PERALTA COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2010

FINANCIAL SECTION

Independent Auditors' Report 2
Management's Discussion and Analysis (Required Supplementary Information) 4
Basic Financial Statements - Primary Government
Statement of Net Assets 11
Statement of Revenues, Expenses, and Changes in Net Assets 12
Statement of Cash Flows 13
Fiduciary Funds
Statement of Net Assets 15
Statement of Changes in Net Assets 16
Notes to Financial Statements 17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Other Postemployment Benefits (OPEB) Funding Progress 50

SUPPLEMENTARY INFORMATION

District Organization 52
Schedule of Expenditures of Federal Awards 53
Schedule of Expenditures of State Awards 55
Schedule of Workload Measures for State General Apportionment - Annual (Actual) Attendance 56
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements 57
Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets 58
Note to Supplementary Information 59

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards* 62
Report on State Compliance 64

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 67
Financial Statement Findings and Recommendations 68
State Awards Findings and Questioned Costs 92
Summary Schedule of Prior Audit Findings 101

PERALTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2010

ADDITIONAL SUPPLEMENTARY INFORMATION

Governmental Funds
- Balance Sheets 138
- Statements of Revenues, Expenditures, and Changes in Fund Balance 139

Proprietary Funds
- Balance Sheet 140
- Statement of Revenues, Expenses, and Changes in Retained Earnings 141
- Statement of Cash Flows 142

Fiduciary Funds
- Balance Sheets 143
- Statements of Revenues, Expenditures, and Changes in Fund Balance 144

Note to Additional Supplementary Information 145

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, 2010, 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, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 50 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.

The Additional Supplementary Information on pages 138 through 145 has been presented at the request of District management for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 30, 2010

Peralta Community College District
333 East 8th Street • Oakland, California 94606 • (510) 466-7225

This section of the Peralta Community College District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2010. This is prepared in compliance with the reporting standards required for public colleges and universities. Responsibility for the completeness and accuracy of this information rests with District management.

FINANCIAL HIGHLIGHTS

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the fiscal year 2009-2010, FTES was 22,144 (including credit and noncredit FTES), as compared to 20,322 in the fiscal year 2008-2009. This represented an 8.96 percent increase. FTES is generated at the District's four colleges: College of Alameda, Laney College, Merritt College, and Berkeley City College.

- General Fund revenues for the year were $128.9 million, a decrease of 3 percent from prior year's revenue of $132.9 million.

- The District ended the fiscal year 2009-2010 with a net decrease in fund balance in the unrestricted General Fund leaving the ending fund reserve at $8.1 million. The Board of Trustees has set a goal to maintain at least a five percent reserve for the unrestricted General Fund.

- Medical benefits for both employees and retirees increased at ten percent over the prior year. The District continues to provide retirees with lifetime medical benefits. For employees hired after July 1, 2004, medical benefits upon retirement are provided until age 65 or Medicare eligibility. The District has accounted for retiree benefits on a "pay-as-you-go basis." The actuarial accrued liability at a seven percent discount rate for the District as of June 30, 2010, is $131 million. The actuarial accrued liability is comprised of $60 million of liabilities for active employees expected to retire in the future and $71 million for retirees. In December 2005, the District issued $153 million in Other Postemployment Benefits (OPEB) Bonds. The proceeds of the bonds have been placed in a Deferred Comp Trust Fund, which may be used only to pay or reimburse the District for payment of retiree health benefit costs. In January 2006, the bond proceeds were invested in a strategic allocation that mirrors the asset allocation of CalPERS. For the year ended June 30, 2010, the investment trust fund had unrealized gains of $10 million or 7 percent.

- The District is using Measure E bonds to pay for various capital improvements to our educational facilities. They include the following:

  1. Investment in our technology infrastructure District-wide.
  2. Renovation of athletic facilities at Laney College, Merritt College, and College of Alameda.
  3. Landscape improvements at Merritt College.
  4. Renovation of student services building at Laney College, Merritt College, and College of Alameda.
  5. Improvements in laboratories and power supplies District-wide.
  6. Cabling and power upgrade for technology.
  7. Construction of a six story urban campus for Berkeley City College in Berkeley.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

This annual report consists of three parts: management's discussion and analysis (this section), three basic financial statements that provide information on the District's activities as a whole (the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows), and Supplementary Information.

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

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities, which are supported mainly by property taxes and by State and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various District services to students and the public.

The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The financial statements also include Notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed financial information is as follows:

Statement of Net Assets

Net assets are the difference between assets and liabilities. Overall, net assets decreased by $13.2 million as of June 30, 2010. The decrease in net assets is primarily attributed to the accrual of the retiree health benefits expense as required by GASB Statement No. 45 as the annual required contribution (ARC).

NET ASSETS
As of June 30,

(Amounts in thousands)

	2010	2009
ASSETS		
Current Assets		
Cash and investments	$ 398,562	$ 314,054
Accounts receivable and other assets, net	39,217	22,823
Total Current Assets	437,779	336,877
Noncurrent Assets		
Deferred costs on issuance	9,854	9,754
Capital assets (net of depreciation)	322,396	309,653
Total Assets	770,029	656,284
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	36,911	16,553
Deferred revenue	5,656	5,063
Current portion of long-term obligations	14,895	9,654
Total Current Liabilities	57,462	31,270
Long-term obligations	654,009	552,732
Total Liabilities	711,471	584,002
NET ASSETS		
Invested in capital assets	65,946	84,589
Restricted for expendable purposes	29,965	27,326
Unrestricted	(37,353)	(39,634)
Total Net Assets	$ 58,558	$ 72,281

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

Cash and short-term receivables consist primarily of funds held in the Alameda County Treasury. The changes in the cash position are explained in the Statement of Cash Flows (page 13).

Many of the unrestricted net assets have been designated by the Board or by contracts for such purposes as Federal and State grants, outstanding commitments on contracts, bookstore reserves, and general reserves for the ongoing financial health of the District.

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

(Amounts in thousands)

	2010	2009
Operating Revenues		
Tuition and fees	$ 13,031	$ 12,623
Other revenues	-	42
Total Operating Revenues	13,031	12,665
Operating Expenses		
Salaries and benefits	120,005	124,668
Supplies and maintenance	47,367	43,092
Student financial aid	32,532	21,907
Depreciation	14,319	13,727
Total Operating Expenses	214,223	203,394
Loss on Operations	(201,192)	(190,729)
Nonoperating Revenues and (Expenses)		
State apportionments	66,017	73,235
Grants and contracts	44,676	38,451
Property taxes	59,044	52,909
State revenues	4,604	4,381
Investment income	29,273	(26,139)
Interest expense	(22,699)	(18,890)
Other nonoperating revenues and transfers	6,286	742
Total Nonoperating Revenues	187,201	124,689
Other Revenues		
State and local capital income	268	284
Total Other Revenues	268	284
Net Decrease in Net Assets	$ (13,723)	$ (65,756)

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

The primary operating receipts are student tuition and fees. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

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

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

The interest income is primarily the result of cash held at the Alameda County Treasury and investments for Retiree Benefits which was offset by the interest expense. The interest expense relates to interest on short-term loans and bonds payable.

The District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the Notes to the financial statements as Note 7.

The Statement of Cash Flows provides information about cash receipts and payments during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

Statement of Cash Flows
for the Years Ended June 30,

(Amounts in thousands)

	2010	2009
Cash Provided by (Used in)		
Operating activities	$ (184,018)	$ (173,125)
Noncapital financing activities	143,573	137,214
Capital financing activities	87,047	(22,127)
Investing activities	12,165	11,490
Net Change in Cash	58,767	(46,548)
Cash, Beginning of Year	184,668	231,216
Cash, End of Year	$ 243,435	$ 184,668

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

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At June 30, 2010, the District had $322.4 million in a broad range of capital assets including land, buildings, and furniture and equipment. The District also continued to modernize and refurbish various sites within the District. Construction in progress decreased $32.4 million as these projects were completed and placed in service.

Long-Term Obligations

At the end of 2009-2010, the District had $668.9 million in long-term obligations. The increase in long-term obligations was primarily the result of the sale of the General Obligation Bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget as it attempted to deal with unexpected changes in revenues and expenditures.

While the District's final budget for the General Fund anticipated that revenues and expenditures would result in a balanced budget, the actual results for the year showed a net decrease in fund balance of approximately $6.4 million, primarily attributed to increases related to employee medical benefit costs by $3.9 million.

- The actual expenditures have remained flat due to expenditure reductions made during the 2009-2010 fiscal year.
- During the fiscal year 2009-2010, the District implemented a number of cost saving measures including the consolidation of a number of positions and a reduction in the number of sections offered in effort to reduce operating costs. As a result, the District achieved the following net savings/cost reductions:
    - Savings of $3.0 million in Academic Salaries
    - Savings of $1.6 million in Classified Salaries
    - Savings of $1.2 million in Capital Outlay

ECONOMIC FACTORS AFFECTING THE FUTURE OF PERALTA COMMUNITY COLLEGE DISTRICT

- The economic position of Peralta Community College District is closely tied to the State of California as State apportionments and property taxes allocated to the District represent approximately 73 percent of the total sources of revenues received by the District in the general unrestricted fund.
- Although the District receives local income from property tax proceeds and student enrollment fees, these local income sources are but a component of the State Based Apportionment calculation. Local income is deducted from the computed total funding level to determine the amount of State funds necessary to fund the District's Base Apportionment. Because of this formula, the finances of the District are directly tied to the State economy, State revenues, and the State legislative process to allocate revenues for public purposes.

- Enrollment is expected to be flat to slightly higher for fiscal 2010-2011 due to ongoing funding restrictions.

- Due to the current State Budget deficit and escalating medical costs, 2010-2011 is anticipated to be flat. The District will use one-time and ongoing revenues to continue to serve our students. The 2010-2011 General Fund reserve will be maintained above the Board required reserve of five percent.

