



**PERALTA COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

PERALTA COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Peralta Community College District
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Peralta Community College District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 14 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 56 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) 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.

The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, 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, 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* in considering the District's internal control over financial reporting and compliance.

Vaughn, Fine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2014



Peralta Community College District

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

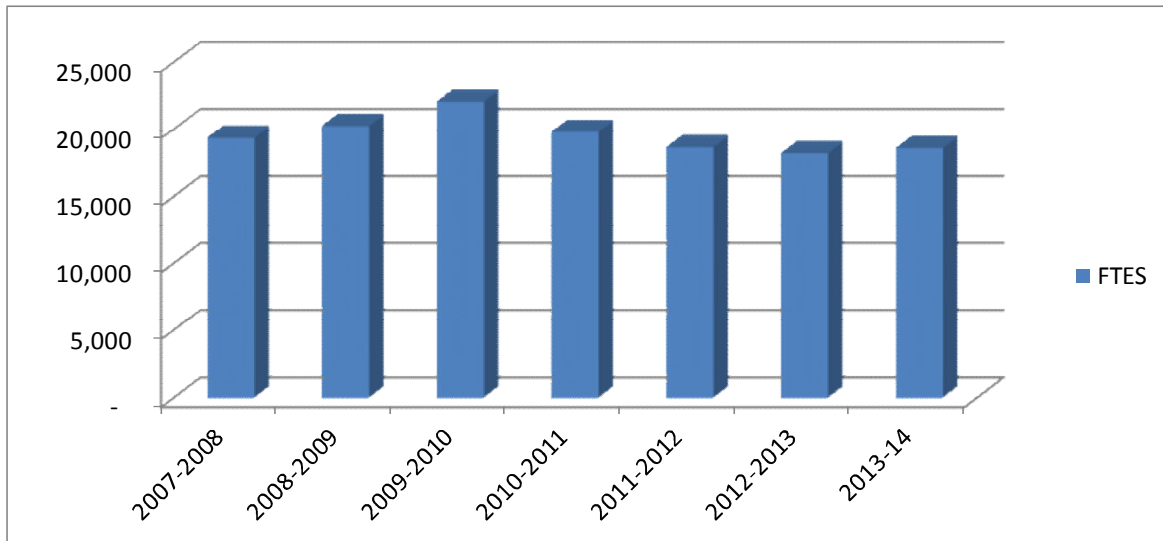
Introduction

The following discussion and analysis provides an overview of the financial position and activities of Peralta Community College District (the District) for the year ended June 30, 2014. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

The Peralta Community College District was founded in 1964, and serves six cities in the East Bay Area, including Albany, Alameda, Berkeley, Emeryville, Oakland, and Piedmont. The colleges are Berkeley City College, College of Alameda, Laney College, and Merritt College. The District has a reputation for developing effective approaches to serving the varied interests and needs of its vibrant community. The District serves over 25,000 students a semester, and is one of the top community college districts in California in transferring students into the UC system. Currently, the District has about 750 full-time employees and over 1,535 part-time faculty and staff.

Selected Highlights

- The District's primary funding source is based upon apportionment received from the State of California. The primary basis of this apportionment is the calculation of Full-Time Equivalent Students (FTES). During the fiscal year 2013-2014, FTES was 18,642 (including credit and noncredit FTES), as compared to 18,264 in the fiscal year 2012-2013. This represents a two percent increase. FTES is generated at the District's four colleges: Berkeley City College, College of Alameda, Laney College, and Merritt College.



	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Full-Time Equivalent Students	19,414	20,322	22,144	19,871	18,712	18,264	18,642
Percentage Increase/(Decrease)		4.68%	8.97%	-10.26%	-5.83%	-2.39%	2.07%

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

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- Unrestricted General fund revenues for the year were \$115.7 million, an increase of 5.1 percent from prior year's revenue of \$110.0 million.
- Medical benefit rates for both employees and retirees increased for Kaiser 9.8 percent and decreased for the Self-Insurance plan 2.72 percent over the prior year. The District continues to provide retirees who were hired prior to July 1, 2004, with lifetime medical benefits. For employees hired after July 1, 2004, medical benefits upon retirement are provided until age 65 or Medicare eligibility. The actuarial accrued liability at a 6.75 percent discount rate for the District as of June 30, 2014, is \$174.7 million. In December 2005, the District issued \$153 million in Other Postemployment Benefits (OPEB) Bonds. The proceeds of the bonds have been placed in a revocable trust fund, which may be used only to pay or reimburse the District for payment of retiree health benefit costs or related debt service. In January 2006, the bond proceeds were invested in a strategic allocation that mirrors the asset allocation of CalPERS.
- The District is using Measures A and E bonds to pay for various capital improvements to our educational facilities. They include, but are not limited to, the following:
 - Investment in our technology infrastructure District-wide.
 - Renovate and construct classrooms and facilities to enhance the community outreach capabilities of the District among the numerous ethnic communities living in and served by the District.
 - District-wide safety systems including disaster preparedness, campus security, and hazardous and toxic waste handling.
 - Technological infrastructure for distance learning.
 - Renovation of student service buildings and facilities at Laney College, Merritt College, and College of Alameda.
 - Landscape improvements at Merritt College.
 - Improvements in laboratories and power supplies District-wide.
 - Cabling and power upgrade for technology.
 - Construction of a six story urban campus for Berkeley City College in Berkeley.
- The District is using Measure B, special parcel tax, as approved by the voters in June 2012 in the following manner:
 - Restore and maintain core academic programs such as Math, Science, and English.
 - Train students for careers.
 - Prepare students to transfer to four-year universities.

Statement of Net Position

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

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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

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

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

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

A summary of the Statement of Net Position as of June 30, 2014 and June 30, 2013, is presented below:

**NET POSITION
As of June 30,**

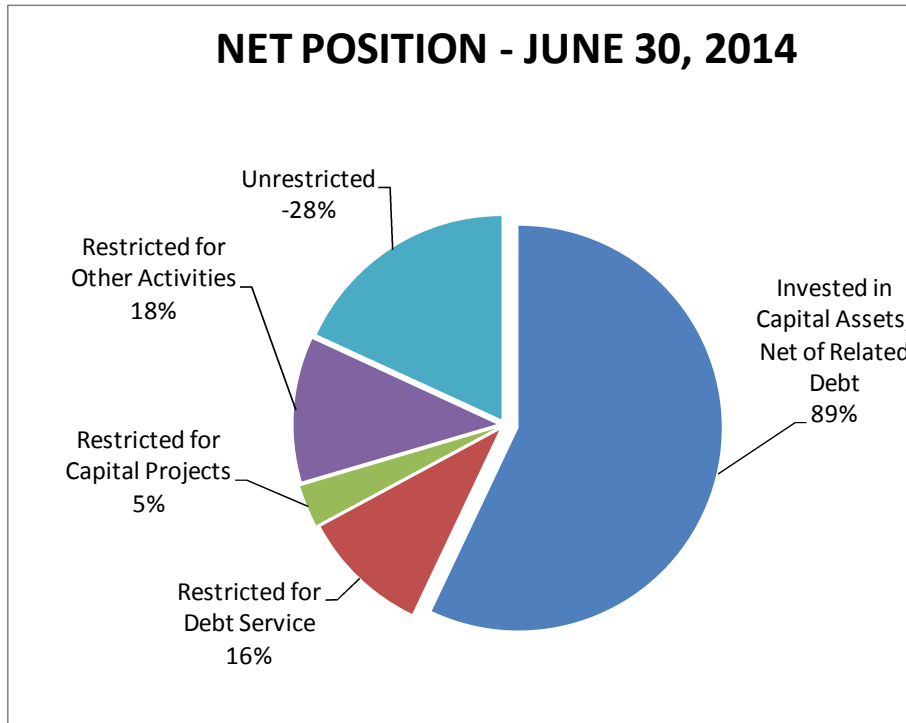
(in thousands)

	2014	*2013	Increase (Decrease)	Percent Change
ASSETS				
Current Assets				
Cash and investments	\$ 368,087	\$ 373,198	\$ (5,111)	-1.4%
Accounts receivable	29,827	35,217	(5,390)	-15.3%
Other current assets	442	1,100	(658)	-59.8%
Total Current Assets	<u>398,356</u>	<u>409,515</u>	<u>(11,159)</u>	<u>-76.49%</u>
Noncurrent Assets				
Capital assets (net of depreciation)	423,489	400,414	23,075	5.8%
TOTAL ASSETS	<u>821,845</u>	<u>809,929</u>	<u>23,075</u>	<u>5.8%</u>
DEFERRED OUTFLOWS OF RESERVES				
Deferred charge on refunding	8,339	7,990	349	4.4%
Interest rate SWAP	14,431	11,760	2,671	22.7%
TOTAL DEFERRED OUTFLOWS	<u>22,770</u>	<u>19,750</u>	<u>3,020</u>	<u>27.08%</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	19,170	32,663	(13,493)	-41.3%
Unearned revenue	3,301	3,365	(64)	-1.9%
Other current liabilities	36,348	31,089	5,259	16.9%
Current portion of long-term obligations	14,283	13,467	816	6.1%
Total Current Liabilities	<u>73,102</u>	<u>80,584</u>	<u>(7,482)</u>	<u>-20.2%</u>
Noncurrent Liabilities				
Bonds payable	622,984	629,535	(6,551)	-1.0%
Other long-term liabilities	38,140	34,130	4,010	11.7%
Long-term obligations	661,124	663,665	(2,541)	-0.4%
TOTAL LIABILITIES	<u>734,226</u>	<u>744,249</u>	<u>(10,023)</u>	<u>-20.6%</u>
DEFERRED INFLOWS OF RESERVES				
SWAP liability	14,431	11,760	2,671	22.7%
Interest rate SWAP	376	1,054	(678)	-64.3%
TOTAL DEFERRED INFLOWS	<u>14,807</u>	<u>12,814</u>	<u>1,993</u>	<u>-41.6%</u>
NET POSITION				
Net investment in capital assets	85,546	72,104	13,442	18.6%
Restricted for:				
Debt service	15,124	13,973	1,151	8.2%
Capital projects	4,969	4,108	861	21.0%
Other activities	17,132	13,027	4,105	31.5%
Unrestricted	(27,189)	(30,596)	3,407	11.1%
TOTAL NET POSITION	<u>\$ 95,582</u>	<u>\$ 72,616</u>	<u>\$ 22,966</u>	<u>31.6%</u>

* As restated.

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**



- Approximately 89 percent of the cash balance is cash deposited in the Alameda County Treasury Pool and approximately 11 percent is cash deposited in local financial banking institutions. All funds are invested in accordance with Board Policy, which emphasizes prudence, safety, liquidity, and return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash, and the net decrease in cash during fiscal years 2013-2014 and 2012-2013.
- The majority of the accounts receivable balance is from Federal and State sources for apportionment, grant and entitlement programs, and student receivables. Receivables totaling approximately \$14.2 million for the June 2014 apportionment and categorical deferrals, approximately \$9.8 million for reimbursements from Federal and State agencies related to grant awards, and \$5.8 million for student receivables.
- Capital assets had a net increase of \$23.1 million. The District had additions of \$16 million related to construction in progress. Depreciation expense of \$14.3 million was recognized during 2013-2014. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2014. Total accounts payable are \$9.8 million; \$4.5 million of the balance was accrued in the Capital Projects fund, Bond fund, and Special Revenue fund related to capital outlay. Five hundred and sixty-nine thousand dollars is for amounts due to or on behalf of employees for wages and benefits.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- The District's noncurrent liabilities primarily consist of bonds payable, related to the issuance of Election 2000 Series B, C, and D of the District General Obligation Bonds; 2005 Series A and B Refunding of the District General Obligation Bonds; Election 2006 Series A, B, and C of the District General Obligation Bonds; and Election 2009 and Other Postemployment Benefit Bonds. The face value of these bonds at the time of initial sale totaled \$700.1 million, and \$637.3 million represents the remaining long-term debt to satisfy these obligations.

