



OHLONE COMMUNITY COLLEGE DISTRICT

AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2009

AUGUST 12, 2009

OHLONE COMMUNITY COLLEGE DISTRICT
AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2009

Agenda

- The Auditors' Responsibility Under Generally Accepted Auditing Standards
- Required Communications
- Our Reporting Requirements to You
- New Statements on Auditing Standards
- Current Accounting Standards
- Audit Timing and Reporting Calendar
- Auditor Independence

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The Auditors' Responsibility Under Generally Accepted Auditing Standards

- Conduct our audit in accordance with auditing standards generally accepted in the United States of America.
- Our audit is designed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets.
- An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- Accordingly, the audit is designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplishes that objective.

Required Communications

Communication

Effective two-way communication between our Firm and the Audit Committee is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist us in understanding the District and Foundation and their environments, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with the Audit Committee your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We understand that communication with us regarding any matters you consider relevant to the audit will be timely. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of senior management.

We will promptly communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to them in their oversight of the financial reporting process will be communicated to them in writing after the completion of the audit.

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Required Communications (Continued)

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how the District and Foundation functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your business. The development of a specific audit plan begins by meeting with management to obtain an understanding of business objectives, strategies, risks, and performance.

We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the company's internal control).

We will then determine the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

The Concept of Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform the audit committee of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

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Our Reporting Requirements to You

- Audit opinions on the financial statements of the District and Foundation.
- Additional letters under A-133 Single Audit and Governmental Audit Standards.
- Letter confirming auditor independence.
- Required communications to the audit committee.
- A management letter.

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Current Accounting Standards

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*
- FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures of All Endowment Funds.*

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets

This statement requires that all intangible assets not specifically excluded from the statement be classified as capital assets. Intangible assets are recognized in the statement of net assets only if they are considered identifiable. The statement also provides guidance on what costs to capitalize with internally developed intangible assets (i.e. Computer software).

Guidance is provided related to amortization lives and methodology. If there are no facts that limit the useful life of an intangible, the assets will be considered to have an indefinite useful life and will not be amortized.

The effective date for these requirements is for periods beginning after June 25, 2009 or the 2010 fiscal year. The provisions of this statement are required to be applied retroactively for any government that was in phase 1 or 2 of the GASB 34/35 implementation process. For those governments, retroactive application applies to all intangibles acquired since July 1, 1980. Retroactive reporting is not required, but is permitted for intangible assets considered to have indefinite lives as of the effective date of the statement and those considered to be internally generated. Retroactive reporting is encouraged, but not required for any government that was in phase 3 of the GASB 34/35 implementation process.

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Current Accounting Standards (Continued)

GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments

Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB 52 amends paragraph 2 of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investment Pools, requiring that investments in land and other real estate held by endowments be added to the disclosure provisions in paragraph 15 of GASB 31. Accordingly, disclosures should include the methods and significant assumptions used to determine the fair value of such investments and provide other information that is currently presented for other investments reported at fair value.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments

This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors and collars), swaptions, forward contracts and futures contracts.

Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. For example, a government with variable-rate debt may enter into a derivative instrument designed to synthetically fix the debt's interest rate.

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Current Accounting Standards (Continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
(Continued)

Derivative instruments covered in the scope of this statement are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value for investment purposes are reported within the investment revenue classification. Those qualifying for hedging are reported in the statement of net assets as deferrals.

Additional disclosures include the objectives, terms and risks of hedging derivative instruments and a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported in the financial statements. The disclosures for investment derivatives are similar to the disclosures of other investments.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

This Statement is intended to improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated.

The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2010, with earlier application encouraged, and fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

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Current Accounting Standards (Continued)

GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

This Statement is intended to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

The objective of this Statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statement is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) in the GASB standards. The guidance in this Statement is effective for financial statements effective immediately.

FASB Staff Position No. FAS 117-1, Endowments of not-for-profit organizations: Net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures of all endowment funds

This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. The not-for-profit shall classify a portion of a donor-restricted endowment funds of perpetual duration as permanently restricted net assets. The portion of the fund that is not classified as permanently restricted net assets shall be classified as temporarily restricted net assets until appropriated for expenditure by the organization.

The guidance in this Statement is effective for financial statements effective immediately.

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Audit Timing and Reporting Calendar

District and Foundation Planning Procedures (Fieldwork July 6 – 10, 2009)

- Document our understanding of the District's strategies, objectives and operating environment.
- Develop overall audit plan.
- Document and perform testing of the District's internal control processes.
- Information systems control update.

District and Foundation Year-End Procedures (Fieldwork October 26 – November 6, 2009)

- Complete the audit of the District and Foundation financial statements.
- Obtain management's financial statement information.
- Complete engagement administration including subsequent events review, board minute review and other matters.
- Obtain management's representations.
- Deliver audit communications to the Audit Committee including required communications, letter on independence and management letter.

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Auditor Independence

Auditor independence ensures that the auditor is free to carry out his or her responsibilities to audit committees and the marketplace.

Certain independence matters have been addressed including their potential effect on our services related to the District and Foundation are described below.

Personal Impairments – *In compliance with Government Auditing Standards (GAS) we confirm the following types of personal impairments have been evaluated for all Firm employees:*

- a. No immediate family member (spouse, spousal equivalent, or dependent) or a close family member (parent, sibling, or nondependent child) is a director or officer of the District or Foundation, or is an employee of the District or Foundation in a position to exert direct and significant influence over the District or Foundation or the program under audit.
- b. No financial interest that is direct, or is significant/material though indirect, in the District or Foundation.
- c. There is no responsibility for managing an entity or decision-making that could affect operations of the District or Foundation, for example as a director, officer, or other senior position of the entity, activity, or program being audited, or as a member of management in any decision-making, supervisory, or ongoing monitoring function for the District or Foundation.
- d. There is no concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records when such services involved preparing source documents or originating data, in electronic or other form; posting transactions (whether coded by management or not coded); authorizing, executing, or consummating transactions (for example, approving invoices, payrolls, claims, or other payments of the District or Foundation), maintaining the District or Foundation bank account or otherwise having custody of the District or Foundation funds; or otherwise exercising authority on behalf of the entity, or having authority to do so.
- e. There are no preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit,
- f. Biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or level of government, and
- g. Seeking employment with the District or Foundation during the conduct of the audit.

Prohibited Services – *we do not provide any services that are prohibited under independence rules.*

Pre-approval of Non-Audit Services – *the Audit Committee pre-approves all non-audit services performed by Perry-Smith LLP.*