. As a result, certain apportionments owed to the District for funding of FTES, categorical programs, and construction reimbursements which are attributable to the 2010-2011 fiscal year have been deferred to the 2011-2012 fiscal year. The total amount of cash payments deferred into the 2011-2012 fiscal year was \$14,856,241. As of July 31, 2011, 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, 2011, the total amount that has been deposited in a separate account owned by the District is \$3,986,547. 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.

NOTE 19 - SUBSEQUENT EVENT

The District issued \$18,000,000 of Tax and Revenue Anticipation Notes dated July 27, 2011. The notes mature on June 29, 2012, and yield 2.00 percent interest.

On October 17, 2011, the District issued \$53,505,000 of 2011 Taxable Refunding Bonds. The bonds were issued to refund a portion of the District's outstanding OPEB bonds payable. The bonds mature through August 1, 2031, and yield 3.47 through 7.31 percent interest.

REQUIRED SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entity Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/11/2008	\$ -	\$ 106,785,000	\$ 106,785,000	\$ -	\$ 52,887,000	202%
4/30/2009	-	130,503,000	130,503,000	-	40,378,023	323%
6/30/2010	-	214,864,000	214,864,000	-	37,033,320	580%

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2011

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 colleges are 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>
Dr. William Riley	President	2014
Mr. Cy Gulassa	Vice President	2012
Dr. Nicky González Yuen	Member	2012
Mr. Bill Withrow	Member	2012
Ms. Linda Handy	Member	2014
Ms. Marcie Hodge	Member	2012
Mr. Abel Guillén	Member	2014
Mr. Esteem Brumfield	Student Trustee	2012
Mr. Rich Copenhagen	Student Trustee	2012

ADMINISTRATION

Dr. Wise Allen	Chancellor
Dr. Jannett Jackson	President, College of Alameda
Dr. Betty Inclan	President, Berkeley Community College
Dr. Robert Adams	President, Merritt Community College
Dr. Elnora Webb	President, Laney College
Mr. Ronald P. Gerhard, MBA, CPA	Vice Chancellor, Finance and Administration
Dr. Deborah Budd	Vice Chancellor, Educational Services
Dr. Sadiq Ikhara	Vice Chancellor, General Services
Ms. Trudy Largent, Esq.	Acting Vice Chancellor for Human Resources
Dr. Jacob Ng	Vice Chancellor of Student Services
Ms. Thuy Thi Nguyen, Esq.	General Counsel

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS			
Student Financial Assistance Cluster			
Pell Grants	84.063		\$ 27,384,949
Pell Administration	84.063		10,662
Federal Supplemental Education Opportunity Grants	84.007		1,057,933
Federal Work Study Program	84.033		853,747
Academic Competitiveness Grant	84.375		123,813
Federal Direct Student Loans	84.268		3,000,551
Total Student Financial Assistance Cluster			<u>32,431,655</u>
Maximum Achievement Project (MAP)	84.382A		233,836
Higher Educational Institutional Aid - Strengthening Institutions Program, Title III	84.031A		366,932
Higher Educational Institutional Aid - Strengthening Institution Pathways, Systems, and Services to Maximize Student Success	84.031A		487,086
Higher Educational Institutional Aid - AANIPISI Initiative	84.031L		109,315
Trio Support Services	84.042A		225,190
Passed through the California Community Colleges Chancellor's Office			
State Fiscal Stabilization Fund (SFSF)	84.394	[1]	82,717
Carl D. Perkins - Career and Technical Education Act (CTEA)			
Title I, Part C	84.048	10-C01-041	898,675
Tech-Prep Education, Title II	84.243	10-139-340	240,672
Vocational Rehabilitation Cluster			
Passed through the California Department of Rehabilitation			
State Vocational Rehabilitation Services - Workability	84.126A	27369/27372	347,348
State Vocational Rehabilitation Services - College 2 Career Program	84.126A	28146	64,003
ARRA State Vocational Rehabilitation Services - Workability	84.390A	27645A/27453A	57,322
Total Vocational Rehabilitation Cluster			<u>468,673</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>35,544,751</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education			
Child Care and Adult Food Program	10.558	1912-4A	164,632
U.S. DEPARTMENT OF LABOR			
WIA Community Based Job Training Grants	17.269		1,226,108
Passed through San Mateo County Community College District			
WIA Community Based Job Training Grants - Bay CEC	17.269	[1]	119,244
Workforce Investment Act (WIA) Cluster			
Passed through the State of California, EDD			
ARRA WIA Adult - Green Jobs	17.258	R975684	737,453
ARRA WIA Adult - CA Industries With a Statewide Need	17.258	K076833	322,841
ARRA WIA Adult - Clean Energy Project	17.258	K076833	412,689
Passed through the City of Richmond			
ARRA WIA Adult - Clean Energy Workforce Training Program	17.258	21000666	64,500

[1] Pass-Through Grantor's Number not available.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR, Continued			
Passed through the County of Alameda			
ARRA WIA Adult - One Stop Career Center	17.258	900050	\$ 147,206
ARRA WIA Dislocated Workers - One Stop Career Center	17.258	900050	243,243
Total Workforce Investment Act (WIA) Cluster			<u>1,927,932</u>
Passed through the State of California, EDD			
WIA Pilot (CalGrip)	17.261	R973861	68,919
Passed through the Spanish Speaking Unity Council			
ARRA Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	[1]	72,959
TOTAL U.S. DEPARTMENT OF LABOR CLUSTER			<u>3,415,162</u>
U.S. DEPARTMENT OF STATE			
Passed through the Institute of International Education			
Academic Exchange Programs - Fullbright Gateway Orientation Program	19.400	[1]	28,025
NATIONAL SCIENCE FOUNDATION			
Educating Technicians for Building Automation and Sustainability	47.076		275,804
SMALL BUSINESS ADMINISTRATION			
Passed through Humboldt State University Sponsored Programs Foundation			
Small Business Development Center	59.037	F50506	272,880
DEPARTMENT OF VETERANS AFFAIRS			
Post 9/11 Veterans Educational Assistance	64.028		602
U.S. DEPARTMENT OF ENERGY			
Passed through the State of California, EDD			
ARRA Energy Commission Clean Energy Project	81.041	K077123	459,614
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Care and Other Facilities	93.887		188,100
Temporary Assistance for Needy Families (TANF) Cluster			
Passed through the California Community Colleges Chancellor's Office			
Temporary Assistance for Needy Families	93.558	[1]	163,156
Passed through the Foundation for California Community Colleges			
Temporary Assistance for Needy Families - Child Development Careers	93.558	1012-24	28,716
Total Temporary Assistance for Needy Families (TANF) Cluster			<u>191,872</u>
Passed through the Yosemite Community College District,			
Child Development Training Consortium			
Child Care and Development Block Grant - CDTC	93.575	10-11 - 4170	9,417
Passed through the City of Oakland			
ARRA - Community Services Block Grant Oakland Green Jobs Corps	93.710	82405	284,617
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>674,006</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Americorp	94.004		142,470
TOTAL FEDERAL EXPENDITURES			<u>\$ 40,977,946</u>