- The District is closely following State economic forecasts and announcements from the Governor's Office on administration spending priorities. Balancing the budget in fiscal 2010-2011 and in future years will require careful financial analysis. The District's challenge will be the development of strategic planning that continues to emphasize the community's access to higher education while controlling costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PERALTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2010

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 5,634,249
Restricted cash and cash equivalents	6,746,015
Investments	16,791,924
Restricted investments	369,389,977
Interest rate SWAP	6,864,037
Accounts receivable, net	24,008,678
Student receivable, net	5,743,861
Prepaid expenses	1,416,954
Deferred costs on issuance - current portion	404,441
Deferred costs on refunding - current portion	596,764
Inventories	182,639
Total Current Assets	437,779,539
NONCURRENT ASSETS	
Deferred costs on issuance - noncurrent portion	7,665,874
Deferred costs on refunding - noncurrent portion	2,188,135
Nondepreciable capital assets	86,180,753
Depreciable capital assets, net of depreciation	236,214,903
Total Noncurrent Assets	332,249,665
TOTAL ASSETS	770,029,204
LIABILITIES	
CURRENT LIABILITIES	
Deficit cash in county treasury	5,403,347
Accounts payable	11,550,791
Deferred cash outflows	6,864,037
Accrued interest payable	9,612,073
Deferred revenue	5,656,547
SWAP liability	3,481,160
Compensated absences payable - current portion	384,000
General obligation bonds payable - current portion	10,790,308
Other postemployment benefits bonds - current portion	3,720,180
Total Current Liabilities	57,462,443
NONCURRENT LIABILITIES	
Claims liability	1,809,778
Load banking	1,900,000
Compensated absences payable - noncurrent portion	3,600,244
General obligation bonds payable - noncurrent portion	451,961,495
Other postemployment benefits bonds - noncurrent portion	181,495,100
Postemployment benefits obligation - noncurrent portion	13,242,492
Total Noncurrent Liabilities	654,009,109
TOTAL LIABILITIES	711,471,552
NET ASSETS	
Invested in capital assets, net of related debt	65,946,214
Restricted for:	
Debt service	13,675,812
Capital projects	296,963
Other activities	15,991,958
Unrestricted	(37,353,295)
TOTAL NET ASSETS	$ 58,557,652

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, 2010

OPERATING REVENUES	
Student Tuition and Fees	$ 21,510,031
Less: Scholarship discount and allowance	(8,478,561)
Net tuition and fees	13,031,470
TOTAL OPERATING REVENUES	13,031,470
OPERATING EXPENSES	
Salaries	81,366,148
Employee benefits	38,638,983
Supplies, materials, and other operating expenses and services	47,367,015
Student financial aid	28,503,569
Equipment, maintenance, and repairs	4,029,137
Depreciation	14,318,765
TOTAL OPERATING EXPENSES	214,223,617
OPERATING LOSS	(201,192,147)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	66,016,450
Federal grants and contracts	33,173,918
State grants and contracts	11,502,026
Local property taxes, levied for general purposes	27,845,145
Taxes levied for other specific purposes	31,198,641
State taxes and other revenues	4,604,101
Interest income	19,083,951
Realized loss on investments	(228,489)
Net unrealized gain on investments	10,326,495
Interest expense on capital related debt	(22,699,196)
Investment income on capital asset-related debt, net	91,190
Other nonoperating revenue	6,286,320
TOTAL NONOPERATING REVENUES (EXPENSES)	187,200,552
INCOME BEFORE OTHER REVENUES	(13,991,595)
Local revenues, capital	268,450
TOTAL OTHER REVENUES	268,450
CHANGE IN NET ASSETS	(13,723,145)
NET ASSETS, BEGINNING OF YEAR (RESTATED)	72,280,797
NET ASSETS, END OF YEAR	$ 58,557,652

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 11,888,580
Payments to or on behalf of employees	(116,198,098)
Payments made to students from financial aid	(28,503,569)
Payments to vendors for supplies and services	(51,204,960)
Net Cash Flows From Operating Activities	(184,018,047)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	63,293,931
Federal and State grants and contracts	42,207,034
Property taxes - nondebt related	27,845,145
Other State revenues	4,144,252
Other nonoperating expenses	6,082,719
Net Cash Flows From Noncapital Financing Activities	143,573,081
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State capital apportionments	268,450
Taxes levied for other specific purposes	31,198,641
Proceeds from bond issuance	151,774,579
Acquisition and construction of capital assets	(26,301,891)
Principal paid on capital debt and leases	(48,871,761)
Interest received on capital debt	91,190
Interest paid on capital debt and leases	(21,111,862)
Net Cash Flows From Capital and Related Financing Activities	87,047,346
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(20,438,060)
Investment income	32,602,590
Net Cash Flows From Investing Activities	12,164,530
NET CHANGE IN CASH AND CASH EQUIVALENTS	58,766,910
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	184,668,188
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 243,435,098

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, 2010

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH FLOWS FROM OPERATING ACTUALS	
Operating Loss	$ (201,192,147)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation	14,318,765
Changes in Operating Assets and Liabilities:	
Receivables, net	2,827,891
Inventories	(32,111)
Prepaid expenses	(400,073)
Accounts payable and accrued liabilities	(3,449,389)
Deferred revenue	294,268
Compensated absences	3,453,917
Claims liability	160,778
Total Adjustments	17,174,046
Net Cash Flows From Operating Activities	$ (184,018,101)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 12,380,264
Investment in county treasury	231,054,834
Total Cash and Cash Equivalents	$ 243,435,098
NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 1,664,847
Total Noncash Transactions	$ 1,664,847

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

PERALTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

	Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 366,066	$ 1,779,059
Accounts receivable	95,924	-
Fixed assets	2,555	-
Total Assets	464,545	1,779,059
LIABILITIES		
Accounts payable	116,532	-
Due to student groups	11,531	1,779,059
Total Liabilities	128,063	1,779,059
NET ASSETS		
Unreserved	336,482	
Total Net Assets	$ 336,482	

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, 2010

	Trust
ADDITIONS	
Local revenues	$ 201,457
DEDUCTIONS	
Services and operating expenditures	170,826
Change in Net Assets	30,631
Net Assets - Beginning	305,851
Net Assets - Ending	$ 336,482

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

NOTE 1 - ORGANIZATION

The Peralta Community College District (the District) was established in 1964 as a political subdivision of the State of California and provides 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.

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 and auxiliary activities through the bookstore and cafeteria.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants and are recognized in the fiscal year in which all eligibility requirements are satisfied. Eligibility requirements may include time and/or purpose requirements. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges 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.

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:

- 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, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectable accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at $66,218 for the year ended June 30, 2010.

Prepaid Expenses

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

Inventories

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

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $49,999. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded 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.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as deferred revenue.

Net Assets

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

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

Restricted - Expendable - Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs. None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

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

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

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement Systems (CalPERS) on behalf of all community colleges in California. See Note 15 for additional information.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The Alameda County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Alameda bills and collects the taxes on behalf of the District. Local property tax revenues are recorded in the unrestricted General Fund when received.

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

Scholarship Discounts and Allowances

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

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2010, the District distributed $1,349,580 in direct lending through the U.S. Department of Education. This amount has not been included as revenues or expenses within the accompanying financial statements as the amount was passed directly to qualifying students; however, the amount is included on the Schedule of Expenditures of Federal Awards.

New Accounting Pronouncements

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

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

The Statement provided for prospective implementation – that is District's are required to determine the type of derivative instrument and adjust for the fair value during the year of implementation. The District has implemented this provision of the Statement for the fiscal year ended June 30, 2010. The District had one ineffective SWAP that is recognized as an Investment Interest Rate SWAP, the result of this recognition was $3,481,160 in unrealized investment income accounted for in the Statement of Revenue and Expenses. The remaining five SWAPs are considered Forward Stating Hedge SWAPs and are subject o hedge accounting. This has resulted in a deferral of cash flows recognized in the Statement of Net Assets.

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, 2010.

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, 2010, consist of the following:

Cash on hand and in banks - unrestricted	$ 5,579,249
Cash in revolving	55,000
Cash on hand and in banks - restricted	5,522,055
Cash with fiscal agent	1,223,960
Total Cash and Cash Equivalents	$ 12,380,264
Investment in county treasury - unrestricted	$ 5,985,230
Investment in county treasury - restricted	225,069,604
Investments - restricted	149,723,720
Total Investments	$ 380,778,554

Deposits and investments of the fiduciary funds as of June 30, 2010, consist of the following:

Cash on hand and in banks	$ 2,145,125

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	$ 231,742,575	340 days
U.S. Treasury Obligations	4,946,433	N/A
JP Morgan Money Market Funds	824,385	N/A
European Investment Bank Notes	53,529	N/A
Highmark Money Market Funds	12,148,879	N/A
Common Stock	63,659,231	N/A
Neuberger Berman International Institutional Fund - Mutual Funds	23,070,916	N/A
U.S. Governmental Securities	20,919,681	N/A
Corporate Debt Instruments	24,100,666	N/A
	$ 381,466,295	

Investments Highly Sensitive to Interest Rate Fluctuations

The District's investments included the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated in the information provided above.