Statement of Revenues, Expenses, and Change in Net Position

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

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2014 and June 30, 2013, is summarized below:

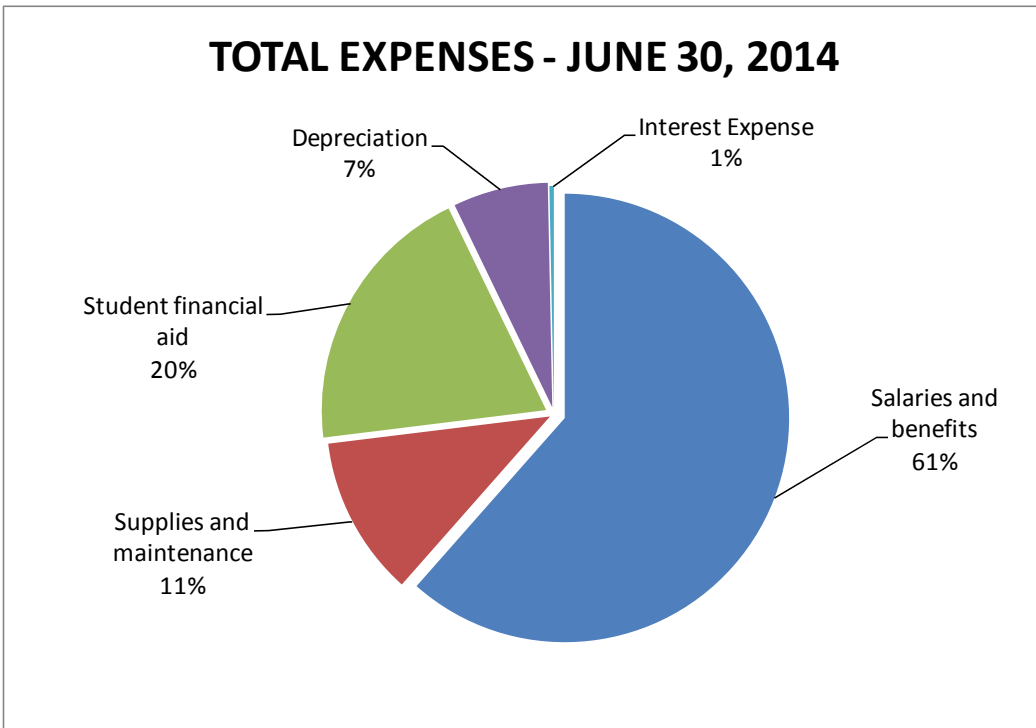
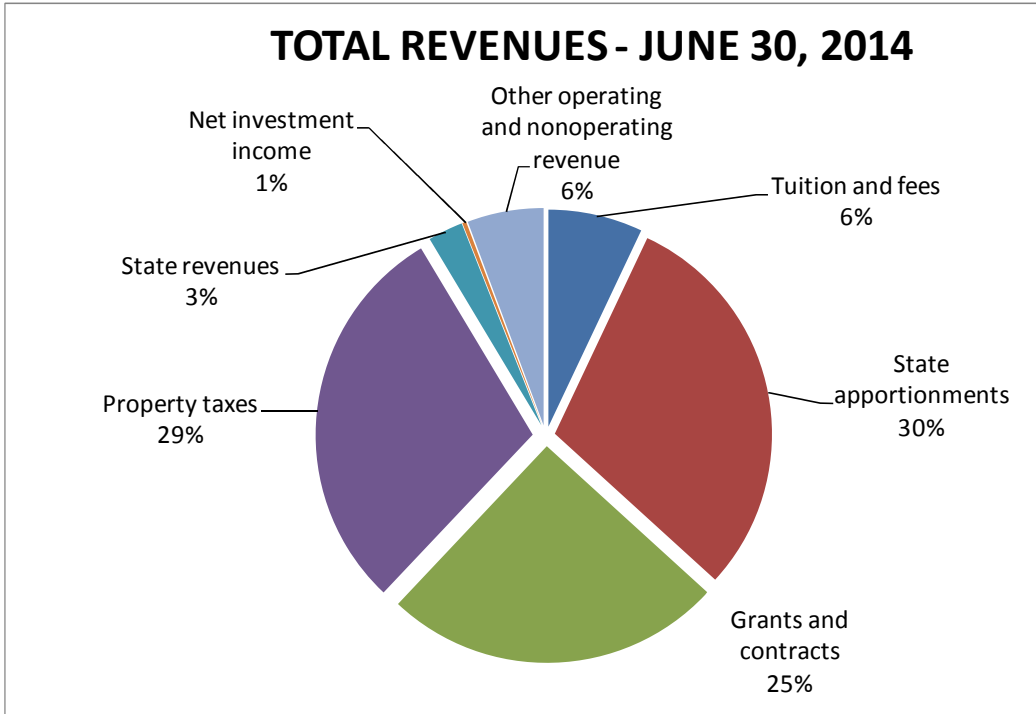
**Statement of Revenues, Expenses, and Changes in Net Position
for the Years Ended June 30,**

(in thousands)

	2014	2013	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees	\$ 16,198	\$ 14,557	\$ 1,641	11.3%
Other revenues	1,239	1,853	(614)	100%
Total Operating Revenues	<u>17,437</u>	<u>16,410</u>	<u>1,027</u>	<u>6.3%</u>
Operating Expenses				
Salaries and benefits	128,421	123,037	5,384	4.4%
Supplies and maintenance	24,130	25,679	(1,549)	-6.0%
Student financial aid	41,304	38,326	2,978	7.8%
Depreciation	14,304	15,348	(1,044)	-6.8%
Total Operating Expenses	<u>208,159</u>	<u>202,390</u>	<u>5,769</u>	<u>2.9%</u>
Loss on Operations	<u>(190,722)</u>	<u>(185,980)</u>	<u>(4,742)</u>	<u>-2.5%</u>
Nonoperating Revenues and (Expenses)				
State apportionments	68,496	58,547	9,949	17.0%
Grants and contracts	58,292	54,592	3,700	6.8%
Property taxes	67,647	73,572	(5,925)	-8.1%
State revenues	6,045	5,122	923	18.0%
Net investment income	(671)	(2,147)	1,476	-68.7%
Other nonoperating revenues and transfers	11,875	10,038	1,837	18.3%
Total Nonoperating Revenues (Expenses)	<u>211,684</u>	<u>199,724</u>	<u>11,960</u>	<u>6.0%</u>
Other Revenues				
State and local capital income	2,004	1,127	877	77.8%
Total Other Revenues	<u>2,004</u>	<u>1,127</u>	<u>877</u>	<u>77.8%</u>
Net Increase in Net Position	<u>\$ 22,966</u>	<u>\$ 14,871</u>	<u>\$ 8,095</u>	<u>54.4%</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**



PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- The primary components of tuition and fees are the \$46 per unit enrollment fee that is charged to all students registering for classes and the additional \$213 per unit fee that is charged to all non-resident students.
- Personnel costs account for 62 percent of operating expenses in fiscal year 2014 compared to 60 percent in 2013. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, equipment, maintenance, and depreciation expense.
- The principal components of the District's nonoperating revenue are: noncapital Federal and State grants, State apportionment, local property taxes, other State funding, and interest income. With the exception of interest income, the majority of this revenue is received to support the District's instructional activities. The amount of State general apportionment received by the District is dependent upon the number of FTES generated and reported to the State, less amounts received from enrollment fees and local property taxes. Increases in either of the latter two revenue-categories lead to a corresponding decrease in apportionment.
- A schedule of functional expenses is displayed below:

	Salaries and Benefits	Supplies, Material, and Other Operating Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 58,155,265	\$ 1,943,692	\$ -	\$ -	\$ 60,098,957
Academic support	9,747,032	590,805	-	-	10,337,837
Student services	19,093,994	4,475,664	-	-	23,569,658
Plant operations and maintenance	6,158,386	1,448,660	-	-	7,607,046
Planning, policymaking, and coordination	5,429,978	2,751,873	-	-	8,181,851
Instructional support services	24,720,029	8,638,261	-	-	33,358,290
Community services and economic development	241,046	49,839	-	-	290,885
Ancillary services and auxiliary operations	3,685,686	4,231,315	-	-	7,917,001
Student aid	-	-	41,303,971	-	41,303,971
Physical property and related acquisitions	1,189,399	-	-	-	1,189,399
Unallocated expense	-	-	-	14,304,212	14,304,212
Total	\$ 128,420,815	\$ 24,130,109	\$ 41,303,971	\$ 14,304,212	\$ 208,159,107

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Statement of Cash Flows

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

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

The Statement of Cash Flows for the fiscal years ended June 30, 2014 and June 30, 2013, is summarized below:

Statement of Cash Flows for the Years Ended June 30,

(in thousands)

	<u>2014</u>	<u>2013</u>
Cash From		
Operating activities	\$ (180,885)	\$ (160,175)
Noncapital financing activities	175,874	176,361
Capital financing activities	(41,212)	(30,313)
Investing activities	(323)	9,439
Net Change in Cash	<u>(46,546)</u>	<u>(4,688)</u>
Cash, Beginning of Year	<u>161,327</u>	<u>166,015</u>
Cash, End of Year	<u><u>\$ 114,781</u></u>	<u><u>\$ 161,327</u></u>

- Cash receipts from operating activities are from student tuition. Use of cash is for payments to employees, vendors, and students related to the instructional program.
- State apportionment received based on the workload measures generated by the District accounts for 30 percent and 39 percent of noncapital financing for fiscal years 2014 and 2013, respectively. Cash receipts from Federal and State grants represent 25 percent in 2014 and 31 percent in 2013. Cash received from property taxes accounts for 29 percent in fiscal year 2014 and 25 percent in fiscal year 2013 of the cash generated in this section.
- The majority of the activity in the capital and related financing activities is for the purchase of capital assets (buildings, building improvements, and equipment).
- Cash from investing activities is purchase of investments and investment income for interest earned on cash in bank and cash invested through the Alameda County pool, and on investments with local banking institutions. Approximately \$0.3 million and \$0.4 million were received from the Alameda County pool for fiscal years 2014 and 2013.

PERALTA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Other Postemployment Benefits Obligation

Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards No. 43 and No. 45 are for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees. The District had an actuarial study performed in 2013 to identify the cost and amount needed to fund on an annual basis retiree health benefits. This study determined the District's Unfunded Actuarial Accrued Liability to be \$174.7 million.

Economic Factors that May Affect the Future

In contrast to recent budgets, the District enters its fiscal year 2014-2015 with optimism. This sense of optimism stems from both new revenues included in the 2014-2015 budget, parcel tax revenue, and enrollment growth (access) revenue, as well as the absence of workload reductions and threats of mid-year reductions. As a result of efforts and difficult decisions made during the previous three years, the District is now positioned to restore the necessary cuts needed to balance the budget and focus on restoring access and improving services to our students and community. Due to the passage of the parcel tax and Proposition 30 in the prior year, the District has been able to restore 41 faculty positions, 15 classified positions, 4 dean positions, and created 1 new position at each college to assist with the associated student body organizations, student clubs, and trusts. This is in addition to ensuring sufficient part-time faculty budgets existed to support the colleges' course offerings to students. The District is confident that as the State's economy improves, so will the ability to continue these restoration efforts.

For fiscal year 2013-2014, it is expected that the District will be compensated for serving 18,229 full-time equivalent students. Should the District serve only those students which it is funded for, this would equate to a two percent increase as compared to the prior fiscal year.

As the fiscal year 2014-2015 progresses, the District is exercising diligence in monitoring all budgets and continues to spend within its parameters. As the budget development begins for fiscal year 2015-2016, the District will carefully watch and evaluate the Governor's January budget proposal, as well as any changes contained with the May revision. Working through the shared governance structures, the 2015-2016 budget will contain plans to ensure the institution remains financially strong and maintains the ability to carry out its core mission to educating students.

Contacting the District's Financial Management

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2014**

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 12,315,952
Investments	8,963,103
Restricted investments	346,808,208
Accounts receivable	24,062,647
Student receivables, net	5,764,072
Due from fiduciary funds	32,373
Prepaid expenses	285,179
Inventories	124,763
Total Current Assets	<u>398,356,297</u>
NONCURRENT ASSETS	
Nondepreciable capital assets	124,064,807
Depreciable capital assets, net of depreciation	299,423,729
Total Noncurrent Assets	<u>423,488,536</u>
TOTAL ASSETS	<u>821,844,833</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	8,338,755
Interest rate SWAP	14,430,725
Total Deferred Outflows of Resources	<u>22,769,480</u>
LIABILITIES	
CURRENT LIABILITIES	
Deficit cash in county treasury	36,166,804
Accounts payable	9,846,916
Accrued interest payable	9,322,682
Due to fiduciary funds	181,986
Unearned revenue	3,300,643
General obligation bonds payable - current portion	11,615,000
Other postemployment benefits bonds - current portion	2,668,235
Total Current Liabilities	<u>73,102,266</u>
NONCURRENT LIABILITIES	
Claims liability	2,795,135
Load banking	1,845,676
Compensated absences payable - noncurrent portion	3,583,095
General obligation bonds payable - noncurrent portion	407,656,614
Other postemployment benefits bonds - noncurrent portion	215,326,772
Other postemployment benefits obligation - noncurrent portion	29,916,295
Total Noncurrent Liabilities	<u>661,123,587</u>
TOTAL LIABILITIES	<u>734,225,853</u>
DEFERRED INFLOWS OF RESOURCES	
SWAP liability	14,430,725
Interest rate SWAP	375,513
Total Deferred Inflows of Resources	<u>14,806,238</u>
NET POSITION	
Net investment in capital assets	85,545,696
Restricted for:	
Debt service	15,123,994
Capital projects	4,968,459
Other activities	17,132,747
Unrestricted	(27,188,674)
TOTAL NET POSITION	<u>\$ 95,582,222</u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES	
Student Tuition and Fees	\$ 30,834,612
Less: Scholarship discount and allowance	(14,637,006)
Net tuition and fees	<u>16,197,606</u>
Other Operating Revenues	<u>1,238,517</u>
TOTAL OPERATING REVENUES	<u><u>17,436,123</u></u>
OPERATING EXPENSES	
Salaries	82,461,431
Employee benefits	45,959,384
Supplies, materials, and other operating expenses and services	24,130,109
Student financial aid	41,303,971
Depreciation	14,304,212
TOTAL OPERATING EXPENSES	<u><u>208,159,107</u></u>
OPERATING LOSS	<u>(190,722,984)</u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	68,496,627
Federal grants and contracts	47,354,584
State grants and contracts	10,937,761
Local property taxes, levied for general purposes	34,771,675
Taxes levied for other specific purposes	32,874,996
State taxes and other revenues	6,045,140
Interest income	3,897,849
Net unrealized gain on investments	24,324,775
Interest expense on capital related debt	(28,893,627)
Transfer to fiduciary fund	(19,527)
Other nonoperating revenue	11,894,082
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>211,684,335</u></u>
INCOME BEFORE OTHER REVENUES	<u>20,961,351</u>
State revenues, capital	884,111
Local revenues, capital	1,120,454
TOTAL OTHER REVENUES	<u><u>2,004,565</u></u>
CHANGE IN NET POSITION	22,965,916
NET POSITION, BEGINNING OF YEAR, AS RESTATED (see Note 17)	<u>72,616,306</u>
NET POSITION, END OF YEAR	<u><u>\$ 95,582,222</u></u>

