

**PERALTA**  
**COMMUNITY COLLEGE DISTRICT**  
**MEASURE A GENERAL OBLIGATION BONDS**

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FINANCIAL AUDIT  
WITH INDEPENDENT AUDITORS' REPORT  
AND  
INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

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**JUNE 30, 2010**

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**JUNE 30, 2010**

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**PERALTA  
COMMUNITY COLLEGE DISTRICT**

**MEASURE A GENERAL OBLIGATION BONDS**

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FINANCIAL AUDIT  
WITH INDEPENDENT AUDITORS' REPORT

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**JUNE 30, 2010**

## INDEPENDENT AUDITORS' REPORT

Peralta Community College District  
Board of Trustees and Independent  
Citizens' Oversight Committee  
Oakland, California

We have audited the accompanying financial statements of the Measure A Fund of Peralta Community College District (the District) as of June 30, 2010, as listed in the table of contents. These 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 of the Notes to Financial Statements, the financial statements present only the Measure A Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, as discussed in Note 2 of the Notes to Financial Statements, the Measure A Fund's financial statements are prepared on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - modified accrual basis of the Measure A Fund of Peralta Community College District as of June 30, 2010, and the results of its operations - modified accrual basis for the year then ended, in conformity with the basis of accounting described in Note 2.

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 for the Measure A Fund 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.

Rancho Cucamonga, California  
December 30, 2010

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**BALANCE SHEET - MODIFIED ACCRUAL BASIS  
JUNE 30, 2010**

**ASSETS**

Investments	\$ 150,735,027
Due from District General Fund	<u>35,000,000</u>
<b>Total Assets</b>	<u><u>\$ 185,735,027</u></u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable and accrued liabilities	<u>\$ 5,167,306</u>
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**FUND BALANCE**

Fund Balance	
Unreserved	
Designated	<u>180,567,721</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 185,735,027</u></u>

See the accompanying notes to financial statements.

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCE - MODIFIED ACCRUAL BASIS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>REVENUES</b>		
Local revenues		1,556,320
<b>EXPENDITURES</b>		
Classified salaries		764,606
Employee benefits		315,775
Supplies and books		34,114
Services and operating expenditures		8,192,108
Capital outlay		23,766,014
<b>Total Expenditures</b>		33,072,617
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>		(31,516,297)
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from sale of bonds		145,251,073
Other uses		(42,176,986)
<b>Total Other Financing Sources (Uses)</b>		103,074,087
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>		71,557,790
<b>FUND BALANCE, BEGINNING OF YEAR</b>		109,009,931
<b>FUND BALANCE, END OF YEAR</b>		\$ 180,567,721

See the accompanying notes to financial statements.

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES***

The Measure A General Obligation Bonds (the Measure A Fund) is a governmental fund of Peralta Community College District (the District). This fund is used to account for the activity of the Proposition 39 Measure A General Obligation Bonds approved by the voters of the District. These financial statements present only the Measure A Fund and do not purport to, and do not, present fairly the financial position of the District and the changes in its financial position in conformity with accounting standards generally accepted in the United States of America.

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES***

**Financial Statement Presentation**

The financial statements of the Measure A Fund have been prepared on the modified accrual basis of accounting. The statement of activities is a statement of financial activities related to the current reporting period. Using this method, revenues are recognized when they are both measurable and available, and expenses are recognized when goods are received or services are rendered.

**Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the reporting date, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Capital Assets and Long-Term Obligations**

The accounting and reporting treatment applied to the capital assets and long-term obligations associated with the Measure A Fund are determined by its measurement focus. The Measure A Fund is accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of "available spendable resources". Thus, the capital assets and long-term obligations associated with the Measure A Fund are accounted for in the basic financial statements of the Peralta Community College District.

***NOTE 3 - 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.

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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 accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**Summary of Investments**

Investments as of June 30, 2010, consist of the following:

	Reported Amount
County Pool - Alameda	<u>\$ 150,735,027</u>



**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
County Pool - Alameda	<u>\$ 150,669,122</u>	<u>340</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating June 30, 2010</u>
County Pool - Alameda	<u>\$ 150,669,122</u>	None	Not rated

**NOTE 4 - INTERFUND TRANSACTIONS**

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

Balances owing between the General Fund and Bond fund at year end were \$35,000,000. The balances result from the Measure A Bond fund providing short-term cash flow to the General Fund of the District for operational needs.

**NOTE 5 - ACCOUNTS PAYABLE**

The accounts payable balance at June 30, 2010, represents amounts owed to vendors for both ongoing and completed construction projects in the amount of \$5,167,306.

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE 6 - FUND BALANCE***

Fund balance is composed of the following element:

Unreserved	
Designated	<u>\$ 180,567,721</u>

***NOTE 7 - COMMITMENTS AND CONTINGENCIES***

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.

**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***

Peralta Community College District  
Board of Trustees and Independent  
Citizens' Oversight Committee  
Oakland, California

**Compliance**

We have audited the accompanying balance sheet and statement of revenues, expenditures, and change in fund balance for the Measure A Fund of Peralta Community College District (the District) for the year ended June 30, 2010, 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 the Measure A Fund's 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.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 10-1 through 10-5.