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, 2010. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Total Fair Value	Rating
County Pool - Alameda	$ 231,742,575	Not Rated
U.S. Treasury Mutual Obligations	4,946,433	Aaa
JP Morgan Money Market Funds	824,385	Not Rated
European Investment Bank Notes	53,529	Aaa
Highmark Money Market Funds	12,148,879	Not Rated
Common Stock	63,659,231	Not Rated
Neuberger Berman International Institutional Fund - Mutual Funds	23,070,916	Not Rated
U.S. Governmental Securities	20,919,681	Aaa
Corporate Debt Instruments	5,883,404	Aa
Corporate Debt Instruments	296,888	A1
Corporate Debt Instruments	2,903,657	A2
Corporate Debt Instruments	1,208,527	A3
Corporate Debt Instruments	9,736,574	Ba
Corporate Debt Instruments	259,509	B1
Corporate Debt Instruments	664,206	B3
Corporate Debt Instruments	1,324,209	Ca
Corporate Debt Instruments	1,823,692	Not Rated
	$ 381,466,295	

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, 2010, the District's bank balance of $12,358,451 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the primary government consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

Federal Government	
Categorical aid	$ 5,420,152
State Government	
Apportionment	13,859,768
Categorical aid	977,085
Lottery	993,478
Other State sources	110,767
Local Sources	
Interest	462,346
Other local sources	2,185,082
Total	$ 24,008,678

Student receivables	$ 5,810,079
Less allowance for bad debt	(66,218)
Student receivables, net	$ 5,743,861

Fiduciary

Other local sources	$ 95,924

NOTE 5 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

Other Postemployment Bonds Debt Service	$ 726,303
Insurance	690,651
Total	$ 1,416,954

NOTE 6 - DEFERRED COSTS ON ISSUANCE AND REFUNDING

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

Unamortized issuance costs are as follows:

Other Postemployment Benefits Bonds 2006 Issuances	$ 2,921,940
Other Postemployment Benefits Bonds 2009 Refunding	525,782
General Obligation Bonds 2000, Series D	662,919
General Obligation Bonds 2005, Refunding	398,947
General Obligation Bonds 2006, Series A	902,146
General Obligation Bonds 2006, Series B	1,176,017
General Obligation Bonds 2006, Series C	937,650
General Obligation Bonds 2009, Refunding	544,914
Total	$ 8,070,315

Deferred costs on issuance - current portion	$ 404,441
Deferred costs on issuance - noncurrent portion	7,665,874
	$ 8,070,315

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	2,188,135
	$ 2,784,899

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the fiscal year ended June 30, 2010, was as follows:

	Balance Beginning of Year	Additions	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	78,347,145	27,061,055	32,447,222	72,960,978
Total Capital Assets Not Being Depreciated	91,566,920	27,061,055	32,447,222	86,180,753
Capital Assets Being Depreciated				
Buildings	242,902,296	28,896,455	-	271,798,751
Site improvements	26,001,497	3,550,768	-	29,552,265
Software and IT development	31,276,496	-	-	31,276,496
Machinery and equipment	39,230,205	-	-	39,230,205
Total Capital Assets Being Depreciated	339,410,494	32,447,223	-	371,857,717
Total Capital Assets	430,977,414	59,508,278	32,447,222	458,038,470
Less Accumulated Depreciation				
Buildings	79,132,943	5,711,954	-	84,844,897
Site improvements	6,217,926	1,319,717	-	7,537,643
Software and IT development	9,615,374	4,749,581	-	14,364,955
Machinery and equipment	26,357,806	2,537,513	-	28,895,319
Total Accumulated Depreciation	121,324,049	14,318,765	-	135,642,814
Net Capital Assets	$ 309,653,365	$ 45,189,513	$ 32,447,222	$ 322,395,656

Depreciation expense for the year was $14,318,765.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable for the primary government consisted of the following:

Accrued payroll and benefits	$ 1,349,611
Construction contractors	4,327,943
Independent contractors and consultants	561,409
Vendors and supplies	5,311,828
Total	$ 11,550,791

Fiduciary

Vendors and supplies	$ 116,532

NOTE 9 - DEFERRED REVENUE

Deferred revenue for the primary government consisted of the following:

Federal categorical aid	$ 751,364
State categorical aid	2,890,026
Enrollment fees	1,756,114
Other local	259,043
Total	$ 5,656,547

NOTE 10 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Balances owing between funds at year-end were $46,508,419. The balances result from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances at June 30, 2010, have been eliminated in the consolidation process for financial statement presentation.

Interfund Operating Transfers

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

NOTE 11 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the fiscal year 2010 consisted of the following:

	Beginning Balance	Additions	(Amortization)/ Accretion	Deductions	Ending Balance	Due in One Year
General obligation bonds	$ 366,372,491	$ 145,251,073	$ (631,761)	$ (48,240,000)	$ 462,751,803	$ 10,790,308
2005 Taxable Limited Obligation OPEB Bonds	119,278,730	-	6,523,506	-	125,802,236	-
2006 OPEB Bond modification and restructuring	10,688,044	-	-	-	10,688,044	60,180
2009 OPEB refunding	48,725,000	-	-	-	48,725,000	3,660,000
Total Bonds Payable	545,064,265	145,251,073	5,891,745	(48,240,000)	647,967,083	14,510,488
Other liabilities						
Postemployment benefits obligation	9,850,919	12,408,000	-	(9,016,427)	13,242,492	-
Claims liability	1,649,000	160,778	-	-	1,809,778	-
Load banking	1,900,000	-	-	-	1,900,000	-
Compensated absences	3,921,846	62,398	-	-	3,984,244	384,000
Total Long-Term Obligations	$ 562,386,030	$ 157,882,249	$ 5,891,745	$ (57,256,427)	$ 668,903,597	$ 14,894,488

Description of Obligations

Payments on the general obligation bonds are made by the bond interest and redemption fund with local tax collections. Debt service on the Other Postemployment Benefit (OPEB) Bonds will be made from the Unrestricted General Fund. Workers' compensation claims liability is an estimate based on an actuarial study completed by a third party specialist. Management is responsible to evaluate the adequacy of the change in value. The Postemployment Benefits Obligation is funded through payments for benefits and is reported within the General Fund. The compensated absences will be paid by the fund for which the employee worked. Load banking obligations are the responsibility of the General Fund in the year the employee utilizes the banked leave time.

Bonded Debt

General Obligation Bonds, Election 1992, Series E

In May 2001, the District issued, in the amount of $10,500,000, the Peralta Community College District General Obligation Bonds, Election 1992, Series E (the 1992 Series E Bonds) to finance the acquisition, construction, and rehabilitation of school facilities. The bonds mature beginning August 1, 2002 through August 1, 2025, with interest yield rates ranging from 3.25 to 5.12 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of the callable 1992 Series E Bonds. The bonds were paid in full during 2010.

General Obligation Bonds, Election 1996, Series A

In May 2001, the District issued, in the amount of $8,000,000, the Peralta Community College District General Obligation Bonds, Election 1996, Series A (the 1996 Series A Bonds) to finance the acquisition, construction and rehabilitation of school facilities at the Vista Campus (Berkeley). The bonds mature beginning August 1, 2002 through August 1, 2025, with interest yield rates ranging from 3.30 to 5.23 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of the callable 1996 Series A Bonds. The bonds were paid in full during 2010.

General Obligation Bonds, Election 2000, Series A

In May 2001, the District issued, in the amount of $27,500,000, the Peralta Community College District General Obligation Bonds, Election 2000, Series A (the 2000 Series A Bonds) to finance the acquisition, construction and rehabilitation of school facilities. The bonds mature beginning August 1, 2002 through August 1, 2031, with interest yield rates ranging from 3.25 to 5.25 percent. In August 2005, the Golden West Schools Financing Authority issued the 2005 General Obligation Revenue Bonds, Series B to finance the acquisition of a portion of the callable 2000 Series A Bonds. The remaining outstanding bonds were paid in full through the issuance of the 2009 Refunding Bonds.

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. Through the issuance of the 2009 Refunding Bonds, the District refinanced $17,445,000 of bonds. The remaining outstanding balance of the bonds is $9,130,000.

General Obligation Bonds, Election 2000, Series C

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

General Obligation Bonds, Election 2000, Series D

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

2001 Refunding General Obligation Bonds

In April 2001, the District issued, in the amount of $8,770,000, the 2001 Refunding General Obligation Bonds to advance refund the Peralta Community College District, General Obligation Bonds, Election of 1992, Series B (the Series B Bonds). The bonds mature beginning August 1, 2001 through August 1, 2018, with interest rates ranging from 4.00 to 5.00 percent. The Series B Bonds were issued on February 2, 1995, in the original par amount of $9,000,000. The Series B Bonds were issued to finance the acquisition, construction, and rehabilitation of school facilities. The Series B Bonds were redeemed in August 2003 and, as a result, the Series B Bonds were fully discharged and defeased. Through the issuance of the 2009 Refunding Bonds, these bonds were fully paid.

2002 Refunding General Obligation Bonds

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

2005 General Obligation Revenue Bonds, Series A

In June 2005, the District issued, in the amount of $7,285,000, the 2005 General Obligation Revenue Bonds, Series A (Peralta Community College District Refunding) to finance the acquisition of the outstanding Peralta Community College District General Obligation Bonds, Election of 1992, Series C. The bonds are repaid through tax assessments on property located within the District boundaries. The interest rates for the 2005 General Obligation Revenue Bonds, Series A range from 2.55 percent to 4.0 percent. The bonds mature through 2022.

2005 General Obligation Revenue Bonds, Series B

In August 2005, the Golden West Schools Financing Authority issued, in the amount of $32,975,000, the 2005 General Obligation Revenue Bonds, Series B (Peralta Community College District Refunding) to finance the acquisition of the callable Peralta Community College District General Obligation Bonds, Election of 1992, (the 1992D Bonds), the callable General Obligation Bonds, Election 1992, Series E, (the 1992E Bonds), the callable General Obligation Bonds, Election 1996, Series A, (the 1996A Bonds), and a portion of the callable General Obligation Bonds, Election 2000, Series A (the 2000A Bonds) in the amount of $32,410,000. Concurrent with the issuance of the bonds, the District issued 2005 General Obligation Refunding Bonds. The bonds are repaid through tax assessments on property located within the District boundaries. The bonds mature beginning on August 1, 2006 through August 1, 2025, with interest yields ranging from 2.62 to 4.52 percent.

2006 General Obligation Bonds, Series A

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

2006 General Obligation Bonds, Series B

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

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 bear interest rates of 2.00 to 5.50 percent and mature through the fiscal year 2044. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities.