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, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 13,961,725
Other operating income	1,238,517
Payments to or on behalf of employees	(126,940,727)
Payments made to students from financial aid	(27,841,329)
Payments to vendors for supplies and services	<u>(41,303,971)</u>
Net Cash Flows From Operating Activities	<u>(180,885,785)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	68,331,753
Federal and State grants and contracts	56,258,555
Property taxes - nondebt related	34,771,675
Other State revenues	6,602,340
Other nonoperating revenues	<u>9,909,998</u>
Net Cash Flows From Noncapital Financing Activities	<u>175,874,321</u>

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

Local capital grants	2,004,565
Taxes levied for debt repayment	32,874,996
Accretion of bonds	8,073,406
Acquisition and construction of capital assets	(40,305,900)
Principal paid on capital debt	(14,349,036)
Interest paid on capital debt and leases	<u>(29,510,172)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(41,212,141)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(28,545,447)
Investment income	<u>28,222,624</u>
Net Cash Flows From Investing Activities	<u>(322,823)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

(46,546,428)
<u>161,327,373</u>
<u>\$ 114,780,945</u>

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, 2014**

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

Operating Loss	<u>\$ (190,722,984)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation	14,304,212
Changes in Operating Assets and Liabilities:	
Receivables, net	(1,503,678)
Inventories	56,668
Prepaid expenses	(212,995)
Accounts payable and accrued liabilities	(5,062,154)
Unearned revenue	(701,507)
Compensated absences	188,300
Load banking	13,351
Other postemployment benefits	<u>2,755,002</u>
Total Adjustments	<u>9,837,199</u>
Net Cash Flows From Operating Activities	<u><u>\$ (180,885,785)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 12,315,952
Investment in county treasury	<u>102,464,993</u>
Total Cash and Cash Equivalents	<u><u>\$ 114,780,945</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 2,365,474</u></u>
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The accompanying notes are an integral part of these financial statements.

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 426,932	\$ 950,021
Investments	480,143	-
Accounts receivable	8,133	-
Due from primary government	181,986	-
Total Assets	<u>1,097,194</u>	<u>\$ 950,021</u>
 LIABILITIES		
Accounts payable	104,826	\$ -
Due to primary government	32,373	-
Due to student groups	-	950,021
Total Liabilities	<u>137,199</u>	<u>\$ 950,021</u>
 NET POSITION		
Unreserved	959,995	
Total Net Position	<u>\$ 959,995</u>	

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

PERALTA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	Trust Funds
ADDITIONS	
Local revenues	<u>\$ 314,635</u>
DEDUCTIONS	
Classified salaries	61,799
Employee benefits	5,565
Services and operating expenditures	188,374
Capital outlay	8,624
Total Deductions	<u>264,362</u>
OTHER FINANCING SOURCES	
Transfer from primary government	<u>19,527</u>
Total Other Financing Sources	<u>19,527</u>
Change in Net Position	69,800
Net Position - Beginning	<u>890,195</u>
Net Position - Ending	<u><u>\$ 959,995</u></u>

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - ORGANIZATION

Peralta Community College District (the District) was established in 1964 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering 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. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *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.

Peralta Community College District and the Golden West Financing Authority, as represented by the 2005 General Obligation Revenue Bonds, Series B, have a financial and operational relationship that meets the reporting definition antenna of GASB Statement No. 14, *The Financial Reporting Entity*, for the inclusion of the related debt. Therefore, the related debt has been included in the financial statements of the District.

The following entity does not meet the above criteria for inclusion as a component unit of the District.

- **Peralta Colleges Foundation, Inc.**

Peralta Colleges Foundation, Inc. (the Foundation) is a legally separate, tax-exempt organization. The Foundation acts primarily as a fundraising organization to provide grants and scholarships to students and support to employees, programs, and departments of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because the amount of receipts from the Foundation is insignificant to the District as a whole, the Foundation is not considered a component unit of the District with the inclusion of the statements as a discretely presented component unit. Financial statements for the Foundation can be obtained from the Foundation's Business Office at 333 East 8th Street, Oakland, California 94606.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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

The 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.

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2014, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District has performed a detail analysis of the student receivables and believes they are fully collectible.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2014.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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 \$50,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 20 to 40 years; equipment, 5 to 20 years; vehicles, 5 to 10 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Unearned Revenue

Unearned 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 unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met are recorded as deferred revenue.

Noncurrent Liabilities

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

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

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

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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. At June 30, 2014, the District reported \$37,225,200 in restricted net position.

State Apportionments

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

Property

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

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

The voters of the District passed a Parcel Tax on June 5, 2012, for the general revenues of the District. The parcel tax levys \$48 per parcel for eight years to provide for core academic programs, training, and education of students attending the District and transferring to university. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Position. 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 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, and Federal Work-Study 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. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. 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*.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$7,463,935. The decrease results from no longer deferring and amortizing bond issuance costs.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

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 (ECS) 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, 2014.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Summary of Deposits and Investments

Deposits and investments of the primary government as of June 30, 2014, consist of the following:

Cash on hand and in banks - unrestricted	\$ 3,550,142
Cash in revolving - unrestricted	55,000
Cash on hand and in banks - restricted	8,710,810
Total Cash and Cash Equivalents	<u>\$ 12,315,952</u>
Investment in county treasury - unrestricted	\$ (27,203,701)
Investment in county treasury - restricted	129,668,694
Investments - restricted	217,139,514
Total Investments	<u>\$ 319,604,507</u>

Deposits and investments of the fiduciary funds as of June 30, 2014, consist of the following:

Cash on hand and in banks	<u>\$ 1,376,953</u>
Investment in county treasury	<u>\$ 480,143</u>

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing 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.

Additionally, OPEB bond proceeds have been invested in other instruments which equate to the CalPERS investment strategy.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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	\$ 102,537,638	525
JP Morgan Prime Money Market Fund	41,451	N/A
Money Market Funds	12,409,244	N/A
U.S. Governments and Agencies	7,544,868	N/A
Mortgage Backed Securities	15,746,625	N/A
Collateralized Mortgage Obligations	4,187,197	N/A
Domestic Corporate Bonds	14,102,197	N/A
Foreign Bonds	126,350	N/A
Mutual Funds - Fixed Income	27,110,009	N/A
Common Stock - Domestic	77,860,602	N/A
Common Stock - Foreign	13,624,857	N/A
Master Limited Partnerships	87,652	N/A
Mutual Funds - Equities	44,182,138	N/A
Private Equity	116,324	N/A
	<u>\$ 319,677,152</u>	

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014. 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>	Total <u>Fair Value</u>	<u>Rating</u>
County Pool - Alameda	\$ 102,537,638	Not rated
JP Morgan Prime Money Market Fund	41,451	[1]
Money Market Funds	12,409,244	[1]
U.S. Governments and Agencies	7,544,868	[1]
Mortgage Backed Securities	15,746,625	[1]
Collateralized Mortgage Obligations	4,187,197	[1]
Domestic Corporate Bonds	14,102,197	[1]
Foreign Bonds	126,350	[1]
Mutual Funds - Fixed Income	27,110,009	[1]
Common Stock - Domestic	77,860,602	[1]
Common Stock - Foreign	13,624,857	[1]
Master Limited Partnerships	87,652	[1]
Mutual Funds - Equities	44,182,138	[1]
Private Equity	116,324	[1]
	<u>\$ 319,677,152</u>	

[1] Investment ratings range from Aaa to Caa according to Moody's Investors Service.

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, 2014, the District's bank balance of \$10,624,988 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 6,227,380
State Government	
Apportionment deferral	14,269,110
Categorical aid	479,617
Lottery	1,459,101
Local Sources	
Other local sources	<u>1,627,439</u>
Total	<u>\$ 24,062,647</u>
Student receivables	<u>\$ 5,764,072</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the fiscal year ended June 30, 2014, 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
Construction in progress	96,206,895	36,628,432	20,683,816	112,151,511
Total Capital Assets Not Being Depreciated	<u>108,120,191</u>	<u>36,628,432</u>	<u>20,683,816</u>	<u>124,064,807</u>
Capital Assets Being Depreciated				
Buildings	271,798,751	-	-	271,798,751
Site improvements	133,793,323	21,420,333	-	155,213,656
Software and IT development	31,385,496	-	-	31,385,496
Machinery and equipment	40,702,184	13,884	-	40,716,068
Total Capital Assets Being Depreciated	<u>477,679,754</u>	<u>21,434,217</u>	<u>-</u>	<u>499,113,971</u>
Total Capital Assets	<u>585,799,945</u>	<u>58,062,649</u>	<u>20,683,816</u>	<u>623,178,778</u>
Less Accumulated Depreciation				
Buildings	101,096,672	5,417,263	-	106,513,935
Site improvements	15,601,583	6,161,426	-	21,763,009
Software and IT development	29,778,563	1,521,290	-	31,299,853
Machinery and equipment	38,909,212	1,204,233	-	40,113,445
Total Accumulated Depreciation	<u>185,386,030</u>	<u>14,304,212</u>	<u>-</u>	<u>199,690,242</u>
Net Capital Assets	<u>\$ 400,413,915</u>	<u>\$ 43,758,437</u>	<u>\$ 20,683,816</u>	<u>\$ 423,488,536</u>

* As restated. See Note 17 for more information.

Depreciation expense for the year was \$14,304,212.

Interest expense on capital related debt for the year ended June 30, 2014, was \$34,254,957. Of this amount, \$5,361,330 was capitalized.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable consisted of the following:

	Primary Government
Accrued payroll and benefits	\$ 569,560
Construction contractors	4,549,716
Vendors and supplies	4,727,640
Total	<u>\$ 9,846,916</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	Primary Government
Federal categorical aid	\$ 152,145
State categorical aid	1,586,753
Enrollment fees	1,264,872
Other local	296,873
Total	<u>\$ 3,300,643</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES PAYABLE

The District issued a Tax and Revenue Anticipation Note (TRAN) during the previous fiscal year. The TRAN was issued on March 1, 2013, which had a maturity date of December 31, 2013. See current year activity below:

	Outstanding Beginning of Year	Issuance	Payments	Outstanding End of Year
2013 2.00% TRANS	<u>\$ 8,935,000</u>	<u>\$ -</u>	<u>\$ 8,935,000</u>	<u>\$ -</u>
Total	<u>\$ 8,935,000</u>	<u>\$ -</u>	<u>\$ 8,935,000</u>	<u>\$ -</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2014, the amounts owed between the primary government and the fiduciary funds were \$181,986 and \$32,373, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2014 fiscal year, the District transferred \$19,527 to the fiduciary funds.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the fiscal year 2014 consisted of the following:

	Beginning Balance	Additions	(Amortization) Accretion	Deductions	Ending Balance	Due in One Year
General obligation bonds	\$ 431,953,433	\$ -	\$ -	\$ (12,681,819)	\$ 419,271,614	\$ 11,615,000
2005 Taxable Limited Obligation OPEB Bonds	147,594,369	-	8,073,406	-	155,667,775	-
2006 OPEB Bond modification and restructuring	10,489,449	-	-	(72,217)	10,417,232	78,235
2011 Taxable Refunding bonds	53,505,000	-	-	(1,595,000)	51,910,000	2,590,000
Total Bonds Payable	643,542,251	-	8,073,406	(14,349,036)	637,266,621	14,283,235
Other liabilities						
Postemployment benefits obligation	27,161,293	11,511,305	-	(8,756,303)	29,916,295	-
Claims liability	2,795,135	-	-	-	2,795,135	-
Load banking	1,832,325	13,351	-	-	1,845,676	-
Compensated absences	3,394,795	188,300	-	-	3,583,095	-
Total Long-Term Obligations	\$ 678,725,799	\$ 11,712,956	\$ 8,073,406	\$ (23,105,339)	\$ 675,406,822	\$ 14,283,235

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Description of Obligations

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

Management is responsible to evaluate the adequacy of the change in value. The Postemployment Benefits Obligation is funded through payments for benefits and is reported within the fund the employees' salaries are charged. The compensated absences will be paid by the fund for which the employee worked. Load banking obligations are the responsibility of the General Fund in the year the employee utilizes the banked leave time.

Bonded Debt

General Obligation Bonds, Election 2000, Series C

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

General Obligation Bonds, Election 2000, Series D

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

2002 Refunding General Obligation Bonds

In October 2002, the District issued, in the amount of \$7,310,000, the 2002 Refunding General Obligation Bonds to refund the Peralta Community College District, General Obligation Bonds, Election of 1992, Series A (the 1993 Bonds). The bonds mature beginning February 1, 2003 through August 1, 2014, with interest rates ranging from 2.00 to 4.00 percent.