## Compliance and Other Matters

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

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, and the Citizens' Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California  
December 30, 2010

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
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*.

**10-1 INTERFUND BORROWING**

**Finding**

*Material Weakness* - The District's General Fund borrowed \$35 million from the Measure A General Obligation Bond Fund for cash flow purposes of paying operating expenses of the District. The District has been unable to provide supporting documentation that such a borrowing is allowable under compliance with the requirements of Proposition 39. This amount was repaid in August 2010 with interest of approximately \$58,000.

**Recommendation**

The District should take all necessary means to ensure that an interfund borrowing for cash flow purposes of paying operating expenses of the District is allowable under compliance with the requirements of Proposition 39.

**District Response**

**10-2 ACCOUNTS PAYABLE**

**Finding**

*Material Weakness* - The District's closing process for the year ended June 30, 2010, did not include adequate oversight and monitoring of cut-off procedures associated with the accounts payable accounts. As a result of the audit procedures applied to the cut-off process, an adjustment was proposed and accepted by management to decrease fund balance in the amount of \$1,052,921.

**Recommendation**

The District should develop a year-end closing process that allows for the review of accounts payable for proper cut-off, accuracy, and reasonableness.

**District Response**

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2010**

**10-3 FUND BALANCE**

**Finding**

*Material Weakness* - The District did not post prior year audit adjustments to the Measure A Fund. An adjustment to beginning fund balance of \$1,344,104 was necessary to reconcile beginning fund balance to the prior year audited amount.

**Recommendation**

The District must post all approved audit adjustments in a timely manner.

**District Response**

**10-4 PAYROLL EXPENSES**

**Finding**

*Material Weakness* - The District charged payroll and benefit expenses to the Measure A Fund for employees whose job responsibilities were not directly associated with the Measure A Fund. Vacation and sick leave payouts totaling \$26,157 was charged for two employees who did not work 100 percent on the Measure A Fund during their employment at the District. These payouts were charged in their entirety to the Measure A Fund. A portion of another employee's salary was charged to the Bond Fund in the amount of \$10,964; however, District records indicated these charges should have been charged to the General Fund.

**Recommendation**

The District should establish policies and procedures to ensure charges made against the Measure A Fund are allowable and supported by appropriate documentation. Charges should be reviewed during the year for any changes made to employee positions and/or changes to the account stream to be charged. Amounts that have been charged to the Measure A Fund inappropriately should be reimbursed immediately.

**District Response**

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2010**

**10-5 CITIZENS' BOND OVERSIGHT COMMITTEE**

**Finding**

*Material Weakness* - During our review of the Citizens' Bond Oversight Committee minutes and through discussions with management, it was noted that the committee was unable to establish a quorum for the last two meetings of the period in which the audit was conducted. This was due to a lack of attendance of committee members and thus resulted in the committee being unable to pass any pertinent motions in a timely manner.

**Recommendation**

The Citizens' Bond Oversight Committee should specify which members and how many should be present in order to establish a quorum. Attendance at the committee meetings should also be emphasized as Measure A matters should be addressed in a timely manner.

**District Response**

**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
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.

**09-1 INTERFUND BORROWING**

**Finding**

*Material Weakness* - The District's General Fund borrowed \$25 million from the Measure A General Obligation Bond Fund for cash flow purposes of paying operating expenses of the District. The District has been unable to provide supporting documentation that such a borrowing is allowable under compliance with the requirements of Proposition 39. This amount was repaid in July 2009 with interest of approximately \$78,000.

**Recommendation**

The District should take all necessary means to ensure that an interfund borrowing for cash flow purposes of paying operating expenses of the District is allowable under compliance with the requirements of Proposition 39.

**Current Status**

Not implemented. See current year finding 10-1.

**09-2 ACCOUNTS PAYABLE**

**Finding**

*Material Weakness* - The District's closing process for the year ended June 30, 2009, did not include adequate oversight and monitoring of cut-off procedures associated with the accounts payable accounts. Retention balances owed to contractors for services rendered were not properly accrued as liabilities. As a result of the audit procedures applied to the cut-off process, an adjustment was proposed and accepted by management to decrease fund balance in the amount of \$2,577,220.

**Recommendation**

The District should develop a year-end closing process that allows for the review of accounts payable for proper cut-off, accuracy, and reasonableness.

**Current Status**

Not implemented. See current year finding 10-2.



**PERALTA COMMUNITY COLLEGE DISTRICT  
MEASURE A GENERAL OBLIGATION BONDS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

**09-3 FUND BALANCE**

**Finding**

*Material Weakness* - The District did not post prior year audit adjustments to the Measure A Fund. An adjustment to beginning fund balance of \$3,044,749 was necessary to reconcile beginning fund balance to the prior year audited amount.

**Recommendation**

The District must post all approved audit adjustments in a timely manner.

**Current Status**

Not implemented. See current year finding 10-3.

**PERALTA  
COMMUNITY COLLEGE DISTRICT**

**MEASURE A GENERAL OBLIGATION BONDS**

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INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

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**JUNE 30, 2010**

