

**GAVILAN JOINT COMMUNITY  
COLLEGE DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2008**

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2008

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Gavilan Joint Community College District  
Gilroy, California

We have audited the accompanying basic financial statements of the business-type activities of the Gavilan Joint Community College District (the District) as of and for the years ended June 30, 2008 and 2007, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 business-type activities of the Gavilan Joint Community College District as of June 30, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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 the Governmental Accounting Standards Board. 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.

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 57 through 65 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.

Vaurinek, Urine, Day & Co., LLP

Fresno, California  
December 7, 2008

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

## *USING THIS ANNUAL REPORT*

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of the Gavilan Joint Community College District (the District) as of June 30, 2008. The report consists of three basic financial statements: the Statement of Financial Position, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. 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 Gavilan Joint Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and No. 35, Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

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



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2008**

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### *FINANCIAL HIGHLIGHTS OF THE PAST YEAR*

The fiscal year ending June 30, 2008, provided Gavilan College with enough resources to stabilize the Budget and to make a number of 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 additional staff and equipment in order to offer a consistent 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.

### *THE DISTRICT AS A WHOLE*

#### Net Assets

The District's net assets were \$26.8 million, \$23.9 million, and \$20.2 million for the fiscal years ended June 30, 2008, June 30, 2007, and June 30, 2006, respectively. Of this amount, \$1.5 million, \$2.8 million, and \$4.7 million were unrestricted as of June 30, 2008, 2007, and 2006, 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.

**Table 1**

(Amounts in thousands)	Governmental Activities for the Fiscal Year				
	2008	2007	Change	2006	Change
Current and other assets	\$ 65,717	\$ 28,717	\$ 37,000	\$ 35,857	\$ (7,140)
Capital assets	44,017	29,102	14,915	17,721	11,381
<b>Total Assets</b>	<b>109,734</b>	<b>57,819</b>	<b>51,915</b>	<b>53,578</b>	<b>4,241</b>
Current liabilities	8,064	8,059	5	5,573	2,486
Long-term obligations	74,835	25,845	48,990	27,840	(1,995)
<b>Total Liabilities</b>	<b>82,899</b>	<b>33,904</b>	<b>48,995</b>	<b>33,413</b>	<b>491</b>
Net assets					
Invested in capital assets, net of related debt	16,697	1,233	15,464	(14,136)	15,369
Restricted	8,677	19,865	(11,188)	29,638	(9,773)
Unrestricted	1,461	2,817	(1,356)	4,664	(1,847)
<b>Total Net Assets</b>	<b>\$ 26,835</b>	<b>\$ 23,915</b>	<b>\$ 2,920</b>	<b>\$ 20,166</b>	<b>\$ 3,749</b>

The \$1.5 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 \$1.5 million left.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

### 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.

**Table 2**

(Amounts in thousands)	Governmental Activities for the Fiscal Year				
	2008	2007	Change	2006	Change
<b>Revenues</b>					
Operating revenues:					
Tuition and fees	\$ 1,648	\$ 1,727	\$ (79)	\$ 1,817	\$ (90)
Grants and contracts - Federal	3,656	3,054	602	3,054	-
Grants and contracts - State and local	4,045	3,817	228	2,604	1,213
Non-operating revenues:					
State apportionment	11,681	11,080	601	6,735	4,345
Property taxes	17,343	15,525	1,818	14,431	1,094
State taxes and other revenue	5,902	5,647	255	4,902	745
Other revenues	1,453	1,259	194	1,144	115
<b>Total Revenues</b>	<b>45,728</b>	<b>42,109</b>	<b>3,619</b>	<b>34,687</b>	<b>7,422</b>
<b>Expenses</b>					
Salaries	20,299	17,818	2,481	16,312	1,506
Employee benefits	6,670	5,861	809	5,295	566
Supplies, materials and other operating expenses and services	11,944	12,364	(420)	9,793	2,571
Depreciation	1,009	707	302	679	28
Other non-operating expenses	2,886	1,609	1,277	1,435	174
<b>Total Expenses</b>	<b>42,808</b>	<b>38,359</b>	<b>3,172</b>	<b>33,514</b>	<b>4,845</b>
<b>Change in Net Assets</b>	<b>\$ 2,920</b>	<b>\$ 3,750</b>	<b>\$ 447</b>	<b>\$ 1,173</b>	<b>\$ 2,577</b>

### 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 \$42.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$17.3 million because the cost was paid by those who benefited from the programs (\$1.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$7.7 million). We paid for the remaining "public benefit" portion of our governmental activities with other revenues, like interest and general entitlements.