[1] Pass-Through Grantor's Number not available.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
Alameda County Department	\$ 10,000	\$ 5,567	\$ 15,567
Song Brown RN Program	-	241,066	241,066
Career Tech Education (CTE) 0708	-	11,299	11,299
Associate Degree Nursing	-	46,630	46,630
Career Tech Education Collaborative Sup (0809)	-	215,755	215,755
Transfer and Articulation	-	9,818	9,818
Education Tech Support	-	154,689	154,689
Instructional Equipment	-	52,127	52,127
Staff Diversity	8,862	79,264	88,126
Career Tech Education Community Collaborative	-	310,000	310,000
Cooperative Agencies Resources for Education	360,619	186,213	546,832
Extended Opportunity Program and Services	1,844,360	271,573	2,115,933
Career Advancement	-	438,928	438,928
Board of Finance Assistance Program	1,033,551	96,822	1,130,373
Entrepreneurship Career	-	18,581	18,581
Entrepreneurship Career Pathways	-	1,992	1,992
Linking After School Employment	-	109,404	109,404
Disabled Students Programs and Services	1,616,987	-	1,616,987
Matriculation	907,305	159,022	1,066,327
Coliseum Green Works Development Program	-	35,000	35,000
FCC Youth Empowerment YESS	22,500	106	22,606
CalWORKs	577,345	35,312	612,657
Nursing Capacity Grant	232,187	-	232,187
Lottery - Prop 20	456,338	33,601	489,939
Career Ladders Project	54,500	-	54,500
Job Development Incentive Funds	300,000	-	300,000
Career Tech Education Community Collaborative	-	400,000	400,000
Child Care - Department of Education	763,582	-	763,582
Child Care - Tax Bailout	370,194	-	370,194
Cal Grant B/C	1,135,563	-	1,135,563
Basic Skills	433,123	358,976	792,099
	<u>\$10,127,016</u>	<u>\$ 3,271,745</u>	<u>\$ 13,398,761</u>

See accompanying note to supplementary information.

Program Revenues

Cash Received	Accounts Receivable (Payables)	Deferred Revenue	Flex Transfers	Total Revenue	Program Expenditures
\$ 5,567	\$ 10,000	\$ 5,567	\$ -	\$ 10,000	\$ 10,000
241,066	-	204,558	-	36,508	36,508
11,299	-	6,729	-	4,570	4,570
11,218	35,412	-	-	46,630	46,630
215,755	(42,458)	-	-	173,297	173,297
9,818	-	-	-	9,818	9,818
59,462	-	-	-	59,462	59,462
52,127	-	3,897	-	48,230	48,230
88,126	-	60,476	-	27,650	27,650
310,000	-	249,685	-	60,315	60,315
546,832	-	66,440	-	480,392	480,392
2,115,933	(2,379)	-	-	2,113,554	2,113,554
438,928	-	57,096	-	381,832	187,550
1,130,373	-	42,612	-	1,087,761	1,087,761
18,581	-	-	-	18,581	18,581
1,992	-	-	-	1,992	1,992
109,404	-	5,256	-	104,148	104,148
1,616,987	-	-	198,927	1,815,914	1,815,914
1,066,327	-	-	(198,927)	867,400	867,400
35,000	-	-	-	35,000	35,000
5,265	17,235	-	-	22,500	22,500
612,657	(19,495)	-	-	593,162	593,162
195,037	37,150	-	-	232,187	232,187
33,600	456,338	-	-	489,938	211,980
48,500	6,000	41,077	-	13,423	13,423
-	11,500	-	-	11,500	11,500
400,000	-	399,339	-	661	661
763,097	485	-	-	763,582	763,582
370,194	-	-	-	370,194	370,194
1,126,894	(21,863)	-	-	1,105,031	1,135,563
851,526	-	440,005	-	411,521	411,521
<u>\$ 12,491,565</u>	<u>\$ 487,925</u>	<u>\$ 1,582,737</u>	<u>\$ -</u>	<u>\$ 11,396,753</u>	<u>\$ 10,955,045</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT
 AS OF JUNE 30, 2011**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>*(Revised) Reported Data</u>
A. Summer Intersession			
1. Noncredit	44	-	44
2. Credit	2,420	(6)	2,414
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,798	(174)	14,624
(b) Daily Census Contact Hours	1,225	(3)	1,222
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	98	-	98
(b) Credit	219	5	224
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,124	(3)	1,121
(b) Daily Census Contact Hours	119	5	124
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>20,047</u>	<u>(176)</u>	<u>19,871</u>
E. Basic Skills Courses and Immigrant Education (FTES)			
1. Noncredit	53	-	53
2. Credit	1,264	2	1,266
	<u>1,317</u>	<u>2</u>	<u>1,319</u>

* Annual report revised as of October 27, 2011.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH AUDITED FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

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

	General Fund	Capital Projects	Revenue Bond Project	Bond Interest and Redemption
June 30, 2010, Annual Financial and Budget Report (CCFS-311)				
Reported Fund Balance	\$ 9,762,299	\$ 171,434,096	\$ -	\$ 22,382,007
Post Closing Entries	1,757,017	27	434,587	192,910
Adjusted Fund Balance	<u>11,519,316</u>	<u>171,434,123</u>	<u>434,587</u>	<u>22,574,917</u>
Adjustments to Increase (Decrease) Fund Balance				
Cash in County	(90,924)	-	-	(115,208)
Cash on hand	(94,802)	-	-	-
Accounts receivable	(881,891)	-	-	-
Student receivables	165,851	-	-	-
Due from other funds	2,417,664	-	-	-
Accounts payable	40,387	(378,927)	-	-
Deferred revenue	728,921	-	-	-
Net Adjustments	<u>2,285,206</u>	<u>(378,927)</u>	<u>-</u>	<u>(115,208)</u>
Audited Fund Balance	<u>\$ 13,804,522</u>	<u>\$ 171,055,196</u>	<u>\$ 434,587</u>	<u>\$ 22,459,709</u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

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	\$ 13,804,522
Special Revenue Funds	16,762,670
Debt Service Fund	22,459,709
Capital Projects Funds	171,489,783
Internal Service Fund	(2,883,703)
Fiduciary Funds	<u>(19,642,856)</u>

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

\$ 201,990,125

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 507,519,669

Accumulated depreciation is (154,460,761)

Subtotal 353,058,908

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: 4,405,741

Amounts held in trust on behalf of others (Trust and Agency Funds) (1,731,696)

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. (8,746,463)

In governmental funds, expenses related to Interest Rate SWAPs are recognized in the period in which they are due. On the government-wide financial statements, the SWAP liability is recognized when it is incurred. (2,796,622)

Long-term liabilities at year-end consist of:

General obligation bonds payable 435,575,000

Premium on debt 16,386,495

Load banking 1,246,101

Other postemployment benefits obligation 18,269,394

Compensated absences (vacations) - less current portion 2,834,048

Subtotal (474,311,038)

Total Net Assets

\$ 71,868,955

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of incorrect postings of accruals in previous periods were recorded as revenues, but were unspent.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		\$ 41,686,223
U.S. DEPARTMENT OF EDUCATION		
Federal Work Study Program	84.033	(111,357)
Maximum Achievement Program (MAP)	84.382A	(173,065)
Higher Education Institution Aid - Strengthening Institutions Title I, Part C	84.031	16,787
State Vocational Rehabilitation Services - Workability	84.048	(157,049)
ARRA - State Vocational Rehabilitation Services - Workability	84.126	(158,559)
	84.390	(1,206)
NATIONAL SCIENCE FOUNDATION		
Educating Technicians for Building Automation and Sustainability	47.076	(89,249)
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Americorps	94.004	(34,579)
Total Schedule of Expenditures of Federal Awards		<u>\$ 40,977,946</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

Subrecipients

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

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
WIA Community Based Job Training Grants	17.269	\$ 648,182
Higher Educational Institutional Aid - Strengthening Institutions Program, Title III	84.031A	21,000
ARRA WIA Adult - Clean Energy Project	17.258	22,550
ARRA WIA Clean Energy - ECA	81.041	246,457
ARRA WIA Adult - Green Jobs	17.258	588,338
		<u>\$ 1,526,527</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 Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

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 Audited Fund Balance

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 Governmental Funds 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.