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 bear interest rates of 2.00 to 5.50 percent and mature through the fiscal year 2033.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An irrevocable trust was established to fund continued payment of principal and interest as t becomes due. The trust escrow agreement provides for the redemption of the remaining outstanding principal of the above mentioned Bonds August 1, 2007, and the redemption of the Series E Bonds on August 1, 2009.

Because the transaction qualifies as a legal defeasance, the obligations for the defeased bonds have been removed from the District's financial statements. The difference between the debt service of the original bonds and the refunding bonds is $360,000.

The outstanding general obligation debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Issued/ Amortized	Redeemed	Bonds Outstanding June 30, 2010
1992 E	5/30/2001	8/01/2010	2.62%-4.52%	$ 10,500,000	$ 340,000	$ -	$ 340,000	$ -
1996 A	5/30/2001	8/01/2009	2.62%-4.52%	8,000,000	265,000	-	265,000	-
2000 A	5/30/2001	8/01/2031	2.62%-4.52%	27,500,000	17,500,000	-	17,500,000	-
2000 B	5/30/2002	8/01/2032	2.00%-5.32%	30,000,000	27,210,000	-	18,080,000	9,130,000
2000 C	5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	37,565,000	-	785,000	36,780,000
2000 D	7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	52,860,000	-	1,040,000	51,820,000
	Subtotal Election of 2000							97,730,000
2001	4/15/2001	8/01/2018	4.00%-5.00%	8,770,000	5,585,000	-	5,585,000	-
2002	10/24/2002	8/01/2017	2.00%-4.00%	7,310,000	4,750,000	-	455,000	4,295,000
2005 A	6/01/2005	8/01/2021	2.55%-4.25%	7,285,000	5,700,000	-	305,000	5,395,000
2005 B	8/17/2005	8/01/2025	2.62%-4.52%	32,975,000	32,735,000	-	475,000	32,260,000
	Subtotal 2005 Refinancings							37,655,000
2006 A	8/10/2006	8/01/2031	4.00%-5.00%	75,000,000	70,295,000	-	1,825,000	68,470,000
2006 B	11/15/2007	8/01/2037	5.00%-5.25%	100,000,000	100,000,000	-	1,585,000	98,415,000
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							266,885,000
2009	12/17/2009	8/01/2032	2.00-5.50%	39,080,000	-	39,080,000	-	39,080,000
	Subtotal Bonds							445,645,000
	Premiums (net)				11,567,491	6,171,073	631,761	17,106,803
	Total General Obligation Bonds (Net)				$366,372,491	$ 145,251,073	$ 48,871,761	$ 462,751,803

General Obligation Bond - 2000 Election

The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 2,570,000	$ 5,591,689	$ 8,161,689
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
2016-2020	12,740,000	18,013,244	30,753,244
2021-2025	15,995,000	14,524,784	30,519,784
2026-2030	23,430,000	10,655,007	34,085,007
2031-2035	31,095,000	4,624,493	35,719,493
2036	3,405,000	85,125	3,490,125
Total	$ 97,730,000	$ 69,807,710	$ 167,537,710

General Obligation Bond - 2002 Refinancing

The 2002 general obligation bonds mature through 2018 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 470,000	$ 146,600	$ 616,600
2012	490,000	131,710	621,710
2013	505,000	115,411	620,411
2014	525,000	97,765	622,765
2015	545,000	78,631	623,631
2016-2018	1,760,000	105,958	1,865,958
Total	$ 4,295,000	$ 676,075	$ 4,971,075

General Obligation Revenue Bonds - 2005 Refunding

The general obligation revenue bonds mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 1,435,000	$ 1,875,533	$ 3,310,533
2012	1,510,000	1,804,157	3,314,157
2013	1,585,000	1,728,518	3,313,518
2014	2,390,000	1,629,998	4,019,998
2015	2,530,000	1,506,980	4,036,980
2016-2020	14,590,000	5,439,385	20,029,385
2021-2025	12,310,000	1,734,445	14,044,445
2026	1,305,000	17,644	1,322,644
Total	$ 37,655,000	$ 15,736,660	$ 53,391,660

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
2011	$ 3,565,000	$ 13,143,538	$ 16,708,538
2012	4,545,000	12,980,663	17,525,663
2013	5,260,000	12,794,038	18,054,038
2014	6,040,000	12,564,913	18,604,913
2015	6,865,000	12,299,938	19,164,938
2016-2020	35,705,000	56,633,331	92,338,331
2021-2025	45,630,000	46,501,544	92,131,544
2026-2030	58,480,000	33,443,813	91,923,813
2031-2035	58,610,000	18,005,875	76,615,875
2036-2040	42,185,000	4,473,875	46,658,875
Total	$ 266,885,000	$ 222,841,528	$ 489,726,528

General Obligation Bond - 2009 Refunding

The 2009 general obligation bonds mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 2,030,000	$ 1,030,063	$ 3,060,063
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
2016-2020	6,815,000	7,005,750	13,820,750
2021-2025	9,860,000	5,277,362	15,137,362
2026-2030	10,835,000	2,284,262	13,119,262
2031-2033	3,160,000	250,950	3,410,950
Total	$ 39,080,000	$ 22,634,937	$ 61,714,937

Taxable 2005 Limited Obligation Other Postemployment Benefit Bonds

In December 2005, the District issued $153,749,832 aggregate principal amount of Taxable 2005 Limited Obligation OPEB (Other Postemployment Benefit) Bonds to refinance the District's obligation to pay certain health care benefits for certain retired District employees and pay certain costs of issuance. The Bonds consisted of $20,015,000 principal amount of Standard Bonds, and $133,737,832 initial principal amount of Convertible Auction Rate Securities. The Convertible Auction Rate Securities accrete to matured principal amount of $394,225,000. Interest rates on the Bonds range from 4.71 percent to 6.25 percent.

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Accreted Interest	Interest	Total
2011	$ -	$ -	$ -	$ -
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016-2020	19,100,249	11,974,751	5,729,760	36,804,760
2021-2025	20,752,626	21,872,374	6,789,818	49,414,818
2026-2030	16,753,248	28,821,752	9,626,153	55,201,153
2031-2035	13,808,933	33,816,067	13,596,503	61,221,503
2036-2040	14,624,282	44,275,718	9,057,848	67,957,848
2041-2045	8,430,633	44,044,367	29,963,168	82,438,168
2046-2050	13,174,119	68,825,881	13,497,893	95,497,893
Subtotal	106,644,090	253,630,910	88,261,143	448,536,143
Accumulated accretion	19,158,146	(19,158,146)	-	-
Total	$ 125,802,236	$ 234,472,764	$ 88,261,143	$ 448,536,143

2009 Limited Obligation Other Postemployment Bonds Bond Modification

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

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Interest	Total
2011	$ 60,180	$ 666,122	$ 726,302
2012	66,198	662,173	728,371
2013	72,217	657,847	730,064
2014	72,217	653,334	725,551
2015	78,235	648,632	726,867
2016-2020	481,443	3,159,472	3,640,915
2021-2025	655,967	2,983,633	3,639,600
2026-2030	896,688	2,742,535	3,639,223
2031-2035	1,221,663	2,413,799	3,635,462
2036-2040	1,673,016	1,965,267	3,638,283
2041-2045	2,292,874	1,350,486	3,643,360
2046-2050	3,117,346	511,534	3,628,880
Total	$ 10,688,044	$ 18,414,834	$ 29,102,878

2009 Limited Obligation Other Postemployment Bonds Refunding

In February 2009, the District refunded a portion of previously issued $48,725,000 in OPEB Bonds. The refunding was a current refunding and a legal defeasance of the previously issued Bonds. The purpose of the refunding was to convert previously issued Bonds to fixed rate Bonds and to restructure the District's payment obligations. The new refunding Bonds carry interest rates ranging from 4.415 percent to 6.423 percent and mature annually until fiscal year 2016. The proceeds of the refunding were used to refinance a portion of the District's outstanding 2005 Limited Obligation OPEB Bonds, establish a reserve fund for the new Bonds, and pay costs of issuance. Specifically, the proceeds were used to refund or purchase for cancelation those maturities of the 2005 Bonds identified below.

The Bonds mature through 2016 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 3,660,000	$ 2,788,221	$ 6,448,221
2012	4,785,000	2,590,912	7,375,912
2013	6,120,000	2,309,157	8,429,157
2014	7,720,000	1,921,079	9,641,079
2015	9,630,000	1,388,973	11,018,973
2016	16,810,000	539,853	17,349,853
Total	$ 48,725,000	$ 11,538,195	$ 60,263,195

Other Postemployment Benefits Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. The District's annual OPEB costs for the year ended June 30, 2010, was $12,408,000, and contributions made by the District during the year were $9,016,427, which resulted in an increase to the outstanding net OPEB obligation of $3,391,573. The total liability at June 30, 2010, was $13,242,492. See Note 13 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Claims Liability

At June 30, 2010, the liability for claims liability was $1,809,778. See Note 14 for additional information.

Compensated Absences

At June 30, 2010, the liability for compensated absences was $3,984,244.

Load Banking

At June 30, 2010, the liability for load banking agreements was $1,900,000.

NOTE 12 - INTEREST RATE SWAPS

2005 Limited Obligation Other Postemployment Benefit Bonds

Objective of the Morgan Stanley Interest Rate SWAP. The District entered into a series of six forward starting floating-to-fixed rate interest rate swaps to manage interest rate risk associated with its 2005 Taxable Limited Obligation Other Postemployment Bonds. The OPEB Bonds included six series of bonds that were initially issued at a fixed rate of interest, converting to a variable rate (auction rate) on separate dates and continuing in that mode until maturity of the individual series of bonds. In order to effectively convert the variable rate to a fixed rate for each of the six series of bonds in November 2006, the District entered into separate swap transactions with Morgan Stanley corresponding to each of the individual variable rate periods. Because the swap obligation only arises during the variable rate interest period for each series of bonds, the District does not become obligated to make swap payments until those periods arrive for each series of bonds. The 2005 Series B-1 through B-6 mature to $394,225,000. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.900 percent, 5.158 percent, 5.279 percent, 5.207 percent, 5.055 percent, and 4.935 percent, respectively.