2005 General Obligation Revenue Bonds, Series A

In June 2005, the Golden West Schools Financing Authority issued, in the amount of \$7,285,000, the 2005 General Obligation Revenue Bonds, Series A (Peralta Community College District Refunding) to finance the acquisition of the outstanding Peralta Community College District General Obligation Bonds, Election of 1992, Series C. The bonds are repaid through tax assessments on property located within the District boundaries. The bonds mature beginning August 1, 2006 through August 1, 2021, with interest yield rates ranging from 3.00 to 4.00 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2005 General Obligation Revenue Bonds, Series B

In August 2005, the Golden West Schools Financing Authority issued, in the amount of \$32,975,000, the 2005 General Obligation Revenue Bonds, Series B (Peralta Community College District Refunding) to finance the acquisition of the callable Peralta Community College District General Obligation Bonds, Election of 1992, (the 1992D Bonds), the callable General Obligation Bonds, Election 1992, Series E, (the 1992E Bonds), the callable General Obligation Bonds, Election 1996, Series A, (the 1996A Bonds), and a portion of the callable General Obligation Bonds, Election 2000, Series A (the 2000A Bonds) in the amount of \$32,410,000. Concurrent with the issuance of the bonds, the District issued 2005 General Obligation Refunding Bonds. The bonds are repaid through tax assessments on property located within the District boundaries. The bonds mature beginning on August 1, 2006 through August 1, 2025, with interest rates ranging from 3.00 to 5.00 percent.

2006 General Obligation Bonds, Series A

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

2006 General Obligation Bonds, Series B

In November 2007, the District issued \$100,000,000 of General Obligation Bonds, Election of 2006, Series B. The bonds are being issued to finance the acquisition, construction, and rehabilitation of District facilities. The bonds mature beginning August 1, 2009 through August 1, 2037, with interest yield rates ranging from 5.00 to 5.25 percent.

2006 General Obligation Bonds, Series C

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

2009 Refunding General Obligation Bonds

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

2012 Refunding General Obligation Bonds

In March 2012, the District issued, in the amount of \$59,005,000, the Refunding General Obligation Bonds to refund portions of the District's prior bonds. The bonds mature beginning August 1, 2012 through August 1, 2034, with interest yield rates ranging from 2.00 to 5.00 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

The outstanding general obligation debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2013	Issued/ Amortized	Redeemed	Outstanding June 30, 2014
2000 B	5/30/2002	8/01/2032	2.00%-5.32%	\$ 30,000,000	\$ 8,450,000	\$ -	\$ -	\$ 8,450,000
2000 C	5/27/2004	8/01/2034	1.60%-5.20%	40,000,000	960,000	-	960,000	-
2000 D	7/21/2005	8/01/2035	2.51%-4.18%	55,700,000	24,275,000	-	1,210,000	23,065,000
Subtotal Election of 2000								31,515,000
2002	10/24/2002	8/01/2014	2.00%-4.00%	7,310,000	525,000	-	525,000	-
2005 A	6/01/2005	8/01/2021	3.00%-4.00%	7,285,000	4,375,000	-	380,000	3,995,000
2005 B	8/17/2005	8/01/2025	3.00%-5.00%	32,975,000	28,750,000	-	2,010,000	26,740,000
Subtotal 2005 Refinancings								30,735,000
2006 A	8/10/2006	8/01/2031	4.00%-5.00%	75,000,000	62,540,000	-	2,140,000	60,400,000
2006 B	11/15/2007	8/01/2037	5.00%-5.25%	100,000,000	93,165,000	-	1,930,000	91,235,000
2006 C	8/26/2009	8/01/2039	2.00%-5.50%	100,000,000	99,180,000	-	1,370,000	97,810,000
Subtotal Election of 2006								249,445,000
2009	12/17/2009	8/01/2031	2.00-5.50%	39,080,000	33,265,000	-	1,275,000	31,990,000
2012	3/28/2012	8/01/2034	2.00-5.00%	59,005,000	58,230,000	-	-	58,230,000
Subtotal General Obligation Bonds								401,915,000
Bond Premiums					18,238,433	-	881,819	17,356,614
Total General Obligation Bonds					\$ 431,953,433	\$ -	\$ 12,681,819	\$ 419,271,614

General Obligation Bond - 2000 Election

The 2000 general obligation bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
2025-2029	-	-	-
2030-2034	10,540,000	5,698,213	16,238,213
2035-2036	20,975,000	4,587,912	25,562,912
Total	\$ 31,515,000	\$ 10,286,125	\$ 41,801,125

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

General Obligation Revenue Bonds - 2005 Refunding

The general obligation revenue bonds mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,530,000	\$ 1,506,980	\$ 4,036,980
2016	2,635,000	1,376,830	4,011,830
2017	2,770,000	1,239,611	4,009,611
2018	2,905,000	1,094,650	3,999,650
2019	3,060,000	943,939	4,003,939
2020-2024	13,280,000	2,416,125	15,696,125
2025-2026	3,555,000	120,319	3,675,319
Total	<u>\$ 30,735,000</u>	<u>\$ 8,698,454</u>	<u>\$ 39,433,454</u>

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
2015	\$ 6,220,000	\$ 12,378,738	\$ 18,598,738
2016	7,050,000	12,105,488	19,155,488
2017	6,710,000	11,771,438	18,481,438
2018	7,020,000	11,452,406	18,472,406
2019	7,335,000	11,122,263	18,457,263
2020-2024	42,715,000	49,453,294	92,168,294
2025-2029	54,740,000	37,230,475	91,970,475
2030-2034	59,600,000	22,076,638	81,676,638
2035-2039	51,570,000	8,389,750	59,959,750
2040	6,485,000	324,250	6,809,250
Total	<u>\$ 249,445,000</u>	<u>\$ 176,304,740</u>	<u>\$ 425,749,740</u>

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Obligation Bond - 2009 Refunding

The 2009 general obligation bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,320,000	\$ 1,590,200	\$ 2,910,200
2016	1,395,000	1,524,200	2,919,200
2017	1,440,000	1,479,950	2,919,950
2018	1,495,000	1,407,950	2,902,950
2019	1,555,000	1,333,200	2,888,200
2020-2024	8,405,000	5,687,075	14,092,075
2025-2029	11,750,000	2,901,113	14,651,113
2030-2032	4,630,000	484,838	5,114,838
Total	<u>\$ 31,990,000</u>	<u>\$ 16,408,526</u>	<u>\$ 48,398,526</u>

General Obligation Bond - 2012 Refunding

The 2012 general obligation bonds mature through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,545,000	\$ 2,649,906	\$ 4,194,906
2016	2,915,000	2,603,556	5,518,556
2017	2,970,000	2,516,106	5,486,106
2018	3,085,000	2,397,306	5,482,306
2019	2,600,000	2,243,056	4,843,056
2020-2024	15,030,000	9,133,031	24,163,031
2025-2029	11,475,000	5,649,031	17,124,031
2030-2034	16,485,000	2,525,331	19,010,331
2035	2,125,000	92,969	2,217,969
Total	<u>\$ 58,230,000</u>	<u>\$ 29,810,292</u>	<u>\$ 88,040,292</u>

Taxable 2005 Limited Obligation Other Postemployment Benefits Bonds

In December 2005, the District issued \$153,749,832 aggregate principal amount of Taxable 2005 Limited Obligation OPEB (Other Postemployment Benefits) Bonds to fund the District's obligation to pay certain health care benefits for certain retired District employees and pay certain costs of issuance. The bonds consisted of \$20,015,000 principal amount of fixed rate bonds, and \$133,734,832 initial principal amount of Convertible Auction Rate Securities. The Convertible Auction Rate Securities accrete to matured principal amount of \$394,225,000. Interest rates on the bonds range from 4.71 percent to 5.52 percent.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Accreted Interest	Interest	Total
2015	\$ -	\$ -	\$ -	\$ -
2016	-	-	-	-
2017	4,225,719	2,649,281	1,995,555	8,870,555
2018	4,502,311	2,822,689	1,638,743	8,963,743
2019	4,994,031	3,130,969	1,258,575	9,383,575
2020-2024	21,564,024	19,885,976	6,700,290	48,150,290
2025-2029	17,629,966	27,270,034	8,970,915	53,870,915
2030-2034	14,960,240	33,039,760	11,590,568	59,590,568
2035-2039	15,009,131	45,440,869	12,195,203	72,645,203
2040-2044	8,536,134	39,863,866	25,495,875	73,895,875
2045-2049	12,121,796	63,328,204	17,413,748	92,863,748
2050	3,100,738	16,199,262	19,300,000	38,600,000
Subtotal	<u>106,644,090</u>	<u>253,630,910</u>	<u>106,559,472</u>	<u>466,834,472</u>
Accumulated accretion	<u>49,023,685</u>	<u>(49,023,685)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 155,667,775</u>	<u>\$ 204,607,225</u>	<u>\$ 106,559,472</u>	<u>\$ 466,834,472</u>

2006 Limited Obligation Other Postemployment Benefits Bonds Modification

The OPEB Bonds issued in 2005 were subject to an amendment wherein Lehman Brothers purchased three maturities (2006, 2007, and 2008 except \$135,000) in 2006. This is outlined in the "Supplement to the Official Statement" dated as of October 25, 2006, relating to the Taxable 2005 Limited Obligation OPEB Bonds. The purpose of the amendment was to convert 2006, 2007, and 2008 original maturities into bonds maturing August 5, 2049. The vehicle used was a capital accretion type financing that the supplement indicates would fully accrete by August 5, 2009, and would have bonds that mature through August 1, 2049. This is a unique financing structure that was developed to accommodate District wishes to reduce debt service in the initial years of the financing.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

The bonds mature through 2050 as follows:

Year Ending June 30,	Principal (Including Accreted Interest to Date)	Interest	Total
2015	\$ 78,235	\$ 648,632	\$ 726,867
2016	84,253	643,554	727,807
2017	90,271	638,101	728,372
2018	96,289	632,271	728,560
2019	102,307	626,065	728,372
2020-2024	613,840	3,023,314	3,637,154
2025-2029	842,526	2,796,885	3,639,411
2030-2034	1,149,446	2,487,896	3,637,342
2035-2039	1,570,709	2,066,633	3,637,342
2040-2044	2,154,459	1,489,466	3,643,925
2045-2049	2,930,787	700,538	3,631,325
2050	704,110	22,004	726,114
Total	<u>\$ 10,417,232</u>	<u>\$ 15,775,359</u>	<u>\$ 26,192,591</u>

2011 Taxable Refunding Bonds

In October 2011, the District refunded the District's outstanding 2009 Taxable OPEB Refunding Bonds. The refunding was a current legal defeasance of the previously issued bonds. The new refunding bonds carry interest rates ranging from 3.47 percent to 6.91 percent and mature annually through August 1, 2031. The proceeds of the refunding were used to refinance all of the District's outstanding obligation 2009 Taxable OPEB Refunding Bonds and paying costs of issuing.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

The bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,590,000	\$ 3,462,057	\$ 6,052,057
2016	2,265,000	3,359,001	5,624,001
2017	-	3,257,869	3,257,869
2018	1,095,000	3,257,869	4,352,869
2019	1,270,000	3,199,506	4,469,506
2020-2024	10,250,000	14,441,276	24,691,276
2025-2029	17,335,000	10,089,195	27,424,195
2030-2032	17,105,000	2,667,420	19,772,420
Total	<u>\$ 51,910,000</u>	<u>\$ 43,734,193</u>	<u>\$ 95,644,193</u>

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$11,228,305, and contributions made by the District during the year were \$8,756,303. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$1,833,387 and \$(1,550,387), respectively, which resulted in an increase to the net OPEB obligation of \$2,755,002. As of June 30, 2014, the net OPEB obligation was \$29,916,295. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Claims Liability

At June 30, 2014, the liability for claims liability was \$2,795,135. See Note 13 for additional information.

Compensated Absences

At June 30, 2014, the liability for compensated absences was \$3,583,095.

Load Banking

At June 30, 2014, the liability for load banking agreements was \$1,845,676.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 11 - INTEREST RATE SWAPS

2005 Limited Obligation Other Postemployment Benefits Bonds

Objective of the Morgan Stanley Interest Rate SWAP. The District entered into a series of six forward starting floating-to-fixed rate interest rate swaps to manage interest rate risk associated with its 2005 Taxable Limited Obligation Other Postemployment Bonds. The OPEB Bonds included six series of bonds that were initially issued at a fixed rate of interest, converting to a variable rate (auction rate) on separate dates and continuing in that mode until maturity of the individual series of bonds. In order to effectively convert the variable rate to a fixed rate for each of the six series of bonds in November 2006, the District entered into separate swap transactions with Morgan Stanley corresponding to each of the individual variable rate periods. Because the swap obligation only arises during the variable rate interest period for each series of bonds, the District does not become obligated to make swap payments until those periods arrive for each series of bonds. As of June 30, 2014, the 2005 Series B-1 through B-6 has a fair market value of \$(14,806,238). The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.90 percent, 5.16 percent, 5.28 percent, 5.21 percent, 5.06 percent, and 4.94 percent, respectively.

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

Credit Risk. As of June 30, 2014, 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, 2014, 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 2014 of \$677,858 are reported within the investment revenue classification for the year ended June 30, 2014. The other interest rate swaps, B-2 through B-6, are considered to be hedging derivative instruments and are identified above as fair value hedges, change in market values are shown as deferred cash out flows on the Statement of Net Position.

