

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying basic financial statements of the Gavilan Joint Community College District (the District) as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gavilan Joint Community College District as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of or testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Additional Supplementary Information on pages 56 through 63 has been presented at the request of District management for purposes of additional analysis. We have applied certain limited procedures consisting primarily of analysis and inquiry regarding presentation; however, we did not audit the information. Accordingly, we express no opinion on them.

Vovrnick, Trine, Day & Co., LLP

Fresno, California
November 17, 2006

Steven M. Kinsella, DBA, CPA, Superintendent/President

This section of Gavilan Joint Community College District's 2005-2006 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Gavilan Joint Community College District (the District) using the integrated approach as prescribed by GASB Statement Numbers 35 and 34. The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business Type Activity (BTA).

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary. The District only has two categories, business type activities and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The District does not have any governmental type activities.

The *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

FY 05/06 provided Gavilan College with enough resources to stabilize the Budget and to make a few improvements in achieving the goals of the Strategic Plan and the Educational Master Plan. Through its Strategic Plan, Gavilan College has positioned itself to expand and take advantage of the additional growth opportunities. Revenue available for program enhancements was used to provide quality education to the communities served by the District. As a cautionary note, over the long term the District recognizes that Gavilan College will need to be diligent in its efforts to achieve the ever-increasing level of FTES required to generate additional revenues.



GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Revenues Expenses and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our College will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes Net Assets*, we include the District activities as follows:

Business-type activities - Most of the District's services are reported in this category. This includes the education of students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. The District charges tuition and fees to help it cover the costs of certain services it provides. In addition, property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, assist in financing these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and the student center fund. The District's fiduciary activities are reported in separate *Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance*. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$20.2 and \$19.0 million for the fiscal year ended June 30, 2006 and June 30, 2005, respectively. Of this amount, \$4.7 million and \$1.9 million were unrestricted as of June 30, 2006 and 2005, respectively. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the College Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Table 1

(Amounts in thousands)	Governmental Activities for the Fiscal Year		
	2006	2005	Change
Current and other assets	\$ 35,857	\$ 38,370	\$ (2,513)
Capital assets	17,721	15,807	1,914
Total Assets	53,578	54,177	(599)
Current liabilities	5,573	5,882	(309)
Long-term obligations	27,840	29,291	(1,451)
Total Liabilities	33,413	35,173	(1,760)
Net assets			
Invested in capital assets, net of related debt	(14,136)	(14,556)	420
Restricted	29,638	31,706	(2,068)
Unrestricted	4,664	1,842	2,822
Total Net Assets	\$ 20,166	\$ 18,992	\$ 1,174

The \$4.7 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$4.7 million left.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Table 2

(Amounts in thousands)

	Governmental Activities for the Fiscal Year		
	2006	2005	Change
Revenues			
Program revenues:			
Tuition and fees	\$ 1,817	\$ 1,341	\$ 476
Grants and contracts - Federal	3,054	3,294	(240)
Grants and contracts - State and local	2,604	3,985	(1,381)
Non-operating revenues:			
State apportionment	6,735	6,084	651
Property taxes	14,431	12,475	1,956
State taxes and other revenue	4,902	6,361	(1,459)
Other revenues	1,144	1,151	(7)
Total Revenues	34,687	34,691	(4)
Expenses			
Salaries	16,312	15,698	614
Employee benefits	5,295	4,969	326
Supplies, materials and other operating expenses and services	9,793	9,932	(139)
Depreciation	679	664	15
Other non-operating expenses	1,435	1,268	167
Total Expenses	33,514	32,531	816
Change in Net Assets	\$ 1,173	\$ 2,160	\$ (820)

Governmental Activities

As reported in the *Statement of Revenues, Expenses and Changes in Net Assets*, the cost of all of our governmental activities this year was \$33.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.4 million because the cost was paid by those who benefited from the programs (\$1.8 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$5.7 million). We paid for the remaining "public benefit" portion of our governmental activities with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's five largest expense categories – salaries; employee benefits; supplies, materials and other expenses and services; equipment, maintenance and repair; and other.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Table 3

(Amounts in thousands)

	Operating Cost of Services for the Fiscal Year		
	2006	2005	Change
Salaries	\$ 16,312	\$ 15,698	\$ 614
Employee benefits	5,295	4,969	326
Supplies, materials and other operating expenses and services	9,793	9,932	(139)
Depreciation	679	665	14
Totals	\$ 32,079	\$ 31,264	\$ 815

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$31.9 million, which is a decrease of \$1.8 million from last year.