Terms. Under the swap agreement, the District pays a fixed rate of percent (as noted above) and the counterparty pays the District a floating rate option of 100 percent of London Interbank Offered Rate (LIBOR) with designated maturity of one month.

Credit Risk. As of June 30, 2010, the District was not exposed to credit risk because the swap had a negative fair value. Ongoing swap risks lay if the counterparty defaults and the District incur cost to obtain replacement swap at the same economic terms.

Basis Risk. Adverse changes in the District's or credit providers' financial strength could result in basis risk.

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

Derivative Instrument Types

Hedge Effectiveness. As of June 30, 2010, 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 2010 of $3,481,160 is reported within the investment revenue classification for the year ended June 30, 2010. The other interest rate swaps, B-2 - 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	$ (3,481,160)	4.935%
AUF3W	November 28, 2006	August 5, 2031	August 5, 2039	USD	86,650,000	(1,171,159)	5.055%
AUF3V	November 28, 2006	August 5, 2025	August 5, 2031	USD	57,525,000	(750,292)	5.207%
AUF3U	November 28, 2006	August 5, 2020	August 5, 2025	USD	43,175,000	(1,072,333)	5.279%
AUF3T	November 28, 2006	August 5, 2015	August 5, 2020	USD	38,450,000	(1,657,307)	5.158%
AUF3S	November 28, 2006	August 5, 2010	August 5, 2015	USD	33,950,000	(2,212,946)	4.900%

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.

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 2009-2010, the District contributed $9,016,427 to the plan, comprised on premiums paid for medical insurance, claims expense, eligible Medicare reimbursements, and life insurance premiums for eligible plan members.

Annual OPEB Cost and Net OPEB Obligation

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

Normal costs	$ 4,246,000
Interest on net OPEB obligation	1,393,000
Adjustment to net OPEB obligation	6,769,000
Total ARC	12,408,000
Contributions made	(9,016,427)
Increase in net OPEB obligation	3,391,573
Net OPEB obligation, beginning of year	9,850,919
Net OPEB obligation, end of year	$ 13,242,492

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
2008	$ 10,291,000	$ 5,358,799	52%	$ 4,932,201
2009	10,668,000	5,749,282	54%	9,850,919
2010	12,408,000	9,016,427	73%	13,242,492

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	$ 130,503,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 130,503,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll	$ 40,378,023
UAAL as Percentage of Covered Payroll	323%

The above noted actuarial accrued liability was based on the April 2009 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 April 30, 2009, 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 five percent. The UAAL is being amortized at a level percent of payroll method (same as CalPERS). The initial UAAL is amortized over a closed 30 year period beginning this year. There is no actuarial value of assets because funds have not been placed in an irrevocable trust. The District has an active investment portfolio funded through the issuance of bonds and has earmarked funds held in the County Treasury for funding of the OPEB obligation, but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

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, 2010, the District contracted with the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Joint Powers Authority Risk Pools

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

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

Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2008 to June 30, 2010:

	Workers' Compensation
Liability Balance, July 1, 2008	$ 1,691,000
Claims and changes in estimates	880,893
Claims payments	(922,893)
Liability Balance, June 30, 2009	1,649,000
Claims and changes in estimates	160,778
Liability Balance, June 30, 2010	$ 1,809,778
Assets available to pay claims at June 30, 2010	$ 575,289

Employee Medical Benefits

The District has contracted with the Alameda County Schools Insurance Group (ACSIG) Joint Powers Authority (JPA) to provide employee medical and surgical benefits. The JPA is a shared risk pool comprised of schools in Alameda County. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Trustees has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

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

Funding Policy

Active members are required to contribute 8.0 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 2009-2010 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, 2010, 2009, and 2008, were $3,233,338, $3,337,856, and $3,248,572, 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 7.0 percent of their salary (7.0 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 2009-2010 was 9.709 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2010, 2009, and 2008, were $2,574,555, $2,467,026, and $2,139,752, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to $1,664,847, $1,823,875, and $1,773,946 for the years ending 2010, 2009, and 2008, 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, 2010, the District made payments of $46,615, $528,022, and $1,010,835 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, as well as cash flow reductions due to apportionment payment delays. As a result of reductions in funding and cash flow for current needs, the District has significantly reduced the expenditures for programs and services. Reductions have been made in the number of course sections offered to students, and vacant staff positions have been left unfilled.

Further impacting the District's financial condition is the ongoing and future debt payments that will be required from the unrestricted General Fund for the OPEB Bond debt as described in Note 11. Over the next seven years, the debt service payments on the OPEB Bond are scheduled to increase from $3.7 million in 2010-2011 to $215 million in 2016-2017. The impact of these payments will negatively impact the sustainability of the District as a whole and the required reserve levels within the unrestricted General Fund specifically. The Bonds were originally sold to provide a revenue stream to offset the District's obligation to provide postemployment medical benefits to retirees. The actuarially determined future obligation of this benefit is in excess of $130 million. The current value of the OPEB investments is not sufficient to repay the debt and the benefit obligation. The District also provides for the payment of current year medical claims through a self-insurance fund. As of June 30, 2010, the District has an unfunded liability of approximately $1.2 million which is ultimately the obligation of the General Fund.

The District management is developing a Multi-Year Recovery Plan (MYRP) that will address fiscal stability. Central to that Recovery Plan will be the enhancement of revenue and reduction of expenditures to address the structural budget deficit. The MYRP will include a Corrective Action Matrix that incorporates the 2009-2010 audit recommendations and the June 30, 2010, Accrediting Commission for Community and Junior Colleges recommendations. Specific to those recommendations is fiscal stability. The Peralta Governing Board has committed to adopting a balanced budget and has charged the administration with addressing the structural budget deficit.

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, 2010, for the 2010-2011 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 2009-2010 fiscal year have been deferred to the 2010-2011 fiscal year. The total amount of cash payments deferred into the 2010-2011 fiscal year was $13.8 million. As of July 31, 2010, 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, 2010, the total amount that has been deposited in a separate account owned by the District is $3,971,680. 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.

REQUIRED SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule of Funding Progress

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

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2010

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

MEMBER	OFFICE	TERM EXPIRES
Dr. William Riley	President	2014
Mr. Cy Gulassa	Vice President	2012
Mr. 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
Ms. Jurena Storm	Student Trustee	2011
Ms. Darnice Davis	Student Trustee	2011

ADMINISTRATION

Dr. Wise Allen	Chancellor
Ms. Thuy Thi Nguyen, Esq.	General Counsel
Dr. Deborah Budd	Vice Chancellor, Educational Services
Mr. Ronald P. Gerhard, MBA, CPA	Vice Chancellor, Finance and Administration
Dr. Sadiq Ikharo	Vice Chancellor, General Services
Dr. Jacob Ng	Vice Chancellor of Student Services
Ms. Trudy Largent, Esq.	Acting Vice Chancellor of Human Resources
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
Dr. Milan Havel	Associate Vice Chancellor for Finance
Mr. Minh Lam	Associate Vice Chancellor, Information Systems
Ms. Gail Waiters	Inspector General

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

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			
Direct Funded Programs			
Student Financial Assistance Cluster			
Pell Grants	84.063		$ 23,888,370
Pell Administration	84.063		106,252
Federal Supplemental Education Opportunity Grants	84.007		1,084,869
Federal Work Study Program	84.033		858,576
Academic Competitiveness Grant	84.375		152,995
Federal Direct Student Loans	84.268		2,109,069
Federal Family Education Loans	84.032		1,349,580
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER			29,549,711
Maximum Achievement Project (MAP)	84.382A		699,875
Strengthening Institutions Program, Title III	84.031A		482,561
Passed through the California Community College Chancellor's Office			
State Fiscal Stabilization Fund (SFSF)	84.394	[1]	728,386
Carl D. Perkins - Career and Technical Education Act (CTEA)			
Title I, Part C	84.048	10-C01-041	975,339
Tech-Prep Education, Title II	84.243	09-139-340	251,539
Passed through the California Department of Education			
Carl D. Perkins - Career and Technical Education Act (CTEA)			
Regional Tech-Prep Coordination	84.243	CN088316	57,634
Passed through the California Department of Rehabilitation			
Workability	84.126	26321	334,024
ARRA Workability	84.390	27453A	41,063
TOTAL U.S. DEPARTMENT OF EDUCATION			33,120,132
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education			
Child Care and Adult Food Program	10.558	1912-4A	85,936
U.S. DEPARTMENT OF JUSTICE			
Federal Bureau of Justice Assistance	16.000		2,160
U.S. DEPARTMENT OF LABOR			
Direct Funded			
WIA Community Based Job Training Grants	17.269		257,744
WIA Cluster			
Passed through the State of California, EDD			
ARRA WIA - Green Jobs	17.258	R975684	127,967
ARRA WIA - Adult	17.258	K076833	96,768
ARRA WIA Adult - Clean Energy Project	17.258	K076833	37,223
Passed through the County of Alameda			
WIA Adult - One Stop Career Center	17.258	SSGPCP091000011	197,365
TOTAL WIA CLUSTER			459,323
Passed through the State of California, EDD			
WIA Pilot (CalGrip)	17.261	R973861	288,385
TOTAL U.S. DEPARTMENT OF LABOR AND CLUSTER			1,005,452