INDEPENDENT AUDITORS' REPORTS



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

Board of Trustees
Peralta Community College District
Oakland, California

We have audited the basic financial statements Peralta Community College District as of and for the year ended June 30, 2011, which collectively comprise Peralta Community College District's basic financial statements and have issued our report thereon dated December 23, 2011. 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

The management of Peralta Community College District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses as items 2011-1 and 2011-2.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies as items 2011-3 through 2011-12.

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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Peralta Community College District in a separate letter dated December 23, 2011.

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

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jaime, Trine, David Cu, LLP.

Rancho Cucamonga, California
December 23, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON 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 Peralta Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Peralta Community College District's major Federal programs for the year ended June 30, 2011. 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, Peralta Community College District did not comply with requirements that are applicable to the following:

Compliance Requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) Number	Finding Number
Allowable Costs	U.S. Department of Education (DOE), Strengthening Institutions Program Title III (CFDA #84.031A), Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success (CFDA #84.031A), AANIPISI Initiative (CFDA #84.031L), U.S. Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA #17.258), WIA Community Based Job Training Grants (CFDA #17.269), U.S. Department of Energy (DOE), ARRA Energy Commission Clean Energy Project (CFDA #81.041)	2011-14
Procurement, Suspension, and Debarment	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048), Strengthening Institutions Program Title III (CFDA #84.031A), Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success (CFDA #84.031A), Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA #17.258), Workforce Investment Act Community Based Job Training Grants (CFDA #17.269), U.S. Department of Energy (DOE), ARRA Energy Commission Clean Energy Project (CFDA #81.041)	2011-15
Reporting	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048), U.S. Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA #17.258)	2011-16
Equipment and Real Property Management	U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)	2011-17

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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliances described in the accompanying Schedule of Findings and Questioned Costs as items 2011-14 through 2011-15 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-13 and 2011-16 through 2011-19 to be significant deficiencies.

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

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vauwex, Trime, Dajic Co., LLP.

Rancho Cucamonga, California
December 23, 2011



REPORT ON STATE COMPLIANCE

Board of Trustees
 Peralta Community College District
 Oakland, California

We have audited the basic financial statements of Peralta Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011.

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 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Peralta Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Peralta Community College District's compliance with the State laws and regulations applicable to the following items:

- Section 421 Salaries of Classroom Instructors: 50 Percent Law
- Section 423 Apportionment for Instructional Service Agreements/Contracts
- Section 424 State General Apportionment Required Data Elements
- Section 425 Residency Determination for Credit Courses
- Section 426 Students Actively Enrolled
- Section 427 Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Section 431 Gann Limit Calculation
- Section 432 Enrollment Fee
- Section 433 CalWORKS – Use of State and Federal TANF Funding
- Section 435 Open Enrollment
- Section 437 Student Fee – Instructional Materials and Health Fees
- Section 473 Economic and Workforce Development (EWD)
- Section 474 Extended Opportunity Programs and Services (EOPS)
- Section 475 Disabled Student Programs and Services (DSPS)
- Section 477 Cooperative Agencies Resources for Education (CARE)
- Section 478 Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
- Section 479 To Be Arranged (TBA) Hours

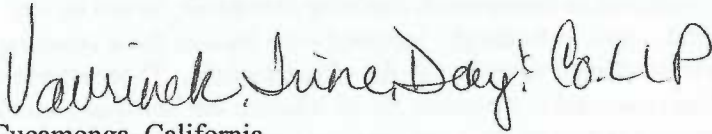
The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore the compliance tests within this section were not applicable.

The District reports no attendance within class subject to the TBA hours; therefore, the compliance tests within this section were not applicable.

Based on our audit, we found that for the items tested, the Peralta Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2011-20 through 2011-23. Our audit does not provide a legal determination on Peralta Community College District's compliance with the State laws and regulations referred to above.

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

This report is intended solely for the information of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.



Rancho Cucamonga, California
December 23, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>Yes</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>

Unqualified for all major programs except for the following programs which were qualified:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.031A, 84.031L</u>	<u>Higher Educational Institutional Aid - Strengthening Institutions Program, Title III, Strengthening Pathways, Systems, and Services to Maximize Student Success, and AANIPISI Initiative</u>
<u>84.048</u>	<u>Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C</u>
<u>84.390A (ARRA), 84.126A</u>	<u>Vocational Rehabilitation Cluster (includes ARRA)</u>
<u>17.269</u>	<u>WIA - Community Based Job Training Grants, WIA - Community Based Job Training Grants Bay CEC</u>
<u>17.258 (ARRA)</u>	<u>Workforce Investment Act (WIA) Cluster (includes ARRA)</u>
<u>81.041 (ARRA)</u>	<u>ARRA Energy Commission Clean Energy Project</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>
<u>84.063, 84.007, 84.033, 84.375, 84.268</u>	<u>Student Financial Assistance Cluster</u>
<u>84.031A, 84.031L</u>	<u>Higher Educational Institutional Aid - Strengthening Institutions Program, Title III, Strengthening Pathways, Systems, and Services to Maximize Student Success, and AANIPISI Initiative</u>
<u>84.048</u>	<u>Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C</u>
<u>84.390A (ARRA), 84.126A</u>	<u>Vocational Rehabilitation Cluster (includes ARRA)</u>
<u>17.269</u>	<u>WIA - Community Based Job Training Grants, WIA - Community Based Job Training Grants Bay CEC</u>
<u>17.258 (ARRA)</u>	<u>Workforce Investment Act (WIA) Cluster (includes ARRA)</u>
<u>81.041 (ARRA)</u>	<u>ARRA Energy Commission Clean Energy Project</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>Yes</u>
Significant deficiencies identified?	<u>Yes</u>

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

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

2011-1 CONTROL ENVIRONMENT

Criteria or Specific Requirements

The control environment and related internal controls are an integral part of managing the operations of the District. This is demonstrated through standard reporting, segregation of duties, and personnel training.

Condition

Material Weakness - Although the District is currently engaged in the (re)design, implementation, and monitoring of the internal control structure within the control environment, areas such as financial aid accounting and college bursars offices require additional assessment and review related to business practices and training. Specific examples of controls needing assessment are: responsibility, authority, segregation of duties, and procedures.

Context

The District processes transactions in excess of \$250 million each year. Weaknesses in the internal controls have the ability to impact all functions of the District and Colleges.

Effect

The lack of sufficient training, cross training, and segregation of duties creates an opportunity that the District could fall behind in the monitoring and reporting of data and activities to external oversight agencies including the CCFS-311.

Recommendation

The District should continue to conduct ongoing training of District personnel to help improve the internal control structure of the District.

District Response

Beginning in the Summer of 2011, the District began the task of reviewing, revising, and creating Board Policies and Administrative Procedures. This task, which is scheduled to take over a year and cover all functional areas, will include evaluating existing business practices with the outcome of revising operating procedures to provide for internal controls that will strengthen the existing control environment.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

2011-2 CASH 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.

Condition

Material Weakness - Cash accounts for the various activities of the District were not reconciled as of June 30, 2011. The District does not maintain a complete and comprehensive list of all bank accounts.

- The Cash in County reconciliations are not being performed timely during the year. Without a timely, accurate 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.
- Coresource Medical account and the Cafeteria Workers' Compensation account were not reconciled in a timely manner; thus resulting in the general ledger not reflecting the appropriate activity for the bank accounts. Audit adjustments were posted to recognize the activity for these accounts.
- Merchant Card Services account was not prepared timely nor did it receive an independent review. The account reconciliation was prepared incorrectly.
- Employee Direct Deposit Bank account reconciliation was not updated to appropriately reflect the final activity for the year.