The primary reasons for these changes are:

1. Our general fund remained fairly stable this year.
2. Our special revenues funds remained stable this year.
3. Our debt service funds decreased in value primarily due to the bond payment.
4. The Measure E Construction Fund reduced due to ongoing construction costs.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on October 10, 2006.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had \$17.7 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$1.9 million, or 12 percent, from last year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Table 4

(Amounts in thousands)

	Fixed Assets for the Fiscal Year		
	2006	2005	Change
Land	\$ 351	\$ 351	\$ -
Work in Progress	2,202	-	2,202
Land Improvements	830	806	24
Building and Improvements	22,270	22,270	-
Equipment and vehicles	2,897	2,541	356
Totals	28,550	25,968	2,582
Less Accumulated Depreciation	(10,829)	(10,161)	(668)
Net Totals	\$ 17,721	\$ 15,807	\$ 1,914

The District is in the construction phase for bond renovation projects. Many capital projects are planned to continue through the 2006-2007 year.

Long-Term Obligations

At the end of this year, the District had \$29.3 million in bonds outstanding. In June 2004 the District issued 30.0 million of debt and paid off the remaining balance on the prior bonds. The proceeds from the new bonds will be used to fund various capital projects discussed in the prior paragraph. The long-term obligations consisted of:

Table 5

(Amounts in thousands)

	Debt for the Fiscal Year		
	2006	2005	Changes
Revenue bonds	\$ -	\$ 12	\$ (12)
General obligation bonds	28,935	30,000	(1,065)
Compensated absences	370	356	14
Totals	\$ 29,305	\$ 30,368	\$ (1,063)

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2005-06 ARE NOTED BELOW:

The most significant accomplishment of fiscal year 2005-2006 was the continued collaborative process used in a number of District projects including: campus renovation, an Enterprise Resource Planning (ERP) system, and the purchase of rights to real property in Coyote Valley and San Benito County. On March 2, 2004, the electorate within the District's geographic boundaries approved a general obligation bond known as Measure E. The value of the Bond is for 108 million dollars. The bond proceeds will be utilized by the District to plan, design and construct a number of projects, primarily in the areas of infrastructure development and upgrades along with modernization of existing District facilities including technology upgrades. The bond proceeds will also be used to purchase property in both the Greater Morgan Hill Area and the San Benito County area.

To this end, the District sent out Requests for Proposals (RFP) and entered into contracts for construction management services, architectural services, and real property acquisition/development services among other types of services. An RFP was also sent out and a contract was entered into for a new Integrated ERP computer system. Planning also took place for campus infrastructure upgrades, interim housing/swing space, and for the renovation of the science building complex. The Board approved an American with Disabilities Acts (ADA) Transition Plan and established a Property Development Fund for the development of the current golf course property. In addition, as required by law, a Bond Citizen's Oversight Committee has been established.

Other accomplishments included finalizing a multi year agreement with the Gavilan College Faculty Association (GCFA) and with the California School Employee Association (CSEA). In spite of a tight budget year, the District was able to continue to fund COLA increases and employee health benefit packages.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006-07 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

In fiscal year 2006-2007 it is expected that Gavilan College's base revenue of \$20.5 million will increase from that of fiscal year 2005-2006 by a net of approximately \$2.2 million. The 2006-2007 adopted budget is based on growth revenue of \$250,000, COLA of \$1,200,000, and equalization funding of \$800,000.

In addition to the base revenue, Gavilan College expects to receive "one-time" funding. There is approximately \$428,000 in one-time general purpose (unrestricted) funds and approximately \$682,000 in specified (restricted) funds.

The District budget for expenditures was based on a negotiated multiple year agreement with the Gavilan College Faculty Association (GCFA) and the California School Employees Association (CSEA).