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010, CONTINUED

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
NATIONAL SCIENCE FOUNDATION			
Direct Funded			
Environmental Control Technology Education	47.076		$ 251,996
SMALL BUSINESS ADMINISTRATION			
Passed through Humboldt State University			
Small Business Development Center	59.037	F50506	455,940
U.S. DEPARTMENT OF ENERGY			
Passed through the State of California, EDD			
ARRA WIA Clean Energy - ECA	81.041	K076833	137,341
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Community College Chancellor's Office			
Temporary Assistance for Needy Families	93.558/93.714	[1]	224,996
Passed through the Foundation for California Community Colleges			
Temporary Assistance for Needy Families - Child Development Careers	93.558	0810-24	33,702
Passed through the Yosemite Community College District			
Child Development Training Consortium	93.575	09-10 - 4170	9,143
Passed through the City of Oakland			
ARRA - Community Services Block Grant	93.710	82405	21,135
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			288,976
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Direct Funded			
Americorp	94.004		112,327
TOTAL FEDERAL EXPENDITURES			$ 35,460,260

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
Board of Finance Assistance Program	$ 1,085,541	$ 35,221	$ 1,120,762
Cal Grant B/C	1,155,939	-	1,155,939
CalWorks	533,417	52,024	585,441
Career Advancement	1,379,310	72,645	1,451,955
Career Tech Education	380,000	235,162	615,162
Child Care - Department of Education	755,545	-	755,545
Child Care Tax Bailout	370,194	-	370,194
Cooperative Agencies Resources for Education	379,598	231,473	611,071
CTE Community Collaborative	310,000	400,000	710,000
Disabled Students programs and Services	1,573,201	23,561	1,596,762
Economic Workforce Development	486,339	268,434	754,773
Education Tech Support	-	87,839	87,839
Extended Opportunity Program and Services	1,876,052	339,349	2,215,401
Instructional Equipment and Library Materials	-	363,281	363,281
Lottery - Prop 20	397,007	-	397,007
Matriculation	907,329	46,531	953,860
Nursing Education	221,325	211,280	432,605
Nursing Program - Associate Degree	278,000	68,543	346,543
Nursing Program - Renovation	-	2,561	2,561
Staff Diversity/Staff Development	8,862	70,402	79,264
Teacher Prep Pipeline	120,000	73,661	193,661
Telecommunications/Technology Infrastructure	-	3,098	3,098
Transfer and Articulation	-	14,759	14,759
	$ 12,217,659	$ 2,599,824	$ 14,817,483

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
$ 1,120,762	$ -	$ 894,844	$ 225,918	$ 225,918
1,112,220	43,719	-	1,155,939	1,155,939
577,449	7,992	35,312	550,129	550,129
1,186,449	388,658	-	1,575,107	1,575,107
615,162	-	437,443	177,719	177,719
755,545	-	-	755,545	755,545
370,194	-	-	370,194	370,194
608,295	-	170,702	437,593	437,593
400,000	-	215,755	184,245	184,245
1,619,084	-	-	1,619,084	2,898,228
984,866	77,814	253,162	809,518	809,518
87,839	-	23,930	63,909	63,909
2,215,401	-	271,573	1,943,828	1,943,828
363,281	-	263,296	99,985	99,985
35,564	366,815	-	402,379	296,962
977,087	-	-	977,087	1,072,451
213,224	-	213,224	-	-
368,394	92,087	-	460,481	460,481
2,561	-	-	2,561	1,690
79,264	-	69,061	10,203	10,203
193,661	-	18,497	175,164	175,164
3,098	-	-	3,098	13,165
27,314	-	23,227	4,087	4,087
$ 13,916,714	$ 977,085	$ 2,890,026	$ 12,003,773	$ 13,282,060

PERALTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2010

CATEGORIES	*(Revised)/ Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession			
1. Noncredit	52	-	52
2. Credit	2,530	-	2,530
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	16,344	-	16,344
(b) Daily Census Contact Hours	1,512	-	1,512
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	262	-	262
(b) Credit	257	-	257
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,130	-	1,130
(b) Daily Census Contact Hours	92	-	92
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	22,177	-	22,177
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	63	-	63
2. Credit	1,401	-	1,401
	1,464	-	1,464

* Annual report revised as of November 1, 2010.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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

`	General Fund	Capital Projects	Internal Service	Deferred Compensation
June 30, 2010, Annual Financial and Budget Report (CCFS-311)				
Reported Fund Balance	$ 8,852,186	$ 220,372,031	$ (1,073,711)	$ (48,425,942)
Post Closing Entries	94,902	(103,013,646)	-	21,242,409
Adjusted Fund Balance	8,947,088	117,358,385	(1,073,711)	(27,183,533)
Adjustments to Increase (Decrease) Fund Balance				
Investments	-	102,297,115	-	98,057
Cash and cash equivalents	(145,958)	942,274	-	-
Accounts receivable	(891,030)	-	-	-
Prepaid expenses	-	-	-	378,252
Deferred costs on issuance	-	-	-	(784,353)
Other current asset	(181,057)	-	-	-
Accounts payable	554,484	(1,052,921)	-	-
Accrued interest	-	-	-	(516,636)
Deferred revenue	-	-	-	(228,489)
Claims liability	-	-	(160,778)	-
Due to other funds	-	-	-	(5,800,000)
Long-term obligations - OPEB bonds	-	-	-	(6,523,506)
Net Adjustments	(663,561)	102,186,468	(160,778)	(13,376,675)
Audited Fund Balance	$ 8,283,527	$ 219,544,853	$ (1,234,489)	$ (40,560,208)

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

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	$ 8,283,527	
Special Revenue Funds	15,991,958	
Debt Service Fund	23,287,885	
Capital Projects Funds	219,841,816	
Internal Service Fund	(1,234,489)	
Fiduciary Funds	(38,433,086)	
Total Fund Balance and Retained Earnings - All District Funds		$ 227,737,611
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	458,060,188	
Accumulated depreciation is	(135,661,977)	
Less fixed assets in fiduciary funds	(2,555)	
Subtotal		322,395,656
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:		4,622,593
Amounts held in trust on behalf of others (Trust and Agency Funds)		(2,127,072)
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.		(9,095,437)
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.		(3,481,160)
Long-term liabilities at year-end consist of:		
General obligation bonds payable	451,816,073	
Premium on debt	10,935,730	
Load banking	1,900,000	
Other postemployment benefits obligation	13,242,492	
Compensated absences (vacations) - less current portion	3,600,244	
Subtotal		(481,494,539)
Total Net Assets		**$ 58,557,652**

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Reconciliation

The following schedule provides reconciliation between revenues reported on the statement of revenues, expenses, and changes in net assets and the related expenditures reported on the schedule of expenditures of Federal awards. The reconciling amounts represent Federal funds that have not been recorded as revenues that have been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenses, and Changes in Net Assets:		$ 33,173,918
Adjustments - D/R in WIA 1936		(34,244)
Adjustments - Deferred revenue per recognition criteria		(2,462)
U.S. DEPARTMENT OF AGRICULTURE		
Child Care and Adult Food Program	10.558	(10,230)
U.S. DEPARTMENT OF AGRICULTURE		
WIA Cluster	17.258	(108,643)
SMALL BUSINESS ADMINISTRATION		
Small Business Development Center	59.037	199,772
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS		
Federal Supplemental Education Opportunity Grants	84.007	124,908
Federal Work Study Program	84.033	371,543
Federal PELL Program	84.063	268,704
Federal Family Education Loans	84.032	1,349,580
Maximum Achievement Program	84.382A	127,579
Other various Federal programs	N/A	(165)
Total Schedule of Expenditures of Federal Awards		$ 35,460,260

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2010

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 - Annual (Actual) Attendance

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

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

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

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

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

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 of Peralta Community College District as of and for the year ended June 30, 2010, which collectively comprise Peralta Community College District's basic financial statements and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 [2010-1 through 2010-13].

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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 [2010-14 through 2010-32].

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 30, 2010.

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 30, 2010

REPORT ON STATE COMPLIANCE

Board of Trustees
Peralta Community College District
Oakland, California

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have occurred. An audit includes examining, on a test basis, evidence about Peralta Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Peralta Community College District's compliance with those requirements.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment
Section 437: Student Fees - Instructional Materials and Health Fees

Apportionments

Section 423: Apportionment of Instructional Service Agreements/Contracts
Section 425: Residency Determination for Credit Courses
Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 432: Enrollment Fee
Section 426: Students Actively Enrolled

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Fiscal Operations

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

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

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

Facilities

Section 434: Scheduled Maintenance Program

In our opinion, Peralta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported and are described in the accompanying schedule of findings and questioned costs as items 2010-24 through 2010-32.

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 30, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for State programs:	Qualified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2010

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*.

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.

District Response

The District has implemented procedures which requires the Board of Trustees to review and adopt the District annual budget prior to deadlines established by Title V and Board Policy. For the subsequent fiscal year, 2010-2011, the Board of Trustees did review and adopt the annual operating budget within the appropriate timelines. Further beginning in Fall 2010, a budget to actual variance report has been developed as a budget monitoring tool for District management. This same report has been reviewed during Audit and Finance Committees as well as presented to the Board of Trustees.

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.

District Response

During Fall 2010, the District created a Financial Activity and Report Calendar that was provided to the Audit and Finance Committee as well as the full Board of Trustees. As noted in the audit condition, the District has complied with all CCFS-311Q reporting timelines since March 2010.

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.

District Response

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

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.

District Response

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

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.

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.

District Response

Beginning October 2010, the District has implemented procedures where all investment accounts are being reconciled and reviewed on a monthly basis and quarterly reports will be taken to the Board of Trustees beginning with the quarter ending December 31, 2010.

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.

District Response

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

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.

District Response

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

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.

District Response

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

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.

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.

District Response

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

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.

District Response

In August 2010, the District implemented a reorganization that moved the reporting of the Purchasing Department under the Vice Chancellor for Finance and Administration. This move improved the accountability and coordination between the Accounting and Purchasing Departments and has resulted in ensuring that all assets that exceed certain thresholds are capitalized and depreciated in accordance with existing policy.

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.

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.

District Response

The District is currently in the process of reviewing all financial accounting systems and procedures with intent and focus on documenting and improving current business practices and procedures. Through this review, programs will be customized to fit the reporting requirements of PCCD. Additionally, training will be conducted with a focus on the individuals that need to prepare financial reports of activity that aids in the closing process. The District will continue to invest resources to make these improvements.