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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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	\$ (375,513)	4.90%
AUF3W	November 28, 2006	August 5, 2031	August 5, 2039	USD	86,650,000	(3,823,095)	5.16%
AUF3V	November 28, 2006	August 5, 2025	August 5, 2031	USD	57,525,000	(1,823,164)	5.28%
AUF3U	November 28, 2006	August 5, 2020	August 5, 2025	USD	43,175,000	(1,763,684)	5.21%
AUF3T	November 28, 2006	August 5, 2015	August 5, 2020	USD	38,450,000	(2,853,529)	5.06%
AUF3S	November 28, 2006	August 5, 2010	August 5, 2015	USD	33,950,000	(4,167,253)	4.94%

NOTE 12 - 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 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 2013-2014, the District contributed \$8,756,303 to the plan, comprised on premiums paid for medical insurance, claims expense, eligible Medicare reimbursements, and life insurance premiums for eligible plan members.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 11,228,305
Interest on net OPEB obligation	1,833,387
Adjustment to annual required contribution	<u>(1,550,387)</u>
Annual OPEB Cost	11,511,305
Contributions made	<u>(8,756,303)</u>
Increase in net OPEB obligation	2,755,002
Net OPEB obligation, beginning of year	<u>27,161,293</u>
Net OPEB obligation, end of year	<u><u>\$ 29,916,295</u></u>

Trend Information

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

Year Ended <u>June 30,</u>	<u>Annual OPEB Costs</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 13,005,505	\$ 7,893,515	61%	\$ 23,381,384
2013	11,471,921	7,692,012	67%	27,161,293
2014	11,511,305	8,756,303	76%	29,916,295

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 174,703,920
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 174,703,920</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll	<u>\$ 43,077,857</u>
UAAL as Percentage of Covered Payroll	<u>406%</u>

The above noted actuarial accrued liability was based on the March 2013 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 Other Postemployment Benefits 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 March 2013, 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 6.75 percent. The UAAL is being amortized at a level percent of payroll method (same as CalPERS). The initial UAAL is being amortized over a closed 30 year period. There is no actuarial value of assets because funds have not been placed in an irrevocable trust. The District has an active investment portfolio funded through the issuance of bonds and has earmarked funds held in the County Treasury for funding of the OPEB obligation, but has not elected to place those assets in an irrevocable trust; therefore, there is no actuarial value of plan assets.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 13 - 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 ended June 30, 2014, the District contracted with the Alliance of Schools for Cooperative Insurance Program (ASCIP) Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	Workers' Compensation
Liability Balance, July 1, 2012	\$ 2,778,000
Net claims and changes in estimates	17,135
Liability Balance, June 30, 2013	2,795,135
Net claims and changes in estimates	-
Liability Balance, June 30, 2014	\$ 2,795,135

At June 30, 2014, the Internal Service Fund had retained deficits in the amount of \$1,644,809.

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 14 - 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 CalSTRS and classified employees are members of CalPERS.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. 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 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,486,147, \$3,172,810, and \$3,161,222, 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. As a result of the PEPRA, changes have been made to the defined benefit pension plan effective January 1, 2013. 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.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the PEPRRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 2013-2014 was 11.442 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2014, 2013, and 2012, were \$3,053,688, \$2,638,078, and \$2,442,569, respectively, and equaled 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, which amounted to \$2,365,474, \$2,227,750, and \$2,072,446, respectively, (5.541 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the years ended June 30, 2014, 2013, and 2012. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 15 - 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, 2014, the District made payments of \$38,763, \$641,907, and \$164,206 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.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 16 - COMMITMENT AND CONTINGENCIES

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, 2014, the total amount that has been deposited in a separate account owned by the District is \$4,008,223. A formal agreement has not yet been finalized as to the actual mitigation project parameters. The funds that have been set aside are from general obligation bonds sold specifically for the construction of the Berkeley City College Campus.

Construction Commitments

The District is involved with various long-term construction and renovation projects throughout the four college campuses and the District Office. The projects are in various stages of completion and are funded primarily through the voter approved general obligation bonds.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District's prior year beginning net position has been restated as of June 30, 2014.

Effective in fiscal year 2013-2014, the District was required to implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the District by \$7,463,935.

Primary Government	
Net Position - Beginning	\$ 80,080,241
Restatement of capital assets for implementation of GASB Statement No. 65	<u>(7,463,935)</u>
Net Position - Beginning, as Restated	<u><u>\$ 72,616,306</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

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%
3/21/2011	-	221,198,000	221,198,000	-	42,690,375	518%
3/1/2013	-	174,703,920	174,703,920	-	43,077,857	406%

SUPPLEMENTARY INFORMATION

PERALTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2014

Peralta Community College District was established in 1964 by the electorates of six Alameda County school districts: Alameda, Albany, Berkeley, Emeryville, Oakland, and Piedmont. The District consists of the following two-year community colleges: College of Alameda, Laney College, Merritt College, and Berkeley City College. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Abel Guillén	President	2014
Ms. Meredith Brown	Vice President	2016
Mr. Cy Gulassa	Member	2016
Dr. Nicky González Yuen	Member	2016
Ms. Linda Handy	Member	2014
Dr. William Riley	Member	2014
Mr. Bill Withrow	Member	2016
Mr. Carl Oliver	Student Trustee	2015
Mr. Jeramy Rolley	Student Trustee	2015

ADMINISTRATION

Dr. José M. Ortiz	Chancellor
Dr. Eric Gravenberg	Interim President, College of Alameda
Dr. Deborah Budd	President, Berkeley City College
Dr. Norma Ambriz-Galaviz	President, Merritt College
Dr. Elñora Webb	President, Laney College
Ms. Susan Rinne	Interim Vice Chancellor, Finance and Administration
Dr. Michael Orkin	Vice Chancellor, Educational Services
Dr. Sadiq Ikhara	Vice Chancellor, General Services
Ms. Trudy Largent, J.D.	Vice Chancellor for Human Resources
Ms. Thuy Thi Nguyen, Esq.	General Counsel

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		\$ 32,152,089
Federal Supplemental Education Opportunity Grants	84.007		1,230,574
Federal Work Study Program	84.033		918,722
Federal Direct Student Loans	84.268		6,200,782
Total Student Financial Assistance Cluster			<u>40,502,167</u>
Culture as Power: Teaching Afro-Brazilian History, Politics, and Culture	84.021A		84,940
Higher Educational Institutional Aid - Strengthening Institutions Program, Title III	84.031A		254,263
Higher Educational Institutional Aid - Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success	84.031A		189,348
Higher Educational Institutional Aid - AANIPISI Initiative	84.031L		600,072
Trio Support Services	84.042A		461,926
Passed through the California Community College Chancellor Office			
Career and Technical Education Act (CTEA) Title I, Part C	84.048	10-C01-041	745,532
Career and Technical Education Act (CTEA) Transitions	84.048	11-139-340	176,100
Passed through the California Department of Rehabilitation			
Vocational Rehabilitation Cluster			
State Vocational Rehabilitation Services - Workability	84.126A	28483	516,001
State Vocational Rehabilitation Services - College 2 Career Program	84.126A	28146	225,740
Total Vocational Rehabilitation Cluster			<u>741,741</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>43,756,089</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education			
Child Care and Adult Food Program	10.558	1912-4A	79,335
U.S. DEPARTMENT OF LABOR			
Advance Manufacturing Jobs and Innovation Program	17.268		90,284
Advance Manufacturing and Career Path	17.268		151,439
Passed through Contra Costa Community College District			
Trade Adjustment Assistance Community College and Career Training	17.245	[1]	1,039,489
WIA Community Based Job Training Grants	17.269		856,209
Passed through the State of California, EDD			
WIA Adult - Green Jobs	17.258	R975684	10,422

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR, Continued			
Passed through the County of Alameda			
WIA Adult - One Stop Career Center	17.258	[1]	\$ 121,641
WIA Dislocated Workers - One Stop Career Center	17.278	[1]	121,075
Total Workforce Investment Act (WIA) Cluster			<u>253,138</u>
Passed through the Spanish Speaking Unity Council			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	[1]	84,293
TOTAL U.S. DEPARTMENT OF LABOR			<u>2,474,852</u>
NATIONAL SCIENCE FOUNDATION			
Educating Technicians for Building Automation and Sustainability*	47.076		443,594
U.S. DEPARTMENT OF ENERGY			
Energy Efficiency and Renewable Energy	81.086		123,115
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Regents of the UC Program	93.859		17,051
Passed through the Foundation for California Community Colleges			
Temporary Assistance for Needy Families - Child Development Careers	93.558	1012-24	185,664
International Rescue Committee	93.556		17,408
Passed through the Yosemite Community College District, Child Development Training Consortium			
Child Care and Development Block Grant - CDTC	93.575	[1]	9,715
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>229,838</u>
U.S. DEPARTMENT OF JUSTICE			
Center for Public Safety	16.753		8,026
U.S. DEPARTMENT OF VETERAN AFFAIRS			
Veterans Administration Fees	64.032		495
U.S. DEPARTMENT OF COMMERCE			
MANEX Program	11.619		47,048

[1] Pass-Through Entity Identifying Number not available.

* Research and Development grant.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Americorp - National Service Awards	94.006		\$ 134,829
Passed through the Local Initiatives Support Corporation			
Social Innovation Fund	94.019	45149-0001	<u>25,365</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>160,194</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 47,322,586</u></u> [2]

[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of \$31,998 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Program</u>	<u>Program Entitlements</u>		
	<u>Current Year</u>	<u>Prior Year</u>	<u>Total Entitlement</u>
Alameda County Department	\$ 1,024	\$ 305	\$ 1,329
Song Brown RN Program	165,768	131,555	297,323
Instructional Equipment	225,359	-	225,359
CTE Enrollment Growth	14,537	-	14,537
Staff Diversity	8,477	48,170	56,647
CARE	362,619	-	362,619
EOPS	2,275,406	-	2,275,406
SFAA/BFAP	1,236,232	-	1,236,232
DSPS	1,961,246	-	1,961,246
Advanced Welding Course Training	20,403	-	20,403
Deputy Sector Navigator Grant	600,000	-	600,000
BayClean Prop 39 Clean Energy	1,091,554	-	1,091,554
Student Success and Support Services	1,751,509	-	1,751,509
CalWORKs	797,244	-	797,244
Nursing Capacity Grant	221,000	17,510	238,510
Lottery	3,137,203	-	3,137,203
Career Ladders Project	75,000	10,793	85,793
Faculty Entrepreneurship Program	15,000	11,298	26,298
CTE Community Collaborative	348,000	271,214	619,214
CAA/Contra Costa	340,000	-	340,000
Child Care - Department of Education	720,568	-	720,568
Child Care - Tax Bailout	370,194	-	370,194
Cal Grant B/C	1,585,698	-	1,585,698
Basic Skills	360,000	413,277	773,277
Industry Driven Regional Coll	172,788	-	172,788
Electronic Transcript Mini Grt	49,650	-	49,650
	<u>\$ 17,906,479</u>	<u>\$ 904,122</u>	<u>\$ 18,810,601</u>

See accompanying note to supplementary information.

Program Revenues

Cash Received	Accounts Receivable (Payables)	Unearned Revenue	Transfers	Total Revenue	Program Expenditures
\$ 1,025	\$ -	\$ 816	\$ -	\$ 209	\$ 209
131,555	-	123,061	-	8,494	8,495
225,359	-	165,929	-	59,430	59,430
59,220	(45,220)	-	-	14,000	14,000
56,647	-	56,647	-	-	-
362,619	(8,331)	-	-	354,288	354,288
2,275,406	(13,064)	-	-	2,262,342	2,262,342
1,236,233	(39,131)	-	-	1,197,102	1,197,101
1,961,246	(3,324)	-	1,157,665	3,115,587	3,115,587
35,678	-	15,274	-	20,404	20,404
240,000	140,554	-	-	380,554	380,554
-	24,960	-	-	24,960	24,960
1,751,509	-	617,249	-	1,134,260	1,134,260
805,051	(54,974)	-	-	750,077	750,076
185,640	35,360	-	-	221,000	221,000
91,481	591,636	-	-	683,117	483,379
160,793	5,715	124,041	-	42,467	36,753
11,298	-	11,298	-	-	-
271,214	32,807	-	-	304,021	304,021
134,961	139,690	-	-	274,651	274,651
692,487	650	-	-	693,137	693,137
370,194	-	-	-	370,194	370,194
1,575,553	10,145	-	-	1,585,698	1,585,697
773,277	-	461,658	-	311,619	311,619
-	89,737	-	-	89,737	53,505
49,650	-	10,780	-	38,870	38,870
<u>\$ 13,458,096</u>	<u>\$ 907,210</u>	<u>\$ 1,586,753</u>	<u>\$ 1,157,665</u>	<u>\$ 13,936,218</u>	<u>\$ 13,694,532</u>

PERALTA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2014**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2013 only)			
1. Noncredit*	1	-	1
2. Credit	2,138	-	2,138
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit*	-	-	-
2. Credit	152	-	152
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,822	-	13,822
(b) Daily Census Contact Hours	982	-	982
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	40	-	40
(b) Credit	103	-	103
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,131	-	1,131
(b) Daily Census Contact Hours	273	-	273
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>18,642</u>	<u>-</u>	<u>18,642</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
H. Basic Skills Courses and Immigrant Education			
1. Noncredit*	41	-	41
2. Credit	901	-	901

* Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 18,252,185	\$ -	\$ 18,252,185	\$ 18,252,185	\$ -	\$ 18,252,185
Other	1300	13,813,720	-	13,813,720	13,813,720	-	13,813,720
Total Instructional Salaries		32,065,905	-	32,065,905	32,065,905	-	32,065,905
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	6,154,090	-	6,154,090
Other	1400	-	-	-	1,094,263	-	1,094,263
Total Noninstructional Salaries		-	-	-	7,248,353	-	7,248,353
Total Academic Salaries		32,065,905	-	32,065,905	39,314,258	-	39,314,258
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	17,783,496	-	17,783,496
Other	2300	-	-	-	1,700,198	-	1,700,198
Total Noninstructional Salaries		-	-	-	19,483,694	-	19,483,694
Instructional Aides							
Regular Status	2200	1,077,002	-	1,077,002	1,123,136	-	1,123,136
Other	2400	815,229	-	815,229	876,752	-	876,752
Total Instructional Aides		1,892,231	-	1,892,231	1,999,888	-	1,999,888
Total Classified Salaries		1,892,231	-	1,892,231	21,483,582	-	21,483,582
Employee Benefits	3000	19,219,825	-	19,219,825	36,310,475	-	36,310,475
Supplies and Material	4000	-	-	-	679,081	-	679,081
Other Operating Expenses	5000	-	-	-	10,425,622	-	10,425,622
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		53,177,961	-	53,177,961	108,213,018	-	108,213,018

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 5,245,608	\$ -	\$ 5,245,608	\$ 5,245,608	\$ -	\$ 5,245,608
Student Health Services Above Amount Collected	6441	-	-	\$ -	-	-	-
Student Transportation	6491	-	-	-	513,180	-	513,180
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	3,510,696	-	3,510,696
Objects to Exclude							
Rents and Leases	5060	-	-	-	623,170	-	623,170
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Audited Data	Reported Data	Audit Adjustments	Audited Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 2,486,121	\$ -	\$ 2,486,121
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Equipment		-	-	-			
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		5,245,608	-	5,245,608	12,378,775	-	12,378,775
Total for ECS 84362, 50 Percent Law		\$ 47,932,353	\$ -	\$ 47,932,353	\$ 95,834,243	\$ -	\$ 95,834,243
Percent of CEE (Instructional Salary Cost/Total CEE)		50.02%		50.02%	100.00%		100.00%
50% of Current Expense of Education					\$ 47,917,122		\$ 47,917,122

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH AUDITED FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

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

	<u>Self Insurance</u>
June 30, 2014, Annual Financial and Budget Report (CCFS-311) Reported Fund Balance	<u>\$ (2,816,716)</u>
Adjustments to Increase (Decrease) Fund Balance	
Fees and contract revenue	<u>1,171,908</u>
Audited Fund Balance	<u><u>\$ (1,644,808)</u></u>

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				\$ 14,071,506
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 12,188,360			12,188,360
Academic Administration	6010	288,869			288,869
Course and Curriculum Development	6020	73,709			73,709
Other Instructional Administration and Instructional Governance	6090	3,399			3,399
Library	6120	241,701			241,701
Admissions and Records	6200	124,461			124,461
Counseling and Guidance	6310	66,218			66,218
Disabled Student Programs and Services (DSPS)	6420	8,825			8,825
Extended Opportunity Programs and Services (EOPS)	6430	1,179			1,179
Health Services	6440	464			464
Student Personnel Administration	6450	51,311			51,311
Financial Aid Administration	6460	230,970			230,970
Custodial Services	6530	349,211			349,211
Planning, Policymaking and Coordination	6600	159,789			159,789
Management Information Systems	6780	258,005			258,005
Community Uses of Facilities	6830	50			50
Student and Co-Curricular Activities	6960	24,985			24,985
Total Expenditures for EPA		\$ 14,071,506	-	-	\$ 14,071,506
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

**Amounts Reported for Governmental Activities in the Statement of
Net Position are Different Because:**

Total Fund Balance, Retained Earnings, and Due to Student Groups:

General Funds	\$ 21,801,406
Special Revenue Funds	1,363,471
Debt Service Fund	40,215,952
Capital Projects Funds	86,297,233
Internal Service Fund	(1,644,809)
Fiduciary Funds	<u>(13,505,667)</u>

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

\$ 134,527,586

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	623,178,778	
Accumulated depreciation is	(199,690,242)	
Subtotal		423,488,536

Amounts held in trust on behalf of others (Trust and Agency Funds)

(1,910,016)

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.

(7,609,895)

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.

(375,513)

Long-term obligations at year end consist of:

General obligation bonds payable	401,915,000	
Premium on debt	17,356,614	
Load banking	1,845,676	
Other postemployment benefits obligation (OPEB)	29,916,295	
Compensated absences	<u>3,583,095</u>	
Subtotal		<u>(454,616,680)</u>

Total Net Position

\$ 93,504,018

See accompanying note to supplementary information.

PERALTA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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.

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

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 Education Code Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

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

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

PERALTA COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

Reconciliation of Governmental Funds to the Statement of Net Position

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 AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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, 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, the basic financial statements of the business-type activities of Peralta Community College District (the District) and its discretely presented component unit as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 16, 2014.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 the District in a separate letter dated December 16, 2014.

Peralta Community College District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vaurnik, Irine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Peralta Community College District
Oakland, California

Report on Compliance for Each Major Federal Program

We have audited Peralta Community College District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2014. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion

As described in the table below and the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding:

<u>Compliance Requirement</u>	<u>Program Name and Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Finding Number</u>
Allowable Costs	U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training (CFDA #17.245)	2014-007
Equipment and Real Property Management	U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training (CFDA #17.245)	2014-006
Reporting - COD Reporting	U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Pell Grant Program (CFDA #84.063)	2014-002
Special Test and Provisions - Return of Title IV	U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Pell Grant Program (CFDA #84.063)	2014-003
Special Test and Provisions - Enrollment Reporting	U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Direct Student Loans (CFDA #84.268)	2014-005
Special Test and Provisions - Direct Loan Reconciliations	U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Direct Student Loans (CFDA #84.268)	2014-004

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

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the programs for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

Other Matters

The District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 through 2014-007 that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vaughn, Dine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Peralta Community College District
Oakland, California

Report on State Compliance

We have audited Peralta Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider 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 the District's compliance with those requirements.

Basis for Qualified Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding 474 Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE) - 2014-008, 425 Residency Determination for Credit Courses - 2014-009, and 491 Education Protection Account - 2014-010. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Unmodified Opinion for Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2014, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

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

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

The District did not receive any monies from Proposition 1D State bond funds; therefore, the compliance tests within this section were not applicable.

The 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 the District's responses and, accordingly, we express no opinion on the responses.

Vaurick Fine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Qualified</u>

Unmodified for all major Federal programs except for the following Federal programs which were qualified:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.063, 84.007, 84.033, 84.268</u>	<u>Student Financial Assistance Cluster</u>
<u>17.245</u>	<u>U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training</u>

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>Yes</u>
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Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.063, 84.007, 84.033, 84.268</u>	<u>Student Financial Assistance Cluster</u>
<u>17.245</u>	<u>U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training</u>
<u>84.031A</u>	<u>Higher Educational Institutional Aid - Strengthening Institutions Program, Title III</u>
<u>84.031A</u>	<u>Higher Educational Institutional Aid - Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success</u>
<u>84.031L</u>	<u>Higher Educational Institutional Aid - AANIPISI Initiative</u>
<u>84.048</u>	<u>Career and Technical Education Act (CTEA) Title I, Part C</u>
<u>84.048</u>	<u>Career and Technical Education Act (CTEA) Transitions</u>
<u>84.126A</u>	<u>State Vocational Rehabilitation Services - Workability</u>
<u>84.126A</u>	<u>State Vocational Rehabilitation Services - College 2 Career Program</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Qualified</u>
Unmodified for all State programs except for the following State programs which were qualified:	

<u>Name of State Program</u>
<u>474 Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)</u>
<u>425 Residency Determination for Credit Courses</u>
<u>491 Education Protection Account</u>

PERALTA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2014

The following finding represents a material weakness related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*.

2014-001 DISTRICT FINANCIAL CONDITION

Criteria or Specific Requirement

The District is required to maintain operational and budgetary financial stability both at the fund level and the entity-wide level.

Condition

Material Weakness - On an entity-wide full accrual basis, the District's unrestricted Net Position/deficit is \$(27.2) million. This is due primarily to the growing obligation for the postemployment health care benefits and the obligation to repay OPEB taxable bonds. The current unfunded postemployment liability is \$29.9 million. This is based on the fiscal year 2013 actuarial report provided to the District and will grow to over \$174.7 million as the obligation is amortized over the coming 30 years. The District's total OPEB bond obligation is \$218.0 million. While the District has \$215.0 million of investments related to the OPEB obligation, these investments are not in an irrevocable trust; therefore, under GASB Statement No. 45, these assets may not be used to offset the District's obligation. Also, the District's Self-Insurance Fund has a deficit fund balance of \$1,644,808.

Recommendation

The long-term planning for the continued financial stability of the District should continue to include attention to obligations that will be coming due in the future, such as the postemployment health care benefits and the annual line of credit repayments, which impact the District both at the operating fund level and the entity-wide financial statement level.

Management's Response and Corrective Action Plan

The District recognizes future liabilities related to OEPB and the Self-Insurance Fund (Workers' Compensation account). The District currently has an active investment portfolio funded through the issuance of bonds and has earmarked funds held in the County Treasury for funding the OPEB obligation, but has not elected to place these assets in an irrevocable trust. The District is in the process of working with Bond Counsel to determine the amount of funds to transfer from the investment portfolio to an irrevocable trust. A new actuarial report is being conducted to determine the future value of the OPEB liability; at that time, the OPEB contribution will be adjusted to address future needs. In the same manner, the Workers' Compensation contribution will be adjusted to address the deficit fund balance in the Self-Insurance Fund.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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

2014-002 REPORTING - COMMON ORIGATION AND DISBURSEMENT (COD)

CAMPUS: MERRITT COLLEGE

Federal Program Affected

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

Criteria or Specific Requirement

34 CFR Section 690.83: Submission of reports, Disbursements To or On Behalf of Students A-133 Compliance Supplement: Student Financial Assistance Cluster:

Schools submit Pell origination records and disbursements records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. The disbursement records reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

Condition

Significant Deficiency - During our review of the requirements for disbursement to or on behalf of students processed at the College, it was observed that the process dates reported in the COD files were more than 30 calendar days after the disbursement dates reported in the COD files in the District's financial records.

Questioned Costs

None noted.

Context

The condition was identified as a result of reviewing the District's compliance requirements for disbursements to or on behalf of students.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Effect

The College is not in compliance with the Federal requirements described in the A-133 Compliance Supplement.

The District can potentially face future financial sanctions or penalties from the DOE if the District fails to take corrective actions to remedy the condition identified.

Cause

The College did not have a control in place to ensure the proper reporting was being completed timely.

Recommendation

It is recommended that the District implement procedures to ensure that the student data is reported to the COD within the required 30 calendar days.

Management's Response and Corrective Action Plan

As part of its commitment to continuous improvement, the District is in process of establishing a district-wide Compliance Assurance Program (CAP) for its Financial Aid program. CAP will add an enhanced level of education, guidance, communication, and oversight activities to its existing management oversight system. Among other planned actions under CAP, there will be more formal, frequent communications to college financial offices, including bulletins, email, and training site visits by District Financial Aid Director and the Internal Auditor. Current written policy and procedures will be updated and selectively improved, where deemed necessary, and visually mapped by the Internal Auditor to enhance understandability. Compliance at all colleges will continue to be monitored by the District Financial Aid Director and the Internal Auditor.

The District's Information Technology Department is currently conducting a preliminary development of a pilot application to automate the COD reporting process.

2014-003 SPECIAL TESTS AND PROVISIONS - RETURN OF TITLE IV

CAMPUS: MERRITT COLLEGE

Federal Program Affected

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

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Criteria or Specific Requirement

Institutions must review and document the student's eligibility before it disburses funds each payment period. When a student withdraws from an institution during a payment period, the institution must calculate the amount of Title IV aid earned by the student as of the student's withdrawal date to determine if any funds need to be returned by the institution or the student.

Condition

Significant Deficiency - One student tested at the Merritt College was awarded their Pell disbursements, but dropped before the second disbursement was paid. The College had not identified this student as a Return of Title IV student, and no calculation was prepared to determine the amount of funds that needed to be returned (if any).

Questioned Costs

The Return of Title IV calculation was done after the error was noted and the institutional return amount was \$259.50.

Context

There was one student out of the sixty students tested at the four campuses in which this compliance error was noted. No additional errors were noted.

Effect

The College is not in compliance with the Federal requirements described in A-133 Compliance Supplement 34 CFR section 668.22 (j).

Cause

The College did not have a procedure in place to identify all students who had dropped prior to the census date.

Recommendation

It is recommended that the District review and implement procedures to ensure that the Return of Title IV funds calculations are completed in a timely manner and that all funds owed are returned.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Management's Response and Corrective Action Plan

The District has policy and procedures for College Financial Aid Supervisors to use for calculating Return of Title IV funds. The compliance monitoring and district guidance provided by the District Financial Aid Director will continue and be further enhanced with the establishment of the District's Compliance Assurance Program (CAP). CAP will provide a multi-faceted approach to assisting College Financial Aid management and staff to achieve compliance more efficiently and effectively. The CAP strategic plan involves, among other actions, providing more communications, training, compliance tracking, and site visits by the Director of the Financial Aid Program and the Internal Auditor to help promote compliance with the Return of Title IV funds process. The basis for the CAP was developed by the Internal Auditor utilizing key controls and best management practices that is expected to help facilitate and promote compliance.

2014-004 SPECIAL TESTS AND PROVISIONS - DIRECT LOAN RECONCILIATIONS

CAMPUS: LANEY COLLEGE AND MERRITT COLLEGE

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Direct Student Loans (CFDA #84.268)

Criteria or Specific Requirement

According to the OMB Circular A-133 and 34 CFR sections 685.102(b), 685.301, and 685.303, institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month.