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 show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Business Services, at Gavilan Joint Community College District, 5055 Santa Teresa Blvd, Gilroy, California, 95020, or e-mail at scheu@gavilan.edu.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS JUNE 30, 2006 AND 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 153,239	\$ 54,290
Investments	32,928,283	35,761,185
Accounts receivable, net	2,305,021	2,070,456
Prepaid expenses	470,914	484,172
Total Current Assets	<u>35,857,457</u>	<u>38,370,103</u>
Noncurrent Assets:		
Nondepreciable capital assets	2,552,506	350,809
Depreciable capital assets, net of depreciation	15,168,556	15,455,914
Total Noncurrent Assets	<u>17,721,062</u>	<u>15,806,723</u>
TOTAL ASSETS	<u>53,578,519</u>	<u>54,176,826</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	2,776,458	3,870,657
Deferred revenue	1,009,700	549,792
Amounts held in trust on behalf of others	321,437	384,865
Long-term liabilities - current portion	1,465,000	1,077,000
Total Current Liabilities	<u>5,572,595</u>	<u>5,882,314</u>
Noncurrent Liabilities:		
Long-term liabilities - noncurrent portion	27,840,016	29,291,027
Total Noncurrent Liabilities	<u>27,840,016</u>	<u>29,291,027</u>
TOTAL LIABILITIES	<u>33,412,611</u>	<u>35,173,341</u>
NET ASSETS		
Invested in capital assets, net of related debt	(14,136,460)	(14,556,086)
Restricted for:		
Debt service	4,802,458	4,902,873
Capital projects	24,570,433	26,265,550
Educational programs	265,927	538,225
Unrestricted	4,663,550	1,842,247
Total Net Assets	<u>\$ 20,165,908</u>	<u>\$ 18,992,809</u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	June 30, 2006	June 30, 2005
OPERATING REVENUES		
Tuition and Fees	\$ 2,976,348	\$ 2,533,540
Less: Scholarship discount and allowance	(1,159,795)	(1,192,730)
Net tuition and fees	<u>1,816,553</u>	<u>1,340,810</u>
Grants and Contracts, noncapital:		
Federal	3,054,110	3,294,392
State	2,514,496	3,284,343
Local	215,311	176,075
TOTAL OPERATING REVENUES	<u>7,600,470</u>	<u>8,095,620</u>
OPERATING EXPENSES		
Salaries	16,311,959	15,698,149
Employee benefits	5,295,296	4,969,009
Supplies, materials, and other operating expenses and services	9,793,457	9,931,864
Depreciation	679,176	664,499
TOTAL OPERATING EXPENSES	<u>32,079,888</u>	<u>31,263,521</u>
OPERATING LOSS	<u>(24,479,418)</u>	<u>(23,167,901)</u>
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	6,734,651	6,083,589
Local property taxes	14,431,211	12,475,226
State taxes and other revenues	4,902,322	6,361,833
Investment income, net	1,039,667	706,179
Interest expense on capital related debt	(1,344,463)	(823,404)
Other non-operating expenses	(214,661)	(445,583)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>25,548,727</u>	<u>24,357,840</u>
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	1,069,309	1,189,939
OTHER REVENUES AND EXPENSES		
State revenues, capital	103,790	700,568
Local revenues, capital	-	269,508
TOTAL OTHER REVENUES AND EXPENSES	<u>103,790</u>	<u>970,076</u>
NET INCREASE IN NET ASSETS	1,173,099	2,160,015
NET ASSETS, BEGINNING OF YEAR	18,992,809	16,832,794
NET ASSETS, END OF YEAR	<u>\$ 20,165,908</u>	<u>\$ 18,992,809</u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 1,816,553	\$ 1,340,810
Federal grants and contracts	3,099,142	3,294,392
State grants and contracts	2,806,105	3,284,343
Local grants and contracts	215,311	176,075
Payments to suppliers	(11,081,589)	(10,420,780)
Payments to/(on behalf of) employees	(21,574,790)	(20,668,158)
Net Cash Used by Operating Activities	<u>(24,719,268)</u>	<u>(22,993,318)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	7,299,908	6,083,589
Property taxes	13,798,696	12,475,226
State taxes and other apportionments	4,902,322	5,861,735
Net Cash Provided by Noncapital Financing Activities	<u>26,000,926</u>	<u>24,420,550</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(2,582,462)	(1,383,922)
State revenue, capital projects	103,790	700,568
Local revenue, capital projects	-	269,508
Principal paid on capital debt	(1,077,000)	(12,000)
Interest paid on capital debt	(1,344,662)	(823,404)
Net Cash Provided by Capital Financing Activities	<u>(4,900,334)</u>	<u>(1,249,250)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	<u>1,010,742</u>	<u>695,503</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,607,934)	874,485
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>35,815,475</u>	<u>34,940,990</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 33,207,541</u>	<u>\$ 35,815,475</u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS, Continued FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED BY OPERATING ACTUALS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating loss	\$ (24,479,418)	\$ (23,167,901)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	679,176	664,499
Miscellaneous nonoperating income		
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivables	(234,565)	298,143
(Increase)/decrease in prepaids	13,258	33,545
Increase/(decrease) in accounts payable and accrued liabilities	(1,094,199)	(350,138)
Increase/(decrease) in deferred revenue	459,908	(523,399)
Increase in funds held for others	(63,428)	51,933
Total Adjustments	<u>(239,850)</u>	<u>174,583</u>
Net Cash Flows From Operating Activities	<u><u>\$ (24,719,268)</u></u>	<u><u>\$ (22,993,318)</u></u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Gavilan Joint Community College District (The District) is a political subdivision of the State of California and provides educational services to the local residents of Santa Clara and San Benito Counties. The District operates under a locally elected eight-member Board of Trustees form of government. The District consists of one community college located in Gilroy, California and two offsite campuses located in the cities of Hollister and Morgan Hill. While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