The following accounts were not reconciled in a timely manner and/or did not have an independent review:

Alameda Student Financial Aid account, Laney Student Financial Aid account, Merritt Student Financial Aid account, Alameda Revenue account, Berkeley Revenue account, Laney Revenue account, Merritt Revenue account, Pension Dynamic account, and Cal Bank Employee Taxes account.

Context

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

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The activity recorded through these accounts may have a budgetary impact to the District by not recording the transactions on a timely basis.

Recommendation

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.

District Response

The District has implemented procedures such that reconciliations are completed and reviewed in a timely fashion. The District did not receive the June 2011 bank statement from the County Treasurer's Office until September 2011. This caused a delay in the completion of the June 2011 reconciliation. The District will revisit and continually review its procedures to assure reconciliations are performed and completed timely and that all reconciling items are resolved.

2011-3 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

Significant Deficiency - The District's capital asset detail includes items that cannot be clearly identified or separated. The District also had to make a material adjustment to its financial records to record depreciation of previous items that should have been depreciated.

Context

Total capital assets, including construction in process, is recorded with an initial cost of over \$350 million with annual depreciation expense of approximately \$18 million.

Effect

In prior years, the District did not have a fixed asset system in place, and depreciation was calculated manually on a spreadsheet. The formulas for the depreciation were not updated to reflect the appropriate depreciation for that year.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

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.

District Response

The District implemented the fixed asset module as of June 30, 2011; thus resulting in an automated depreciation calculation.

2011-4 ACCRUAL ACCOUNTS

Criteria or Specific Requirement

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

Condition

Significant Deficiency - 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 payable.

Effect

The financial statements reported to the Board of Trustees and the State Chancellor's Office through the CCFS-311 reporting did not reflect the proper accruals for expenditures. The audit adjustment within the governmental funds reduced the total ending fund balances.

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.

District Response

The District will institute adequate controls over the year-end closing process to ensure that all valid accruals have been included within the financial activity. Additionally, the District will implement a fiscal year-end closing checklist, as well as provide training to staff to ensure accounting principles are followed.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

2011-5 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.

Condition

Significant Deficiency - The accumulated banked leave 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 \$1.2 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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

District Response

The District received the records for load banking from the campuses for the 2011 fiscal year in August 2011, 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 Internal Revenue Service regulations.

2011-6 COLLEGE BUSINESS OFFICE ACTIVITY

Criteria or Specific Requirement

The College Business Office 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 Colleges Chancellor's Office *Budget and Accounting Manual* (BAM).

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.

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.

District Response

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.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

2011-7 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. There were two instances where there was no contract available at all.

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.

District Response

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.

2011-8 STUDENT FINANCIAL AID DISBURSEMENTS

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 - During testing of trust disbursements, it was noted that financial aid disbursements are being made out of the trust accounts. The College will receive a check from the State for PELL which they deposit into the clearing account trust. From the trust, they cut checks to students.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Context

The trust funds are restricted in use by the trust agreements; expensing checks from these trust accounts is in violation of the trust agreements.

Effect

The students being paid from the trust account may not be eligible students. The expenditures may not be recorded correctly as Federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA). Federal revenue may be understated due to improper recording of revenues.

Recommendation

The District should implement procedures and policies regarding all financial aid disbursements to ensure the proper recording. Monies being received should only be received at the District Office and deposited into a designated account. The trust accounts should not be used as a District clearing account.

District Response

The District will review its current procedures that dictate use of all clearing accounts and develop a corrective action plan that will eliminate the reoccurrence of this finding.

2011-9 ACCOUNTING FOR RESTRICTED REVENUE

Criteria or Specific Requirement

The District is required to report those restricted revenues from Federal and State agencies appropriately within their general ledger.

Condition

Significant Deficiency - We noted one instance where revenue for a Federal program was recorded as State revenue. Additionally, we noted one program that should have been allocated to State and Federal revenue, but was recorded as 100 percent Federal revenue. The District recorded an unrestricted revenue source (Peralta TV) as deferred revenue rather than local revenue. Two Federal programs where the funds were initially deposited into the site trust funds and subsequently sent to the District Office, which is not the purpose of the trust accounts.

Context

During the current fiscal year, the District reported approximately \$41 million of Federal expenditures on the SEFA.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The District's general ledger was incorrectly reporting their restricted revenue and required reclassifying journal entries.

Cause

The District performed the task of reviewing all activity for Federal, State, and local grants prior to year end. This resulted in a significant clean up of many grant activities. However, three grants were not appropriately reflected in the general ledger as reclassing entries were not posted as of June 30, 2011.

Recommendation

The District should implement procedures to identify all restricted revenues to ensure that Federal and State revenues are accurately reported throughout the year. The District should also adopt a policy that requires all Federal monies to be received directly by the District Office.

District Response

The District will continue to review all grant activity to ensure grant funds are recorded appropriately and timely.

2011-10 STUDENT ACCOUNTS RECEIVABLE

Criteria or Specific Requirement

The District is required to accurately report those receivables that are owed by the students attending the Colleges.

Condition

Significant Deficiency - The District is recording student overpayments by students as abatements of student accounts receivable. Also, the District records the write-off of student receivables on the balance sheet only and not in the income statement.

Context

The District currently has approximately \$800K in student overpayments currently shown as a reduction in student receivables.

Effect

Reclassifying entries were made to properly account for the overpayments as a District liability.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Cause

The District has not adopted a policy regarding the accounting for student overpayments.

Recommendation

The District should adopt a policy and procedure addressing the proper accounting for student accounts receivable including overpayments and write-offs.

District Response

The District has reclassified the student overpayments to a liability account; thus presenting the student receivables appropriately. The District will review its policy regarding student receivable write-offs to ensure they are properly accounted for.

2011-11 DISTRICT RECEIPTING

Criteria or Specific Requirement

The District is required to ensure that all monies that come through the District Office are correctly receipted and deposited in a timely manner.

Condition

Significant Deficiency - For the first half of the year at the District Office, there was only one person receipting the funds and preparing the deposits. Additionally, that person did not log the date that checks were received by the District Office. This process proved difficult to verify deposits are complete and timely. The District changed its procedures in February to have an individual independent of the deposit process maintain a check log. However, there is no reconciliation of this log to the actual deposit.

It was also noted that 4 of the 25 reviewed were not timely. The days between receipt and deposit ranged from 14 to 21.

Context

The District receives numerous receipts daily that require to be deposited into the District's bank account.

Effect

The District did not monitor or review the checks received to ensure the dollar value of checks received were appropriately included in the deposit.

Cause

The District's controls over receipting are not operating effectively.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

The District should implement a review procedure to ensure that all receipts are being properly received, logged, and deposited in a timely manner.

District Response

The District has implemented a review procedure to ensure the amount on the check log ties the amount deposited into the cash accounts.

2011-12 DRAW DOWNS

Criteria or Specific Requirement

The District is to draw down available funds for programs in order to meet the needs of the students.

Condition

Significant Deficiency - During the year, the District would draw down monies for financial aid when the monies were available and not based on needs of the District. Also, in some cases, the District had advanced the money from the General Fund, and the District had not drawn the money down to reimburse the General Fund.

Context

The District draws down over \$30 million dollars annually. At June 30, 2011, \$2.7 million was owed to the General Fund for amounts advanced.

Effect

The District's future funding can be effected and the General Fund continues to experience negative cash flow issues.

Cause

The District did not have a formal policy in regards to the drawing down of funds.

Recommendation

The District should ensure that an effective and efficient control is in place to ensure that all draw downs are completed appropriately.