Condition

Significant Deficiency - During our review of the direct loans, it was noted that the Colleges noted above did not have adequate documentation to show that they were reconciling the SAS data file and the Loan Detail records to the institution's financial records on a monthly basis.

Questioned Costs

No questioned costs.

Context

Laney and Merritt Colleges disbursed direct loan funds during the entire 2013-2014 fiscal year.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Effect

Without proper monitoring of Direct Loan disbursements, the District risks noncompliance with 34 CFR sections 685.102(b), 685.301, and 303.

Cause

The Colleges have not implemented policies and procedures to verify that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records.

Recommendation

It is recommended that the District implement procedures to ensure that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records. These procedures must be communicated to all Colleges for implementation.

Management's Response and Corrective Action Plan

The District will continue to provide guidance and training to assist College Financial Aid Program personnel and management to perform the COD reconciliation process in accordance with OMB A-133 and 34 CFR sections 685.102(b), 685.301, and 685.303. The District Financial Aid Program Office has updated and improved its existing COD reconciliation guidelines to better ensure easier understanding and ultimately improved compliance with regulations.

As stated earlier, the Compliance Assurance Program will be implemented, which will provide a multi-faceted oversight, training, and communications to the College Financial Aid Offices to better ensure compliance.

2014-005 SPECIAL TESTS AND PROVISIONS - ENROLLMENT REPORTING

CAMPUS: LANEY COLLEGE, COLLEGE OF ALAMEDA, BERKELEY CITY COLLEGE, AND MERRITT COLLEGE

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Assistance Cluster, Federal Direct Student Loans (CFDA #84.268)

Criteria or Specific Requirement

According to 34 CFR sections 685.309(b) and 682.610, colleges are responsible for reporting the enrollment status, the effective date of the status, and the anticipated completion date of all Direct Loan borrowers attending its college. It is the college's responsibility to report timely and accurate data to the NSLDS.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Condition

Significant Deficiency - During our review over student enrollment reporting, it was noted that the District IT Department did not submit any required enrollment reports (SSCR) to the NSLDS from the period between early September 2013 to mid-June 2014.

Questioned Costs

No questioned costs.

Context

All Colleges disbursed direct loan funds during the entire 2013-2014 fiscal year.

Effect

Without timely reporting of borrower enrollment status, the District risks noncompliance with 34 CFR sections 685.309(b) and 682.610.

Cause

An error in the District's IT system was uploading incorrect data to NSLDS. Rather than continue to submit incorrect data, the District elected to stop all SSCR transmissions until the IT issue was resolved.

Recommendation

It is recommended that the District review the reporting requirements with the IT Department and implement procedures to ensure that the SSCR enrollment status files are submitted timely to the NSLDS.

Management's Response and Corrective Action Plan

Data covering the period from September 2013 to mid-June 2014 has been submitted to NSLDS. District IT is working with District A&R to determine the root cause of incorrect data and develop procedures to ensure submission of data to NSLDS is done accurately and in a timely manner.

2014-006 EQUIPMENT MANAGEMENT

Federal Program Affected

U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training (CFDA #17.245)

Compliance Requirement

Equipment and Real Property Management

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Criteria or Specific Requirement

The College shall follow the A-102 Common Rule for equipment acquired under Federal awards. Written policies and procedures for monitoring and tagging of Federal equipment must be established and maintained. The equipment listing must include serial number or other identification number, source, who holds title, acquisition date, cost, percentage of Federal participation in the cost, and location of equipment.

Condition

Significant Deficiency - The District is not following established written policies and procedures for monitoring Federal equipment. Equipment that is directly shipped to the sites rather than the District's warehouse are potentially bypassing the established procedures for tagging them as Federal equipment and are not being included on the site's inventory listing of the Federal program. One item tested was delivered directly to the Berkeley campus and was not properly tagged and identified as Federal.

Questioned Costs

None.

Context

During the current fiscal year, the District spent approximately \$299,000 on capital outlay within this grant.

Effect

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

Cause

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

Recommendation

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

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Management's Response and Corrective Action Plan

The Internal Auditor will work with the Purchasing Department to assess the adequacy of the District's internal controls over the accounting and management of equipment inventory purchased with Federal funds, including such key controls as policy and procedures. The Internal Auditor will review the accounting and handling of equipment management procedures for key controls and best practices that ensure compliance and safeguarding of such equipment. Specifically, the Internal Auditor will review how equipment shipped directly to college sites are accounted for and controlled. Any weaknesses in key controls will be noted and recommendations given to remediate any control gaps.

2014-007 TIME AND EFFORT REPORTING

COLLEGE: COLLEGE OF ALAMEDA

Federal Programs Affected

U.S. Department of Labor, Trade Adjustment Assistance Community College and Career Training (CFDA #17.245)

Compliance Requirement

Allowable Costs

Criteria or Specific Requirement

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

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

Condition

Significant Deficiency - Individuals working within the program have not certified the actual time spent working within the Federal programs. Time studies have not been completed for individuals who work either full-time or part-time on the program as required by the OMB Circular. The College did obtain the signed certifications after this issue was brought to their attention.

Questioned Costs

No questioned costs are noted.

PERALTA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Context

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

Effect

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

Cause

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

Recommendation

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

Management's Response and Corrective Action Plan

The Internal Auditor has been working with the District Grants Administrator to complete a positive improvement project by completing a district-wide Compliance Assurance Program for Grants Management (CAP). CAP puts in place multifaceted key controls designed to promote compliance with regulatory requirements. This CAP program is intended to strategically strengthen existing compliance monitoring and guidance efforts by putting the following key controls and compliance oversight processes in place:

- (1) More formal training and tracking of training for grant project directors,
- (2) Enhanced public communications,
- (3) New problem solving protocol,
- (4) Periodic compliance status reviews by District Grants Administrator,
- (5) Improved documentation and dissemination of instructions,
- (6) Added level of campus management oversight to ensure compliance,
- (7) Site training and guidance visits to colleges by District Grants Administrator and Internal Auditor, and
- (8) Periodic reviews by the Internal Auditor.

Additional Compliance Assurance actions planned also include website reporting of compliance instructions and relevant news bulletins, deadline reminders, etc. Planned use of a training and grant database developed by the Internal Auditor to help track key grant information and compliance status.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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

2014-008 CARE ADVISORY COMMITTEE MEETING

Programs Affected

CARE

Criteria or Specific Requirement

Education Code Section 79150-79155

CARE Program Guidelines

Information System's Data Element Dictionary (data elements SE01-SE10)

Condition

Significant Deficiency - Required CARE advisory committee meetings at College of Alameda was held only one time during the year. The CARE Program guidelines note the advisory committees are to meet at least twice during each academic year.

Questioned Costs

None.

Effect

The advisory committees may not be able to properly manage and oversee the CARE Program and budget by not meeting as noted in the guidance.

Cause

The College did not ensure all scheduled meetings were held.

Recommendation

We recommend that the CARE Program director ensure the advisory committee is in place and meets as required by the program guidance.

Management's Response and Corrective Action Plan

EOPS and CARE advisory committee meetings are combined at College of Alameda. EOPS guidelines require one advisory committee meeting each year. However, CARE guidelines require two advisory committee meetings each year. Only one combined advisory committee meeting was held in 2013-2014. This oversight has been corrected, and two combined advisory committee meetings have been scheduled for 2014-2015.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

2014-009 425 RESIDENCY DETERMINATION FOR CREDIT COURSES

Criteria or Specific Requirement

Each district must act to ensure that only the attendance of California residents is claimed for State support of credit classes.

Condition

Significant Deficiency - The residence verification process used by the District during the year was not being followed at the Colleges. The Colleges utilize the CCC Applied software to assist in the verification procedures. Every student identified with a #2 automatically is assessed as a nonresident and charged nonresident fees. For students identified with a #2, in order to be assessed as a California resident, proof of residency needs to be obtained and maintained. Out of a sample of 40 students, four errors were noted. The students were identified as a #2, but were assessed as California residents. Therefore, they were paying fees as a California resident rather than a nonresident.

Questioned Costs

The nonresident fees for these four students that should have been assessed were \$7,348.

Effect

Students that did not meet the definition of residency were included in the originally submitted Annual CCFS-320 Attendance Report as California residency in error.

Cause

The District did not have a control in place to ensure that when a staff changes residency status for any student, proof of that change needs to be kept.

Recommendation

The District should actively monitor all staff at the Colleges who can change a student's residency and make sure they are maintaining proof of the change.

Management's Response and Corrective Action Plan

The District A&R created a query that identifies students who applied for admission and were determined to be nonresidents, but then were changed to California residents. Each College will be provided with a list of students whose residency classification changed within the semester, and they will be required to submit documentation to District A&R supporting the residency change. The District A&R will ensure that the Colleges submit the documentation to the District for appropriate recordkeeping.

PERALTA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

2014-010 491 EDUCATION PROTECTION ACCOUNT

Criteria or Specific Requirement

Districts are not allowed to spend funds on administrative costs.

Condition

Significant Deficiency - Education Protection Account funds were spent on administrative salaries.

Questioned Costs

The administrative salaries that were spent using Education Protection Account funds totaled to the amount of \$439,520.

Effect

The Education Protection Account had un-allowed expenditures.

Cause

The District did not have controls in place to ensure that the District was in compliance regarding the spending of Education Protection Account funds.

Recommendation

The District should actively monitor all expenditures regarding Education Protection Account funds to ensure purchases fall within the guidelines of allowable cost.

Management's Response and Corrective Action Plan

In the future, funds received through the Education Protection Account will not include the department chair costs, as these were the costs considered as administrative salaries in this finding.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

FINANCIAL STATEMENT FINDINGS

2013-001 FINANCIAL RECONCILIATION PROCESS

Criteria or Specific Requirement

The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges *Budget and Accounting Manual* (BAM). Colleges are also required to present their financial statements in accordance with generally accepted accounting principles (GAAP).

Condition

Material Weakness - Many errors were made within the closing process of the District's financial records during the current fiscal year. Material adjustments and reclassifications were required to conform to the BAM. Errors were found in several accounts including, but not limited to:

Suspense Accounts:

The District has a number of suspense accounts associated with their receivables and liabilities. The purposes of a suspense account is to be used as a temporary recording of information as the accounting could not be determined or does not appear reasonable at the time that the transaction is recorded. When the proper account is determined, the amount should be removed from the suspense account to the proper account. Suspense accounts should be cleared out regularly; they are for temporary use only. The District is not properly reconciling these accounts. These suspense accounts have balances at year end that are not reconciled.

Student Accounts Receivable:

The student accounts receivable account balance as of year end had activity accounted for in the student accounts receivable account, as well as their deferred revenue account for activity related to the following fiscal year. These amounts were not reconciled.

Campus Accounts:

Several of the District's cash accounts being held at the campus locations were not being actively monitored during the year. Reconciliations were not performed during the year, and the accounts showed several errors. There appears to be a lack of oversight over the various cash accounts held at the individual campuses.

Cash Accounts:

Bank reconciliations for all bank accounts are not being obtained by the District Office on a monthly basis.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Effect

Many material adjustments to the general ledger were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were presented fairly.

Cause

The oversight controls over the closing process appear not have been adhered to, resulting in adjustments and a material weakness.

Recommendation

The District needs to develop a closing procedure calendar at year end to ensure that all information is prepared, reviewed, and reconciled. The number of suspense accounts used should be examined, and the accounts should be cleared out on a monthly basis. The District should ensure monthly review of campus accounts to ensure that all information is being accounted for completely and accurately.

Current Status

Implemented.

2013-002 DEFERRED COMPENSATION FUND

Criteria or Specific Requirement

The Fiduciary Funds Group is used to account for assets held by the District in a trustee or agency capacity for individuals, private organizations, other governmental units, and or/other funds. Fiduciary funds are accounted for on the full-accrual basis.

Condition

Material Weakness - The District is not correctly accounting for the activity within the Deferred Compensation Fund. Long-term debt and investment account balances were not accurately accounted for within the fund. All associated debt related transactions were not accurately accounted for within the fund including refunding and posting prior year transactions. The beginning balance did not agree to prior year ending balance per audited financial statements. The District continues to show debt balances and investment balances for debt that has been refunded in prior years.

Effect

Material adjustments were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were fairly stated.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Cause

The District does not have an individual responsible for accounting for all the transactions within the fund. There was no review process over the accounting for the fund during the year.

Recommendation

The District should assign the responsibility of posting and reconciling all Deferred Compensation Fund activity. This should include the investment and debt activities. All postings should be reviewed on a regular basis by an individual other than the preparer who has knowledge of the activities accounted for within the fund.

Current Status

Implemented.

2013-003 ANNUAL FINANCIAL AND BUDGET REPORT

Criteria or Specific Requirement

The Annual Financial and Budget Report (CCSF-311) is used primarily as an "internal" financial report for use within the Community College System for comparing financial results across California community college districts. Districts are required to submit four quarterly reports to the State Chancellor's Office including the final CCSF-311.

Condition

Significant Deficiency - The District's CCSF-311 report was not completed accurately. There were several differences from the District's general ledger to the CCSF-311.

Effect

The District was required to re-submit their CCFS-311 report to correct the inaccuracies throughout the report.

Cause

The District did not have an adequate review procedure over the submitting of the CCFS-311 report.

Recommendation

The District should ensure that once the CCFS-311 report is completed, an individual other than the preparer reviews the report by agreeing the information to the general ledger prior to submittal. The individual should verify for consistencies throughout the report, as well as classifications.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Current Status

Implemented.