Financial Reporting Entity

During the year ended June 30, 2004, the District implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

As defined by generally accepted accounting principals established by the GASB, the financial reporting entity consist of the primary government (the District), as well as the Gavilan Joint Community College Education Foundation, which is the District's legally separated component unit. The financial data of the component unit has not been included in these financial statements.

The following entities do not meet the criteria for inclusion as component units of the District. Additional information is included in Note 14 to the financial statements.

- Public Entity Risk Pools

The District is associated with two public entity risk pools, the Bay Area Community College District (BACCD) and the Northern California Community College Pool (NCCCP). These organizations do not meet the criteria for inclusion as component units of the District.

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. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency and intra-fund transactions have been eliminated.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is 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, available means expected to be received within 90 days of fiscal year-end.

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Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations. Revenue from State apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

The accounting policies of the District conform to accounting principles generally accepted in the United State of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation.

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

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 1. Statement of Net Assets
 2. Statement of Revenues, Expenses and Changes in Net Assets
 3. Statement of Cash Flows
- Notes to the Financial Statements

The following is a summary of the more significant policies:

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Investments for which there are no quoted market prices are not material.

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.

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Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, building, and equipment. The District maintains a capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as Work in Process as the projects are constructed.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings 25 to 50 years; improvements, 20 to 50 years; equipment, 5 to 20 years.

Accrued Liabilities and Long-term Obligations

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

Deferred Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable business-type activities statement of net assets. Bond issuance costs are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

Accumulated unpaid employee 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. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

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Deferred Revenue

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

Net Assets

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

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

Restricted - Nonexpendable: Net assets whose use by the District has been externally restricted in perpetuity.

Restricted - expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designed for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for educational and general operations of the District.

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.

Operating Revenues and Expenses

Classification of Revenues – The District has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, State, and local grants and contracts, and (4) interest on institutional student loans.

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Non-operation revenues - Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources described in GASB Statement No. 34.

Classification of Expenses – Nearly all the District's expenses are from exchange transactions and are classified as either operating or non-operating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses and student financial aid.

Non-operating expenses - Non-operating expenses include interest expense and other expenses not directly related to the services of the District.

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 and are recorded in the District's financial records when received.

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. 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 Counties of Santa Clara and San Benito bill and collect the taxes on behalf of the District. Local property tax revenues are recorded when received.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. 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*.