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

District Response

The District has implemented a procedure in which the student financial aid system and PeopleSoft are reconciled no less than quarterly to determine the draw downs. Once the reconciliation has been completed, draw downs are requested and journal entries are posted to reflect the appropriate activity.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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

2011-13 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

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 SEFA was prepared by the District for the Federal categorical programs; however, we noted several errors and omissions in the initial reporting. One Federal program was required to be allocated between Federal and State sources, but it was recorded as 100 percent Federal revenue. There were also some errors noted within the recordings of the total revenue and expenditures. The schedule did not include all the required information including the CFDA numbers.

Questioned Costs

None.

Context

During the current fiscal year, the District reported approximately \$41 million of Federal expenditures on the SEFA.

Effect

Without proper control in place over the reporting of Federal 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.

Cause

Procedures and controls over the collection of data to be included in the SEFA are currently operating ineffectively.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

The District should 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.

District Response

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

2011-14 TIME AND EFFORT REPORTING

Federal Program Affected

U.S. Department of Education (DOE), Strengthening Institutions Program, Title III (CFDA #84.031A), Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success (CFDA# 84.031A), AANIPISI Initiative (CFDA #84.031L), U.S. Department of Labor (DOL), ARRA WIA Adult - Green Jobs (CFDA #17.258), ARRA WIA Adult - CA Industries With a Statewide Need (CFDA #17.258), ARRA WIA Adult - Clean Energy Project (CFDA #17.258), ARRA WIA Adult - One Stop Career Center (CFDA #17.258), ARRA WIA Dislocated Workers - One Stop Career Center (CFDA #17.258), Workforce Investment Act Community Based Job Training Grants (CFDA #17.269), Workforce Investment Act Community Based Job Training Grants Bay CEC (CFDA #17.269), and U.S. Department of Energy (DOE), ARRA Energy Commission Clean Energy Project (CFDA #81.041)

Compliance Requirement

Allowable Costs

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

Material Weakness - Individuals working within the program have not certified the actual time spent working within the Federal programs. Time studies have not been completed for individuals who work either full-time or part-time on the program as required by OMB.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

Subsequent to the audit procedures being performed, the District was able to obtain after the fact confirmation to support the costs charged to the Federal programs. No questioned costs are noted.

Context

A significant amount of the Federal expenditures related to these programs are derived from payroll costs. While the salaries appear to be reasonable and necessary for the program objectives, the District did not provide the required supporting documentation as outlined in the OMB Circular A-21. Further, there does not appear to be adequate policies and procedures necessary to support that the District has controls over compliance objectives.

Effect

Without the time studies and certifications, the program managers are not able to effectively monitor that individuals are being appropriately charged to the Federal grant.

Cause

Procedures and controls over compliance do not clearly specify how the time certification process should be completed or the process for the review of the certifications.

Recommendation

The District should have all individuals working on any Federal program certify their time as required by OMB.

District Response

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

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2011-15 PROCUREMENT, SUSPENSION, AND DEBARMENT

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), Strengthening Institutions Program, Title III (CFDA #84.031A), Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success (CFDA #84.031A), Department of Labor (DOL), ARRA WIA Adult - Green Jobs (CFDA #17.258), ARRA WIA Adult - CA Industries With a Statewide Need (CFDA #17.258), ARRA WIA Adult - Clean Energy Project (CFDA #17.258), ARRA WIA Adult - One Stop Career Center (CFDA #17.258), ARRA WIA Dislocated Workers - One Stop Career Center (CFDA #17.258), ARRA WIA Adult - Clean Energy Workforce Training Program (CFDA #17.258), Workforce Investment Act Community Based Job Training Grants Bay CEC (CFDA #17.269), Workforce Investment Act Community Based Job Training Grants (CFDA #17.269), and U.S. Department of Energy (DOE), ARRA Energy Commission Clean Energy Project (CFDA #81.041)

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

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

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.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The District is not in compliance with the regulations.

Cause

While no evidence was found that indicates that any of the parties contracted with during the year for services were 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, 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>).

District Response

The District has implemented a procedure in which verification of the entities contracted with for services are not suspended, debarred, or otherwise excluded from providing services. The verification is completed by checking the EPLS maintained by the General Services Administration. A page from the system is printed and attached to the requisition.

2011-16 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), U.S. Department of Labor (DOL), ARRA WIA Adult - Green Jobs (CFDA #17.258), ARRA WIA Adult - CA Industries With a Statewide Need (CFDA #17.258), ARRA WIA Adult - Clean Energy Project (CFDA #17.258), ARRA WIA Adult - One Stop Career Center (CFDA #17.258), ARRA WIA Dislocated Workers - One Stop Career Center (CFDA #17.258), ARRA WIA Adult - Clean Energy Workforce Training Program (CFDA #17.258)

Compliance Requirement

Reporting

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Criteria or Specific Requirement

The District is required to report to the oversight agency, on a quarterly basis, the activity for CTEA Title I, Part C. In addition, the District is required to report to the oversight agency, on a monthly basis, the activity for the WIA Cluster.

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.

During the 2010-2011 fiscal year, the District did not submit any monthly financial reports for three of the four WIA programs. The fourth quarter financial report was submitted for the WIA One Stop Career Center; however, contract guidelines stipulate monthly reports are required.

Questioned Costs

None.

Context

Financial reporting to the awarding agency is a requirement and is the basis of review for the agency.

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.

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.

District Response

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 system.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2011-17 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 and Real Property 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

Significant Deficiency - The District has not maintained an inventory control system that satisfies the compliance criteria noted above.

Questioned Costs

None.

Context

During the current fiscal year, the District spent approximately \$162,000 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.

Recommendation

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.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

District Response

A physical inventory of the federally purchased equipment has been performed 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.

2011-18 RETURN TO TITLE IV

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Assistance Cluster: Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA #84.007), Federal Pell Grant Program (CFDA #84.063), Federal Direct Student Loans (CFDA #84.268), and Academic Competitiveness Grant (CFDA #84.375)

Compliance Requirement

Special Tests and Provisions - 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

Significant Deficiency - During our review of the requirements for Return to Title IV at all four campuses, it was noted in some instances, two of the Colleges did not return the Federal funds within the 45 day requirement.

Questioned Costs

No questioned costs. The District did return the funds; however, they were not returned within the 45 day requirement.

Context

Of the students selected for testing that were required to return funds to the Department of Education, we noted five students that did not meet the 45 day requirement.

Effect

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

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Cause

The Colleges have not implemented policies and procedures to monitor the Return of Title IV funds.

Recommendation

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.

District Response

Timelines for running reports to identify students who withdrew will be included in the revised 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.

2011-19 DIRECT LOANS

Federal Program Affected

Student Financial Assistance Cluster - Direct Loans (CFDA #84.268)

Compliance Requirement

Direct Loan Reconciliation

Criteria or Specific Requirement

At the end of each fiscal month, the Common Origination and Disbursement (COD) provides the District with a School Account Statement (SAS) which consists of Cash Summary, Cash Detail, and Direct Loan Records. The District is required to reconcile these files to the financial aid system.

Condition

Significant Deficiency - All of the four campuses within the Peralta Community College District are not performing formal reconciliations of their direct loan disbursements. The sites monitor the Direct Loan disbursements by periodically tracing the Student Financial Aid (SFA) system to the COD report. Two of the four Colleges had a difference in the disbursement amount recorded in their system when compared to the COD data.

Questioned Costs

Merritt College had a \$134,559 discrepancy, and the College of Alameda showed a \$633 discrepancy when the SFA system was compared to the COD data. Consequently, the District has \$135,192 Direct Loan dollars unaccounted for in reconciliation.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Context

All four campuses were not performing a formal reconciliation of their direct loan dollars. Two of the four campuses had a variance when their SFA system was compared to the COD Direct Loan data.