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.

Recommendation

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

District Response

The District has hired a Student Analyst posting whose responsibility is to accurately and timely reconcile student fees as well as correctly configure the new student accounting system.

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.

District Response

The District has started writing Business Office procedures manual. To date, final drafts of this manual exist for areas such as Accounts Payable and Purchasing and working drafts on in progress for budget and budget development. A final and complete document will be finalized by June 30, 2011.

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

SIGNIFICANT DEFICIENCIES

FINANCIAL ACCOUNTING SYSTEM PROCEDURES

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.

District Response

The District has started to review existing business practices and the evaluation of how PeopleSoft has been initially configured to support these practices. Through this process critical needs have been identified as well as the need to revise many business processes. The District has hired a consultant whose expertise is configuring ERP systems, such as PeopleSoft, to conform to standard business processes. The District has already begun to revise its payroll processes utilizing this consultant and reprogramming PeopleSoft to support the revised process.

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.

District Response

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

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.

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 it 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

Polices 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.

District Response

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

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.

District Response

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

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.

District Response

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

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*.

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.

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.

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.

District Response

The District is again participating in the State's CoTops program in effort to collect seriously delinquent student accounts receivable. Through the use and participation of this program it is anticipated that student receivable balance will reduce significantly. Additionally, beginning in fiscal year 2010-2011, the District will use a receivable aging schedule to determine amounts to write-off and set-up for in the Allowance for Doubtful Accounts.

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.

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.

District Response

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

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 began. 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.

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.

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.

District Response

Written procedures have been prepared to provide guidance to staff on the proper controls and procedures. Access to posting of journal entries is no longer widely disseminated. Only the Associate Vice Chancellor for Finance and Vice Chancellor for Finance and Administration can post journal entries. Staff prepares journal entries and submits them to managers for review and approval.

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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

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.

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.

District Response

The District recently implemented new procedures strengthening internal controls over tracking, reporting and payout of compensated absences. The occurrence as noted by the auditors occurred prior to the implementation of these new procedures. With the implementation of the new procedures the risk of reoccurrence of this finding is greatly reduced due to built in checks and balances.

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.

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.

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.

2010-26 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.

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.

District Response

The District will implement internal controls for calculating and preparing the CCFS-320 Attendance Reports that will include review and approval by the appropriate manager. The supporting documents will be carefully reviewed and a procedure to cross check and verify the amounts reported will be completed prior to submittal. Prior to submission to the State, the CCFS-320 Attendance report will be reviewed by the Vice-Chancellor for Educational Services and the Vice-Chancellor for Finance and Administration.

2010-27 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.

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.

2010-28 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.

District Response

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

2010-29 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.

District Response

The District is in the process of hiring an Internal Auditors who will be tasked with the responsibility of monitoring State compliance issues related to all compliances areas and ensure that deadlines are met and reports are accurate and filed in a timely manner.

2010-30 ENROLLMENT FEES REPORTING

Criteria or Specific Requirement

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

Condition

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

District Response

The District has hired a Student Analyst posting whose responsibility is to accurately and timely reconcile and report student fees as well as correctly configure the new student accounting system.

2010-31 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.

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.

District Response

The District's calculation of the statutory appropriation limit was correct but was reported incorrectly due to a transposition error made when entering in data into the State's form. Once noted, the error has been corrected and the correct amount reported to cognizant agencies. In the future, these forms will be reviewed by the newly hired Associate Vice Chancellor for Finance.

2010-32 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.

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.

District Response

The District will review existing procedures used to record and report expenditures for salaries and benefits for employees to ensure accurate external reporting.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2009-1 DISTRICT FINANCIAL REPORTING

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-2 DISTRICT BUDGET MONITORING

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

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.

Current Status

Not implemented. See current year finding 2010-1.

2009-3 QUARTERLY FINANCIAL REPORTING

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-2.

2009-4 OVERSIGHT AND MONITORING

Criteria or Specific Requirements

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

Condition

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

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-3.

2009-5 CORRECTIVE ACTION PLAN

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-4.

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

Criteria or Specific Requirement

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

Condition

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

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

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

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

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

Context

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

Effect

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

Recommendation

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

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

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

Current Status

Not implemented. See current year finding 2010-5.

2009-7 SWAP INVESTMENT ACTIVITY

Criteria or Specific Requirement

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

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.

Current Status

Not implemented. See current year finding 2010-6.

2009-8 CASH IN COUNTY ACCOUNT RECONCILIATIONS

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-7.

2009-9 BANK ACCOUNT RECONCILIATIONS

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-8.

2009-10 INTERNAL AUDIT FUNCTION

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-9.

2009-11 CAPITAL ASSET ACCOUNTING

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-10.

2009-12 FINANCIAL ACCOUNTING SYSTEM PROCEDURES

Criteria or Specific Requirement

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

Condition

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

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

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

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

Context

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

Effect

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

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

Not implemented. See current year finding 2010-11.

2009-13 STUDENT FINANCIAL AID ACCOUNTING

Criteria or Specific Requirement

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

Condition

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

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

Context

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-14 STUDENT ENROLLMENT FEE REPORTING

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-12.

2009-15 WRITTEN PROCEDURE MANUALS

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

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

Not implemented. See current year finding 2010-13.

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

SIGNIFICANT DEFICIENCIES

FINANCIAL ACCOUNTING SYSTEM PROCEDURES

2009-16 INFORMATION SYSTEMS

Criteria or Specific Requirement

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

Condition

Significant Deficiency - The PeopleSoft financial accounting software operates and provides the following services through the Information Systems:

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

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

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

Not implemented. See current year finding 2010-14.

2009-17 ACCRUAL ACCOUNTS

Criteria or Specific Requirement

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

Condition

Significant Deficiency - As noted in the prior year's audit report, poor implementation of cut-off procedures associated with the accrual accounts within the fund financial statements resulted in audit adjustments being proposed and accepted for accounts receivable, cash accounts, prepaid expense, and accounts payable. The oversight and monitoring of these accounts has also been impacted by the financial accounting software system as described in finding 2009-4 above.

Effect

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

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

Not implemented. See current year finding 2010-15.

2009-18 OTHER POSTEMPLOYMENT BONDS

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-19 RECONCILIATION OF RETIREES ELIGIBILITY

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-20 LOAD BANKING

Criteria or Specific Requirement

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

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 it 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

Polices 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 2010-16.

2009-21 COMPENSATED ABSENCES

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-22 DISASTER RECOVERY AND STRATEGIC PLANNING

Criteria or Specific Requirement

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

Condition

Significant Deficiency - The District provided a draft of their Disaster Recovery Plan (DRP) for the Information Systems Department; however, the key components of the DRP could not be demonstrated that they have been implemented. In the event of a disaster, the District may not be in a position to take the necessary steps to mitigate the effects of such a disaster. The District has not implemented an effective strategic plan that allows the District to plan for future use of plans within their Information Systems. Calendared timelines of software upgrades and development of new programs is not currently prepared or maintained.

Effect

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

Recommendation

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

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

Current Status

Not implemented. See current year finding 2010-17.

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

Criteria or Specific Requirement

Circular A-133 requires the auditee to prepare a SEFA for the period covered by the auditee's financial statements. At a minimum, the schedule should:

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

Condition

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-18.

2009-24 AUDIT ADJUSTMENTS

Criteria or Specific Requirement

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

Condition

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-25 COLLEGE BUSINESS OFFICE ACTIVITY

Criteria or Specific Requirement

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

Condition

Significant Deficiency - Each of the College Bursar's Offices receive monies from students for enrollment fees, parking fees, and other assessments, as well as facilities rental fees and other amounts that are to be forwarded to the District Office on a timely basis. It was noted that there is not a consistent definition of what is locally controlled revenue and what is District revenue.

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

Not implemented. See current year finding 2010-19.

2009-26 INTERFUND TRANSFERS AND DUE TO/DUE FROM

Criteria or Specific Requirement

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

Condition

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

Effect

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

Recommendation

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

Current Status

Implemented.

2009-27 ALLOWANCE FOR DOUBTFUL ACCOUNTS

Criteria or Specific Requirement

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

Condition

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-20.

2009-28 ACCOUNTING FOR EXPENSES

Criteria or Specific Requirement

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

Condition

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

Context

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

Effect

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

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

Partially implemented. See current year finding 2010-21.

2009-29 EMPLOYEE CONTRACTS

Criteria or Specific Requirement

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

Condition

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

Effect

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

Recommendation

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

Current Status

Partially implemented. See current year finding 2010-22.

2009-30 JOURNAL ENTRIES

Criteria or Specific Requirement

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

Condition

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

Effect

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-23.

STATE AWARD FINDINGS

2009-31 ASSESSMENT OF CAPITAL OUTLAY FEES FOR NONRESIDENT STUDENTS

Criteria or Specific Requirement

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

Condition

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

Recommendation

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

Current Status

Implemented.

2009-32 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 11 line items that were not properly supported or agreed to the underlying documentation. The errors were presented to the District staff and a revised CCFS-320 Attendance Report was provided with all items corrected.

Questioned Costs

None.

Context

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

Recommendation

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

Current Status

Not implemented. See current year finding 2010-24.

2009-33 CONCURRENT ENROLLMENT

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

There were no questioned costs associated with this finding.

Recommendation

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

Current Status

Implemented.

2009-34 RESIDENCY DETERMINATION

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

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

Recommendation

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

Current Status

Implemented.

2009-35 CALWORKS - MONITORING AND ELIGIBILITY

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

There were no questioned costs associated with this finding.

Recommendation

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

Current Status

Implemented.

2009-36 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

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

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

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

Current Status

Not implemented. See current year finding 2010-25.

2009-37 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 2010-26.

2009-38 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. The District failed to submit the report within the required time. The District receives over $1.5 million in State matriculation funding.