FEDERAL AWARDS FINDINGS

2013-004 TIME AND EFFORT REPORTING

Federal Program Affected

U.S. Department of Education (DOE), Higher Educational Aid - Strengthening Institutions Pathways, Systems, and Services to Maximize Student Success (CFDA #84.031A)
Career and Technical Education Act (CTEA) Title I, Part C (CFDA #84.048)
U.S. Department of Labor (DOL), Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (CFDA #17.275)

Criteria or Specific Requirement

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

OMB Circular A-21, "Cost Principles for Educational Institutions" (2 CFR part 220) - All institutions of higher education are subject to the cost principles contained in OMB Circular A-21.

Condition

Significant Deficiency - Individuals working within the program did not timely or accurately certify the actual time spent working within the Federal programs. Time studies were completed incorrectly for individuals who work either full-time or part-time on the program as required by OMB.

Questioned Costs

No questioned costs are noted; the District was able to provide support showing the employees were working on the Federal program.

Context

A significant amount of the Federal expenditures related to these programs are derived from payroll costs. Further, there does not appear to be adequate policies and procedures to ensure that the certifications are completed accurately, reviewed, and submitted timely.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Effect

Without the accurate time studies and certifications, the District is not able to effectively monitor payroll charges applied to applicable grants, as well as to ensure compliance with the appropriate OMB Circular requirements.

Cause

Time certifications were not completed or reviewed in a timely manner.

Recommendation

The District should have all individuals working on any Federal program certify their time as required by OMB in a timely manner and be reviewed by an appropriate individual.

Current Status

Implemented.

2013-005 EQUIPMENT MANAGEMENT

Federal Program Affected

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

Criteria or Specific Requirement

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

Condition

Significant Deficiency - While the District does conduct physical inventories every two years, it has not maintained an inventory control system that specifically identifies equipment purchased with Federal funds to satisfy the compliance criteria noted above.

Questioned Costs

None.

Context

During the current fiscal year, the District spent approximately \$124,000 from the CTEA Title I, Part C funding on capital outlay.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented.

2013-006 COMMON ORIGINATION AND DISBURSEMENT (COD) REPORTING

CAMPUS: MERRITT COLLEGE

Federal Programs Affected

Student Financial Assistance Cluster - U.S. Department of Education (DOE), Federal Pell Grant Program (CFDA #84.063), and Federal Direct Student Loans (CFDA #84.268)

Criteria or Specific Requirement

34 CFR Section 690.83: Submission of reports, Disbursements To or On Behalf of Students A-133
Compliance Supplement: Student Financial Assistance Cluster:

Schools submit Pell origination records and disbursements records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. The disbursement records reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Condition

During our review of the requirements for disbursement to or on behalf of students processed at the District, it was observed that the process dates reported in the COD files were more than 30 calendar days after the disbursement dates reported in the COD files in the District's financial records.

Questioned Costs

None noted.

Context

The condition was identified as a result of reviewing the District's compliance requirements for disbursements to or on behalf of students.

Effect

The District is not in compliance with the Federal requirements described in the A-133 Compliance Supplement.

The District can potentially face future financial sanctions or penalties from DOE if the District fails to take corrective actions to remedy the condition identified.

Recommendation

It is recommended that the District implement procedures to ensure that the student data is reported to the COD within the required 30 calendar days.

Current Status

Not implemented. See current year finding 2014-002.

2013-007 SPECIAL TESTS AND PROVISIONS – RETURN TO TITLE IV

CAMPUS: MERRITT COLLEGE

Program

U.S. Department of Education (ED), Student Financial Assistance Cluster (CFDA #84.007, #84.268, #84.033, and #84.063)

Federal Programs Affected

CFDA #84.007, #84.268, #84.033, and #84.063

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Criteria or Specific Requirement

A-133 Compliance Supplement, 34 CFR Section 668.22(j):

Return of Title IV funds are required to be deposited or transferred into the Student Financial Assistance (SFA) account or electronic funds transfer initiated to ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew, or the date on the cancelled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition

Significant Deficiency - During our review of the requirements for Return of Title IV funds, we were not able to determine when Merritt College had returned the required funds.

Questioned Costs

Total questioned costs are \$1,362. Merritt College was unable to provide documentation proving that the funds were returned within the required time frame.

Context

There were four students out of a population of thirty-five where the campus was not able to provide supporting documentation that the funds were returned within the 45 day requirement.

Effect

The District is not in compliance with the Federal requirements described in A-133 Compliance Supplement 34 CFR section 668.22(j).

Cause

The District has not implemented policies and procedures to monitor the Return of Title IV funds.

Recommendation

It is recommended that the District implement procedures to ensure that the Return of Title IV funds occurs within 45 days from the date the District determines the student withdrew from all classes. In addition, the District needs to ensure that all amounts owed are returned.

Current Status

Not implemented. See current year finding 2014-003.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

2013-008 SPECIAL TESTS AND PROVISIONS - DIRECT LOAN RECONCILIATIONS

CAMPUS: LANEY COLLEGE, COLLEGE OF ALAMEDA, AND MERRITT COLLEGE

Program

U.S. Department of Education (DOE), Student Financial Assistance Cluster (CFDA #84.007, #84.268, #84.033, and #84.063)

Federal Programs Affected

U.S. Department of Education (DOE), Federal Direct Student Loans, CFDA #84.268

Criteria or Specific Requirement

According to the OMB Circular A-133 and 34CFR sections 685.102(b), 685.301, and 685.303, Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month.

Condition

Significant Deficiency - During our review of the direct loans, it was noted that the District did not have adequate documentation to show that they were reconciling the SAS data file and the Loan Detail records to the institution's financial records on a monthly basis.

Questioned Costs

No questioned costs.

Context

The District disbursed direct loan funds during the entire 2012-2013 fiscal year.

Effect

Without proper monitoring of Direct Loan disbursements, the District risks noncompliance with 34 CFR sections 685.102(b), 685.301, and 303.

Cause

The District has not implemented policies and procedures to verify that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Recommendation

It is recommended that the District implement procedures to ensure that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records.

Current Status

Not implemented. See current year finding 2014-004.

2013-009 FINANCIAL REPORTING

Federal Program Affected

National Science Foundation, Educating Technicians for Building Automation and Sustainability (CFDA #47.076)

Criteria or Specific Requirement

The District is required to report to the oversight agency, on a quarterly basis, the activity for the National Science Foundation, Educating Technicians for Building Automation and Sustainability.

Condition

Significant Deficiency - The District did not submit their fourth quarter report to the awarding agency for the program.

Questioned Costs

None.

Context

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

Effect

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

Cause

The District's controls over reporting for this program were not operating effectively.

Recommendation

Controls should be implemented to ensure all reports are completed for the program.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Current Status

Implemented.

STATE AWARDS FINDINGS

2013-010 425 RESIDENCY DETERMINATION FOR CREDIT COURSES

Criteria or Specific Requirement

Each district must act to ensure that only the attendance of California residents is claimed for State support of credit classes.

Condition

Significant Deficiency - The residence verification process used by the District during the year was not being followed at the Colleges. Students who had a questionable residency were not being followed up by the College personnel and were automatically recorded as resident rather than nonresidents. From our tested sample of 25 students, four were noted as requiring specific verification of their residency status with actually verifying the status. Also, testing for resident and nonresident students participating in organized competitive sports could not be accomplished as they were not able to provide Athletics Form 1. Therefore, the residency status of the students could not be verified to the form as required by the compliance guide; however, the status of the students as to residency/nonresidency was verified to the CCCApply system without exception.

Questioned Costs

None. Further testing was subsequently performed which noted the District had taken the necessary steps to verify the residency status of the students, had adjusted the Resident and Nonresident FTES where necessary, and had assessed fees as necessary to the nonresident students. All students marked with a #2 in the CCCApply system were subsequently reviewed by the District personnel and adjusted where necessary in the Annual CCFS-320 Attendance Report provided to the State Chancellor's Office. Enrollment fees associated with these students were subsequently properly assessed. As the District subsequently took the necessary steps to correct the deficiency and properly report these students and associated fees, this is considered a control deficiency over the compliance requirement. Additionally, the Athletics Form 1 was held with the Athletic coaches and not within the Admissions and Records Office. For those Athletic students selected for testing, the Athletics Form 1 was subsequently received with no exceptions noted in the residency designation.

Effect

Students that did not meet the definition of residency were included in the originally submitted Second Period CCFS-320 Attendance Report as California residency in error; therefore, the District adjusted the status of the students for proper reporting on the Annual CCFS-320 Attendance Report to properly reflect those students who were recorded as residents and assess the proper enrollment fees.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Cause

The District did not have a control in place to ensure that all students marked #2 in the system were being properly verified as residents. Additionally, the Admissions and Records Office was not requiring the Athletics Form 1 to be maintained with the student enrollment records.

Recommendation

The District should actively verify all students coded as #2 in the CCCApply system. For those not verified, the residency status should be nonresident until the student provides proof of residency; then they can be changed back. Athletics Form 1 should be retained within the Admissions and Records Office for the student athletes.

Current Status

Not implemented. See current year finding 2014-009.

2013-011 427 CONCURRENT ENROLLMENT FOR K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT

Criteria or Specific Requirement

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

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

Condition

Significant Deficiency - Errors in accounting for concurrently enrolled students were noted as follows:

- Out of 25 students tested, four concurrent enrollment forms could not be located at Merritt College. Therefore, it was impossible to identify if the District was in compliance with the requirements of the form.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Questioned Costs

A total of 457.65 FTES were generated by concurrently enrolled students. Based on the error rate in testing, 73.22 FTES are at risk of being noncompliant due to the District not properly maintaining the concurrent enrollment forms. The District has reported 205.77 FTES over the funding cap.

Effect

The FTES generated for concurrently enrolled high school students is improperly identified. The District is at risk of noncompliance with the Education Codes related to concurrently enrolled students.

Cause

The District implemented a procedure to ensure enrollment forms for concurrently enrolled students were maintained, but it does not appear the procedure is operating effectively.

Recommendation

The District should implement a process within Admissions and Records that will ensure documents supporting the special admit status are maintained and stored. Students without the necessary concurrent enrollment form on file should not be included in the FTES reported by the District.

Current Status

Implemented.

2013-012 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 September 30 following year end.

Condition

Significant Deficiency - Alameda College did not submit their year-end expenditure report prior to the September 30 deadline.

Questioned Costs

There are no questioned costs associated with this finding. The filing of the expenditure report does not contain a funding condition.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Effect

The District did not meet the State requirements for submitting the expenditure report by the required date for one campus.

Cause

The District's control over reviewing and submitting the reports was not operating effectively.

Recommendation

The District should implement a control procedure to review and reconcile all amounts reported on the CalWORKs expenditure report and verify that the reports are submitted in a timely manner.

Current Status

Implemented.

2013-013 DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)

Criteria or Specific Requirement

Education Code Section 56006 DSPS Implementing Guidelines

Condition

The District currently serves a total of 1,927 students through the DSPS program. The District has not complied with the above guidance regarding record maintenance and retention at the following Colleges:

Laney College:

Two out of fifteen students selected for testing did not have a student file available.

Twelve out of fifteen students selected for testing did not have a Student Educational Plan signed by the counselor.

Two out of fifteen students selected for testing did not have academic accommodations to describe the service provided. Laney College served a total of 587 students during the 2012-2013 year. Based upon the error rate, 470 student files are at risk of not retaining the proper documentation required by the DSPS program guidelines.

Merritt College:

Twelve out of fifteen students selected for testing did not have a Student Educational Plan on file. Merritt College served a total of 421 students during the 2012-2013 year. Based upon the error rate, 336 student files are at risk of not retaining the proper documentation required by the DSPS program guidelines.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Questioned Costs

To be determined by the State Chancellor's Office and the DSPS program.

Effect

Each College is at risk of not supporting the students served with proper documentation in the actual student files.

Cause

Student files are not being reviewed and updated on a regular basis to determine whether all necessary documentation is included within the student file.

Recommendation

The District should implement a process to ensure the individual College DSPS offices are reviewing and maintaining the student files in accordance with DSPS guidelines. For instance, implementing the use of a checklist and going through each student's file to verify completeness of the file each semester the student is served.

Current Status

Implemented.

PERALTA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

2013-014 EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS)

Criteria or Specific Requirement

Education Code Section 56204 EOPS Implementing Guidelines

Condition

The District currently serves a total of 1,761 students through the EOPS program. The District has not complied with the above guidance related to the Student Educational Plan at the following Colleges:

Laney College:

Two out of fifteen students did not have a Student Educational Plan on file. Laney College served a total of 600 Students through the EOPS program during the 2012-2013 year. Based on the error rate, 80 Laney College students are at risk of not complying with the Education Plan requirements.

Merritt College:

Six out of fifteen students did not have any documented contact or active participation with the EOPS program. One out of the six exceptions did not have a Student Educational Plan on file. Merritt College served 484 students through the EOPS program during the 2012-2013 year. Based on the error rate, 194 Merritt College students are at risk of not complying with the Education Plan requirements.

Questioned Costs

To be determined by the State Chancellor's Office and the EOPS program.

Effect

The above Colleges have potential served students who do not meet the requirements of eligibility for the EOPS program as the Colleges are not complying with the EOPS program guidelines that are required by the State Chancellor's Office.

Cause

Student files are not being adequately reviewed to ensure that all necessary information is included.

Recommendation

The District should implement consistent procedures to ensure the student files are maintained in accordance with program guidelines. The implementation and use of a checklist and going through each student's file to verify completeness of the file toward the end of the semester will assist the program directors in ensuring compliance.

PERALTA COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Current Status

Implemented.