Effect

The District is not in compliance with the Federal Direct Loan Reconciliations.

Cause

The Colleges have not implemented policies and procedures to monitor the reconciliations of Direct Loan funding.

Recommendation

Accounting policies should be developed that provide uniform reconciliation procedures for the Direct Loans received by the campuses. The site SFA directors should be trained on how to perform and review the calculation. The site SFA directors should be made aware by the District of the reconciliation requirements and review these reconciliations at the District level to ensure completeness and accuracy.

District Response

It should be noted that all Peralta Colleges have migrated to Federal Direct Loans (DL). With this process, the Financial Aid SAFE system is now the mechanism for DL reconciliation. Colleges no longer disburse or reconcile using any outside mechanism. DL originations are submitted through SAFE; origination records are accepted; and funds are disbursed through SAFE and reconciled directly to COD via file transfer and SAFE DL files.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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

2011-20 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

Material Weakness - 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 students 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.

Questioned Costs

The District resubmitted 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. The effect is not believed to have a material impact on their funded FTES.

Context

Students that did not meet the definition of being actively enrolled were included in the Annual CCFS-320 Attendance Report.

Effect

The District adjusted their Annual CCFS-320 Attendance Report to properly reflect those students who were actively enrolled.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

District Response

Personnel in the Admissions and Records Office now have the ability to identify the instructors that have not turned in their attendance rosters on census day through a query that has been written. This will allow for a timelier follow up with all instructors to ensure all census rosters have been completed. The program utilized to prepare the CCFS-320 report has been rewritten to ensure the students dropping on the census date are not included in the FTES calculation. The District prepared a revised annual apportionment report which included the reduction of the excess FTES. The District did not receive apportionment for these FTES as the District is over cap and has approximately 600 unfunded FTES.

2011-21 CONCURRENT ENROLLMENT

Criteria or Specific Requirement

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with the following criteria:

- *Education Code* Sections 48800-48802, 76000-76002, and 84752.
- CCR, title 5, sections 51004, 51006, 51021, 53410, 55002, 55100, 58100-58108, 58050, 58051(a) (1), 58051.5, 58052, 58056(a), 58058, 58060, and 59300 et seq.
- Legal Opinions M 98-17 and M 02-20 issued by the Chancellor's Office, California Community Colleges.
- Legal Advisory 05-01, "Questions and Answers Re. Concurrent enrollment" - issued January 5, 2005 by the Chancellor's Office, California Community Colleges.

Condition

Significant Deficiency - During the testing, a number of errors were noted within the program as follows:

1. When a student graduated from high school, they were not removed from the SPX code in the attendance system which identifies them as concurrent enrolled students. Therefore, they were not being assessed enrollment fees in subsequent years.
2. The District had a contract with a program (ASTI) in which high school students were attending the College. The students in this program were identified in the system as concurrent enrolled students utilizing the SPX code. Per State compliance, concurrent enrolled students taking more than 11 units should then be assessed enrollment fees. These students were not being assessed enrollment fees after reaching the 11 unit criteria.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

3. One student tested that had a current year concurrent enrollment form and was not part of the ASTI program took more than 11 units and enrollment fees were not charged any fees. The student attended Sojourner Trust Independent Study Program and took 19 units in the Spring of 2011.

Effect

The FTES generated for concurrent enrolled high school students is improperly identified. Also, the College's enrollment fees are understated as well. The District is at risk of noncompliance with the *Education Codes* related to concurrent enrolled students.

Context

The District has several thousand students that are considered to be concurrently reenrolled.

Questioned Costs

There are no questioned costs due to the District resubmitting their Annual CCFS-320 Attendance Report to correct the errors noted.

Recommendation

The District needs to go through an extensive review of all concurrent enrolled students and verify that they meet the criteria of concurrently enrolled and they are being properly assessed the fees. Also the District should generate a restriction in their registration process that does not allow concurrently enrolled students to enroll in more than 11 units.

District Response

The District is in the process of updating the Admissions and Records system so that all students are removed from concurrently enrolled status once they turn 18. If a student is still in high school at the age of 18, they will then need to provide documentation to Admissions and Records to show they are still a high school student and thus a concurrent enrollment student. Otherwise, fees are applied to all students once they turn 18.

All students taking in excess of 11 units will be assessed student fees. Meetings have been held with the ASTI program leaders, and they are now aware of the fee assessment.

Concurrent enrolled students are only able to schedule courses through the Admissions and Records Office. If the student elects to enroll in more than 11 units, they will be assessed the appropriate fees.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2011-22 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.

Condition

Significant Deficiency - One college had not completed and filed the expenditure report within the proper timeline.

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.

District Response

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

2011-23 EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS)

Criteria or Specific Requirement

5 CCR § 56220 states that in order to receive programs and services authorized by this chapter, a student must not have completed more than 70 units of degree applicable credit coursework in any combination of postsecondary higher education institutions.

Condition

Significant Deficiency - We noted that 2 of the 25 students reviewed were over the maximum number of units as noted above. Upon further inquiry, it was noted that the process for identifying which students are over the maximum is a manual process which is prone to errors.

Effect

One College is not in compliance with 5 CCR § 56220 and is providing benefits to ineligible participants.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

There are no questioned costs noted.

Recommendation

It is recommended that the College implement procedures to review and identify EOPS students who are over the maximum number of units.

District Response

The District will ensure a more thorough review of the individuals participating in the EOPS so they do not exceed the allowable number of units.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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 Findings and Questioned Costs.

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2010-1 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 2009-2010 fiscal year has been hampered by the Financial Accounting System. The current programming does not provide effective reports for the monitoring of the accounts. The 2009-2010 final budget was not adopted until April 27, 2010.

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.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Implemented.

2010-2 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 2009, December 2009, and March 2010 were not submitted to the Chancellor's Office in a timely manner. Additionally, the annual CCFS-311 had numerous errors noted that is required to be adjusted to the audit report.

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.

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-311Qs should be prepared, reviewed, and approved by the Board of Trustees and submitted to the State Chancellor's Office.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-3 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.

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. Turnover in key management positions has created delay in reporting and reconciliations of the District's financial records.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Partially implemented. See current year finding 2011-1.

2010-4 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 prior year 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 fifteen (15) material weakness comments and fifteen (15) significant deficiencies related to the financial statements; thirteen (13) comments related to noncompliance with Federal awards; and ten (10) 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Implemented.

2010-5 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 2009-2010 fiscal year were not reviewed for months after receipt.

The investment policy requires the investment manager to only include investments in the portfolio with a rating of Bb or above at June 30, 2010. Approximately \$2 million of the purchased investments were below this threshold.

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.

Context

The fair value of investments at June 30, 2010, was approximately \$149 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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

2010-6 SWAP INVESTMENT ACTIVITY

Criteria or Specific Requirement

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

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Implemented.

2010-7 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.

Condition

Material Weakness - The Cash in County reconciliations are not being consistently performed during the year. 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.

Current Status

Not implemented. See current year finding 2011-2.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-8 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.

Condition

Material Weakness - Bank accounts for the various activities of the District were not reconciled as of June 30, 2010. This has been a consistent finding for the past four years. The District does not maintain a complete and comprehensive list of all bank accounts.

Context

The District Office maintains numerous 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.

Current Status

Not implemented. See current year finding 2011-2.

2010-9 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

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.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-10 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 2009-2010 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. These effects did not result in the desired outcome. The final reconciliation of the capital assets was not completed until after year-end.

Context

Total capital assets, including construction in process, is recorded with an initial cost of over \$450 million with annual depreciation expense of approximately \$14 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.