Questioned Costs

There is no questioned costs associated with this finding.

Recommendation

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

Current Status

Not implemented. See current year finding 2010-27.

2009-39 SALARIES OF CLASSROOM INSTRUCTORS – 50% LAW

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

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

Recommendation

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

Current Status

Implemented.

2009-40 ENROLLMENT FEES REPORTING

Criteria or Specific Requirement

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

Condition

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

Effect

By not reporting the student enrollment fee revenue correctly, the amount of general apportionment due the District may not be properly calculated. We noted the District had made the correction to the CCFS-323 report upon notification of the error.

Questioned Costs

None.

Recommendation

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

Current Status

Not implemented. See current year finding 2010-28.

ADDITIONAL SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEETS
JUNE 30, 2010

		Special Revenue Funds	
	General	Child Development	Special Reserve
ASSETS			
Cash and cash equivalents	$ 5,634,249	$ -	$ -
Investments	11,388,577	1,237,365	14,639,952
Accounts receivable	19,600,800	9,123	106,539
Student loans receivable, net	5,743,861	-	-
Due from other funds	11,346,269	-	-
Prepaid expenses	1,416,954	-	-
Inventories	182,639	-	-
Total Assets	$ 55,313,349	$ 1,246,488	$ 14,746,491
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	$ 6,211,125	$ 1,021	$ -
Due to other funds	35,162,150	-	-
Deferred revenue	5,656,547	-	-
Total Liabilities	47,029,822	1,021	-
FUND EQUITY			
Fund Balances			
Undesignated	8,283,527	1,245,467	14,746,491
Total Fund Equity	8,283,527	1,245,467	14,746,491
Total Liabilities and Fund Equity	$ 55,313,349	$ 1,246,488	$ 14,746,491

See accompanying note to additional supplementary information.

Debt Service Fund	Capital Projects Funds		
Bond Interest and Redemption	Revenue Bond Project	Capital Outlay Projects	Total
$ -	$ -	$ 5,195,640	$ 10,829,889
23,287,885	297,090	185,032,023	235,882,892
-	-	-	19,716,462
-	-	-	5,743,861
-	-	35,000,000	46,346,269
-	-	-	1,416,954
-	-	-	182,639
$ 23,287,885	$ 297,090	$ 225,227,663	$ 320,118,966
$ -	$ 127	$ 5,682,810	$ 11,895,083
-	-	-	35,162,150
-	-	-	5,656,547
-	127	5,682,810	52,713,780
23,287,885	296,963	219,544,853	267,405,186
23,287,885	296,963	219,544,853	267,405,186
$ 23,287,885	$ 297,090	$ 225,227,663	$ 320,118,966

PERALTA COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

		Special Revenue Funds	
	General	Child Development	Special Reserve
REVENUES			
Federal revenues	$ 6,123,734	$ 96,166	$ -
State revenues	78,012,390	1,289,401	-
Local revenues	44,731,140	35,627	305,070
Total Revenues	128,867,264	1,421,194	305,070
EXPENDITURES			
Current Expenditures			
Academic salaries	51,324,233	-	-
Classified salaries	28,260,958	945,044	-
Employee benefits	32,925,458	341,329	-
Books and supplies	2,707,885	50,455	-
Services and operating expenditures	18,423,746	31,126	-
Capital outlay	(140,382)	-	-
Debt service - principal	-	-	-
Debt service - interest and other	3,060,881	-	-
Total Expenditures	136,562,779	1,367,954	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,695,515)	53,240	305,070
OTHER FINANCING SOURCES (USES)			
Operating transfers out	5,800,000	-	-
Other sources	-	-	-
Other uses	(1,303,740)	-	-
Total Other Financing Sources (Uses)	4,496,260	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,199,255)	53,240	305,070
FUND BALANCE, BEGINNING OF YEAR	11,482,782	1,192,227	14,441,421
FUND BALANCE, END OF YEAR	$ 8,283,527	$ 1,245,467	$ 14,746,491

See accompanying note to additional supplementary information.

Debt Service Fund	Capital Project Funds		
Bond Interest and Redemption	Revenue Bond Project	Capital Outlay Projects	Total
$ -	$ -	$ -	$ 6,219,900
-	-	-	79,301,791
31,289,831	2,281	1,888,012	78,251,961
31,289,831	2,281	1,888,012	163,773,652
-	-	-	51,324,233
-	8,909	764,606	29,979,517
-	-	315,776	33,582,563
-	363	34,114	2,792,817
-	9,426	8,645,257	27,109,555
-	1,234	26,816,439	26,677,291
6,968,334	-	-	6,968,334
19,979,680	-	-	23,040,561
26,948,014	19,932	36,576,192	201,474,871
4,341,817	(17,651)	(34,688,180)	(37,701,219)
-	-	-	5,800,000
-	-	145,251,073	145,251,073
-	-	(42,176,986)	(43,480,726)
-	-	103,074,087	107,570,347
4,341,817	(17,651)	68,385,907	69,869,128
18,946,068	314,614	151,158,946	197,536,058
$ 23,287,885	$ 296,963	$ 219,544,853	$ 267,405,186

PERALTA COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS
BALANCE SHEET
JUNE 30, 2010

	Internal Service Fund
ASSETS	
Investments	$ 575,289
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Claim liabilities	$ 1,809,778
Total Liabilities	1,809,778
FUND EQUITY	
Retained deficit	(1,234,489)
Total Liabilities and Fund Equity	$ 575,289

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2010

	Internal Service Fund
OPERATING REVENUES	
Sales revenues	$ -
OPERATING EXPENSES	
Services and other operating expenditures	160,778
Operating Income	(160,778)
NONOPERATING REVENUES (EXPENSES)	
Interest income	4,196
Total Nonoperating Revenues (Expenses)	4,196
NET INCOME	(156,582)
RETAINED DEFICIT, BEGINNING OF YEAR	(1,077,907)
RETAINED DEFICIT, END OF YEAR	$ (1,234,489)

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	$ -
Net Cash Flows From Operating Activities	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	4,196
Net Cash Provided From Investing Activities	4,196
Net change in cash and cash equivalents	4,196
Cash and cash equivalents - Beginning	571,093
Cash and cash equivalents - Ending	$ 575,289

See accompanying note to additional supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
BALANCE SHEETS
JUNE 30, 2010

	Trust Funds			
	Deferred Compensation Trust	Associated Students Trust	Student Financial Aid	Scholarship and Loan
ASSETS				
Cash and cash equivalents	$ -	$ 353,176	$ 1,550,375	$ 12,890
Investments	149,723,720	-	-	-
Accounts receivable	462,346	95,924	3,829,870	-
Student loans receivable, net	-	-	-	-
Due from other funds	-	-	162,150	-
Prepaid expenses	-	-	-	-
Deferred costs on issuance	6,232,621	-	-	-
Fixed assets	-	2,555	-	-
Total Assets	$ 156,418,687	$ 451,655	$ 5,542,395	$ 12,890
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Deficit Cash	$ -	$ -	$ 5,403,347	$ -
Accounts payable	-	116,532	39,708	-
Accrued interest payable	516,636	-	-	-
Due to other funds	11,246,979	-	99,290	-
Due to student groups	-	11,531	-	-
Other postemployment benefit bonds	185,215,280	-	-	-
Total Liabilities	196,978,895	128,063	5,542,345	-
FUND EQUITY				
Fund Balances				
Unreserved				
Undesignated	(40,560,208)	323,592	50	12,890
Total Fund Equity	(40,560,208)	323,592	50	12,890
Total Liabilities and Fund Equity	$ 156,418,687	$ 451,655	$ 5,542,395	$ 12,890

See accompanying note to additional supplementary information.

Agency Fund	
Other Trust	Total
$ 1,779,059	$ 3,695,500
-	149,723,720
-	4,388,140
-	-
-	162,150
-	-
-	6,232,621
-	2,555
$ 1,779,059	$ 164,204,686

$ -	$ 5,403,347
-	156,240
-	516,636
-	11,346,269
1,779,059	1,790,590
-	185,215,280
1,779,059	204,428,362

-	(40,223,676)
-	(40,223,676)
$ 1,779,059	$ 164,204,686

PERALTA COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

	Trust Funds				
	Deferred Compensation Trust	Associated Students Trust	Student Financial Aid	Scholarship and Loan	Total
REVENUES					
Federal revenues	$ -	$ -	$ 26,954,018	$ -	$ 26,954,018
State revenues	-	-	1,155,939	-	1,155,939
Local revenues	20,881,149	201,452	-	5	21,082,606
Total Revenues	20,881,149	201,452	28,109,957	5	49,192,563
EXPENDITURES					
Current Expenditures					
Services and operating expenditures	(10,293)	163,746	(50)	7,080	160,483
Total Expenditures	(10,293)	163,746	(50)	7,080	160,483
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	20,891,442	37,706	28,110,007	(7,075)	49,032,080
OTHER FINANCING SOURCES (USES)					
Operating transfers out	(5,800,000)	-	-	-	(5,800,000)
Other sources	591,159	-	-	-	591,159
Other uses	(7,588,378)	-	(28,503,569)	-	(36,091,947)
Total Other Financing Sources (Uses)	(12,797,219)	-	(28,503,569)	-	(41,300,788)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	8,094,223	37,706	(393,562)	(7,075)	7,731,292
FUND BALANCE, BEGINNING OF YEAR	(48,654,431)	285,886	393,612	19,965	(47,954,968)
FUND BALANCE, END OF YEAR	$ (40,560,208)	$ 323,592	$ 50	$ 12,890	$ (40,223,676)

See accompanying note to additional supplementary information.

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of Peralta Community College District as reported to the State Chancellor's Office. The governmental funds are presented on the modified accrual basis. The proprietary and fiduciary funds are presented on the full accrual basis. Activity between funds has not been eliminated. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the financial statements. The information is not a required component of the financial statements in accordance with GASB Statements No. 34 and No. 35 and is presented at the request of the District management.