Current Status

Partially implemented. See current year finding 2011-3.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-11 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

2010-12 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. 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. The four campuses are not consistently coding charges, payments, and refunds. This has resulted in extensive reconciliation procedures. The District is inaccurately using clearing accounts to account for student fees. These accounts are not being properly reconciled.

Context

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

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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

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

Current Status

Implemented.

2010-13 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.

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.

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.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

SIGNIFICANT DEFICIENCIES

FINANCIAL ACCOUNTING SYSTEM PROCEDURES

2010-14 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.

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.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-15 ACCRUAL ACCOUNTS

Criteria or Specific Requirement

Governmental accounting policies and the California Community College Controller'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.

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.

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

Partially implemented. See current year finding 2011-4.

2010-16 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Not implemented. See current year finding 2011-5.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-17 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.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-18 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.

Current Status

Not implemented. See current year finding 2011-13.

2010-19 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*.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

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.

Current Status

Partially implemented. See current year finding 2011-6.

2010-20 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.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Partially implemented. See current year finding 2011-10.

2010-21 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.

Context

Of the 30 expenditures reviewed for classification, 11 were noted to be classified incorrectly. 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

2010-22 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. In addition, the agreements were signed by the parties months after the terms had already begun. These were two instances where there was no contract available at all.

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.

Current Status

Not implemented. See current year finding 2011-7.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-23 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.

Current Status

Implemented.

2010-24 PAYROLL FINDING

Criteria or Specific Requirement

Industry standards and proper internal controls over accrued vacation payouts require a system of reconciliation, review, and monitoring necessary to ensure that all vacation payouts of the District are captured in the correct account code.

Condition

Significant Deficiency - During review of terminated employee's final payroll payout, auditor noted an instance where an employee's entire vacation accrual was paid out of the Revenue Bond Fund. The employee only worked for the Revenue Bond Fund for approximately two months. Therefore, the employee's vacation accrual should have been prorated and payout of the corresponding funds where the employee accrued the vacation hours.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Context

The total vacation payout paid to the employee out of the Revenue Bond Fund was \$19,764.

Effect

The employee's vacation accrual was not paid out of the correct account code.

Recommendation

Internal controls and proper monitoring over the vacation accrual payout should be strengthened to ensure that all employee vacation payouts are done out of the proper account code.

Current Status

Implemented.

2010-25 STUDENT FINANCIAL AID DISBURSEMENTS

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 - During testing of trust disbursements, auditor noted that financial aid disbursements are being made out of the trust accounts. The college will receive a check from the State for PELL which they deposit into the clearing account trust. From the trust, they cut checks to students. The auditor noted the following trusts that are being used for this purpose:

Laney: Cash Exchange Clearing Account

Berkeley: Cash Exchange Clearing Account

Merritt: LRC Printing Cards, Clearing Account, PELL and CAL Grant Overpayment

Context

Through audit procedures, it was noted \$23,002 were expensed from the campuses.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The students being paid from the trust account may not be eligible students. The expenditures may not be recorded correctly as Federal expenditures in the Schedule of Federal Awards. Federal revenue may be understated due to improper recording of revenues.

Recommendation

The District should implement procedures and policies regarding all financial aid disbursements to ensure the proper recording. Monies being received should only be received at the District Office and deposited into a designated account. The trust accounts should not be used as a District clearing account.

Current Status

Not implemented. See current year finding 2011-8.

FEDERAL AWARD FINDINGS

2010-26 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

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

Material Weakness - A complete SEFA was prepared by the District for the Federal categorical programs; however, we noted several errors and omissions in the initial reporting. Federal programs were reported 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.

Questioned Costs

None.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Context

During the current fiscal year, the District reported approximately \$35.5 million of Federal expenditures on the SEFA.

Effect

Without proper control in place over the reporting of Federal 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.

Cause

Procedures and controls over the collection of data to be included in the SEFA are currently not in place.

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 2011-13.

2010-27 TIME AND EFFORT REPORTING

Federal Program Affected

U.S. Department of Education (DOE), Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II (CFDA #84.243), Regional Tech-Prep Coordination (CFDA #84.243), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048), Maximum Achievement Project (MAP) (CFDA #84.382A), Strengthening Institutions Program, Title III (CFDA #84.031A), Small Business Administration (SBA), Small Business Development Center (CFDA #59.037), U.S. Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA #17.258)

Compliance Requirement

Allowable Costs

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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

Material Weakness - Individuals working within the program have not certified the actual time spent working within the Federal programs. Time studies have not been completed for individuals who work either full-time or part-time on the program as required by OMB.

Questioned Costs

Subsequent to the audit procedures being performed, the District was able to obtain after the fact confirmation to support the costs charged to the Federal programs. No questioned costs are noted.

Context

A significant amount of the Federal expenditures related to these programs are derived from payroll costs. 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 the time studies and certifications, the program managers are not able to effectively monitor that individuals are being appropriately charged to the Federal grant.

Cause

Procedures and controls over compliance do not clearly specify how the time certification process should be completed or the process for the review of the certifications.

Recommendation

The District should have all individuals working on any Federal program certify their time as required by OMB.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Not implemented. See current year finding 2011-14.

2010-28 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), Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II (CFDA #84.243), Small Business Administration (SBA), Small Business Development Center (CFDA #59.037), U.S. Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA #17.258)

Compliance Requirement

Reporting

Criteria or Specific Requirement

The District is required to report to the oversight agency, on a quarterly basis, the activity for CTEA Title I C, CTEA Tech-Prep Education and the Small Business Development Center. The District is required to report to the oversight agency, on a monthly basis, the activity for the WIA Cluster.

Condition

Material Weakness - 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 2nd quarter report to the agency was not submitted within the timeframe required by the oversight agency.

Material Weakness - 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 2nd and 3rd quarter reports did not meet the percentage of the total allocation required to be expended.

Material Weakness - Small Business Development Center - The District's quarterly reports submitted during the year were not submitted within the timeframe required by the oversight agency.

Material Weakness - ARRA WIA - Green Jobs, ARRA WIA - Adult, ARRA WIA Adult - Clean Energy Project, and WIA Adult - One Stop Career Center - During the 2009-2010 fiscal year, the District did not submit any monthly financial reports for three of the four WIA programs. Quarterly financial reports were submitted for the WIA One Stop Career Center; however, contract guidelines stipulate monthly reports are required. The monthly performance reports required to be submitted for the Clean Energy Project were not submitted by the required due date as indicated by the oversight agency. Furthermore, supporting documentation is not retained and was regenerated upon request. As a result, the supporting documents did not accurately support the performance reports.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

None.

Context

All four quarterly reporting periods were tested for CTEA Title I, Part C and CTEA Tech-Prep Education, Title II. Two quarterly reports were tested for the Small Business Development Center and the WIA One Stop Career Center. Three monthly performance reports were tested for the WIA Adult - Clean Energy Project. No monthly reports were tested for ARRA WIA - Green Jobs, ARRA WIA - Adult, and ARRA WIA Adult - Clean Energy Project as the required reports were not submitted for the 2009-2010 fiscal year.

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.

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.

Current Status

Not implemented. See current year finding 2011-16.

2010-29 SEPARATE ACCOUNTABILITY FOR THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUNDING

Federal Program Affected

WIA Adult Program, ARRA WIA Adult Program, WIA Dislocated Workers, and ARRA WIA Dislocated Workers, within the WIA Cluster, U.S. Department of Labor, pass through from the County of Alameda (CFDA #17.258, CFDA #17.260)

Compliance Requirement

Special Tests and Provisions

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Criteria or Specific Requirement

2 CFR section 176.210, Federal agencies must require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipients, and document at the time of the subaward and disbursement of funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

Condition

Material Weakness - During the audit of ARRA funds, we noted expenditures of ARRA funds were not accounted for separately from expenditures of non-ARRA funds which resulted in the following:

- The District's accounting records could not distinguish from \$197,365 of total program expenditures, which costs were funded with ARRA funds.
- The District reported on the SEFA expenditures of WIA Adult - One Stop Career Center (including ARRA) awards of \$197,365; however, the reported ARRA expenditures were not supported by accounting records. The District's accounting records only supported the \$197,365 of total program expenditures, but no separate accounting was performed to accurately report expenditures of ARRA awards and non-ARRA funds.

Questioned Costs

\$197,365 - The amount of the expenditures for the WIA Adult - One Stop Career Center (including ARRA) Program.

Context/Cause

Isolated instance - We noted the District did not separate account expenditures of ARRA funds from expenditures of non-ARRA funds only in this program.

Effect

Without a separate accounting of ARRA funds, expenditures cannot be tested to determine if provisions of ARRA have been followed, and ARRA funds cannot be separately identified on the SEFA.

Recommendation

We recommend that the District develop separate program codes for all ARRA awards in order to ensure expenditures of ARRA funds are accounted for separately from expenditures of non-ARRA funds.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Current Status

Implemented.

2010-30 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 and Real Property 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

Significant Deficiency - The District has not maintained an inventory control system that satisfies the compliance criteria noted above.

Questioned Costs

None.

Context

During the current fiscal year, the District spent approximately \$198,000 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Not implemented. See current year finding 2011-17.

2010-31 PROCUREMENT, SUSPENSION, AND DEBARMENT

Federal Program Affected

U.S. Department of Education (DOE) Maximum Achievement Project (MAP) (CFDA #84.382A), Carl D. Perkins - Career and Technical Education Act (CTEA) Tech-Prep Education, Title II, Regional Tech-Prep Coordination (CFDA #84.243), Carl D. Perkins - Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048), and Strengthening Institutions Program, Title III (CFDA #84.031A), Small Business Administration (SBA), Small Business Development Center (CFDA #59.037), Department of Labor (DOL), Workforce Investment Act Cluster (WIA) (CFDA# 17.258)

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.

Questioned Costs

None.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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 the parties contracted with during the year for services were 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>).

Current Status

Not implemented. See current year finding 2011-15.

2010-32 DIRECT LOANS

Federal Program Affected

Student Financial Aid Cluster - Direct Loans (CFDA #84.268)

Compliance Requirement

Special Tests and Provisions - Direct Loans

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Criteria or Specific Requirement

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303). (Note: The *Direct Loan School Guide* and yearly training documents describe the reconciliation process.)

Condition

Significant Deficiency - Merritt College was not reconciling the School Account Statement data file and the Loan Detail records to the financial records.

Questioned Costs

No questioned costs.

Context

Merritt College began to disburse direct loans in September 2009. It was noted that the records were not reconciled for any of the months that direct loans were disbursed.

Effect

Without proper monitoring of Direct Loan disbursements, the District risks noncompliance with 34 CFR sections 685.102(b), 685.301, and 685.303.

Cause

The College has not implemented policies and procedures to verify that the School Account Statement data file and the Loan Detail records per the COD are reconciled to Merritt College's financial records.

Recommendation

It is recommended that the District implement procedures to ensure that the School Account Statement data file and the Loan Detail records per the COD are reconciled to Merritt College's financial records.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Current Status

Not implemented. See current year finding 2011-19.

2010-33 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 and Provisions - 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

Significant Deficiency - During our review of the requirements for Return to Title IV at the Berkeley, Merritt, and College of Alameda campuses, it was noted that in some instances, the Colleges did not return the Federal funds within the 45 day requirement.

Questioned Costs

No questioned costs. The District did return the funds; however, they were not returned within the 45 day requirement.

Context

Of the students selected for testing that were required to return funds to the Department of Education, we noted 12 students that did not meet the 45 day requirement.

Effect

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

Cause

The Colleges have not implemented policies and procedures to monitor the Return of Title IV funds.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Not implemented. See current year finding 2011-18.

2010-34 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 2009-2010 fiscal year, the District drew down approximately \$29 million.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

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.

Current Status

Implemented.

STATE AWARD FINDINGS

2010-35 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.

Condition

In testing the supporting documentation and underlying calculations of the Annual CCFS-320 Attendance Report, we noted several 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 22,179.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

2010-36 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.

Condition

Laney College 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.

Current Status

Not implemented. See current year finding 2011-22.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-37 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.

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.

Current Status

Not implemented. See current year finding 2011-20.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2010-38 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. Merritt College failed to submit the report within the required time. The District receives over \$900 thousand 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.

Current Status

The auditor was not required to test noted compliance, therefore, unable to be determined.

2010-39 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*

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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 \$19,343 over-recorded on the CCFS-323 report.

Effect

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

Questioned Costs

None.

Recommendation

Care should be taken when completing the required reporting forms for the State Chancellor'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

Implemented.

2010-40 GANN LIMIT CALCULATION

Criteria or Specific Requirement

Article XIII-B, Section 1.5, of the California Constitution
Proposition 111, effective July 1, 1990
CCR, Title 5, Section 58303
Government Code Section 7908 (c)
California Community College System's Office's Contracted District Audit Manual

Condition

Significant Deficiency - Community college districts are required to compute its annual appropriation limit. The appropriation limit, appropriations subject to limit, State aid apportionments, subventions included within property tax proceeds and amounts excluded from the appropriations subject to limit are all required to be reported as a part of the CCFS-311 report. The amount reported as the 2009-2010 Appropriations limit on the CCFS-311 report does not agree to the ending 2009-2010 Appropriations Subject to Limit on the prior year calculation. There is a difference of \$5,000,000 under-recorded on the CCFS-311 report.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Effect

By not reporting the appropriations limit correctly, the calculation is inaccurate and the 2010-2011 Appropriations Limit figure is incorrectly calculated.

Questioned Costs

None.

Recommendation

Care should be taken when completing the required reporting forms for the State Chancellor's Office. A reconciliation of amounts to be reported should be signed off by supervisory personnel prior to submitting the documents.

Current Status

Implemented.

2010-41 50% LAW CALCULATION

Criteria or Specific Requirement

Education Code 84362 requires that a minimum of 50 percent of the District's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors." Salaries of classroom instructors, as prescribed in California Code of Regulations (CCR), Title 5, Section 59204, means (1) "that portion of salaries paid for purposes of instruction of students by full-time and part-time instructors employed by a district; and (2) all salaries paid to classified district employees who are (a) assigned the basic title of "Instructional Aide" or other appropriate title designated by the governing board that denotes that the employees' duties include instructional tasks and (b) employed to assist instructors in the performance of their duties, in the supervision of students, and in the performance of instructional tasks." An employee shall be deemed to be under the supervision of an instructor for the purpose of *Education Code* Section 84362 if the employee performs duties under the general direction of an instructor.

Condition

We noted five employees who are assigned the title of instructional aide whose duties are do not include instructional tasks; the employees are computer network administrators.

Effect

The expenditures for instructional aides reported on the 50% Law calculation are overstated. The District is at risk of noncompliance with the *Education Code* Section 84362 requirements.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

The total salary of the employee equaled \$300,254. Upon recalculation of the 50% Law, the District remains in compliance with the requirement to expend at least 50 percent of the current expense of education on the salaries and benefits of classroom instructors as defined by *Education Code* 84362.

Recommendation

Job descriptions should be reviewed and clearly documented to ensure only employees with instructional duties and under the supervision of an instructor are charged to the 22XX object code which is included in the 50% Law calculation.

Current Status

Implemented.