**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2008**

***FUNCTIONAL EXPENSES***

In accordance with requirements set forth by the California State Chancellor's Office, the District reports operating expenses by object code. Operating expenses functional classification are as follows:

**Table 3**

**Year ended June 30, 2008**

	Salaries	Employee Benefits <sup>1</sup>	Supplies, Materials, and Other Expenses & Services	Equipment, Maintenance and Repairs	Depreciation	Total
Instructional Activities	\$ 8,732,879	\$2,962,046	\$ 2,255,246	\$ 815,103	\$ -	\$ 14,765,274
Academic Support	3,520,651	1,140,455	876,230	168,798	-	5,706,134
Student Services	3,623,382	1,080,884	359,975	129,768	-	5,194,009
Plant Operations and Maintenance	848,011	354,452	3,555,960	1,375,254	-	6,133,677
Institutional Support Services	2,589,454	877,436	1,439,027	245,673	-	5,151,590
Community Services and Economic Development	718,853	174,486	310,624	5,634	-	1,209,597
Ancillary Services and Auxiliary Operations	265,526	79,899	75,314	43,012	-	463,751
Interest Expense on Debt	-	-	2,429,247	-	-	2,429,247
Physical Property and Related Acquisitions	-	-	744,429	450	-	744,879
Unallocated Depreciation	-	-	-	-	1,009,023	1,009,023
<b>Total</b>	<b>\$20,298,756</b>	<b>\$6,669,658</b>	<b>\$ 12,046,052</b>	<b>\$ 2,783,692</b>	<b>\$ 1,009,023</b>	<b>\$42,807,181</b>

<sup>1</sup> Excludes on behalf payments made to STRS by the State of California.

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2008**

**Table 4**

**Year ended June 30, 2007**

	Salaries	Employee Benefits <sup>1</sup>	Supplies, Materials, and Other Expenses & Services	Equipment, Maintenance and Repairs	Depreciation	Total
Instructional Activities	\$ 8,029,838	\$2,740,823	\$ 2,141,768	\$ 447,004	\$ -	\$13,359,433
Academic Support	2,469,452	742,298	669,094	132,931	-	4,013,775
Student Services	3,434,000	912,816	524,127	89,009	-	4,959,952
Plant Operations and Maintenance	635,408	254,495	3,688,996	2,412,022	-	6,990,921
Institutional Support Services	2,212,467	839,726	1,536,730	114,694	-	4,703,618
Community Services and Economic Development	369,328	92,477	234,323	1,925	-	698,052
Ancillary Services and Auxiliary Operations	667,975	284,654	106,825	42,050	-	1,101,503
Interest Expense on Debt	-	-	1,380,100	-	-	1,380,100
Physical Property and Related Acquisitions	-	-	452,045	-	-	452,045
Unallocated Depreciation	-	-	-	-	707,292	707,292
<b>Total</b>	<b>\$17,818,468</b>	<b>\$5,867,288</b>	<b>\$ 10,734,008</b>	<b>\$ 3,239,635</b>	<b>\$ 707,292</b>	<b>\$38,366,691</b>

<sup>1</sup> Excludes on behalf payments made to STRS by the State of California.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

**Table 5**

**Year ended June 30, 2006**

	Salaries	Employee Benefits <sup>1</sup>	Supplies, Materials, and Other Expenses and Services	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	\$ 7,808,443	\$2,046,143	\$ 628,364	\$ 388,688	\$ -	\$10,871,638
Academic support	2,614,383	852,551	698,949	148,902	-	4,314,786
Student services	2,817,564	817,426	246,428	58,964	-	3,940,382
Plant operations and maintenance	567,174	230,931	3,351,504	476,816	-	4,626,426
Institutional support services	1,779,009	810,191	1,294,694	94,278	-	3,978,172
Community services and economic development	451,484	103,073	313,939	8,079	-	876,576
Ancillary services and auxiliary operations	273,901	59,872	148,260	40,369	-	522,402
Interest expense on debt	-	-	1,344,463	-	-	1,344,463
Physical property and related acquisitions	-	-	546,161	4,599	-	550,760
Unallocated depreciation	-	-	-	-	679,176	679,176
<b>Total</b>	<b>\$16,311,959</b>	<b>\$4,920,188</b>	<b>\$ 8,572,762</b>	<b>\$ 1,220,695</b>	<b>\$ 679,176</b>	<b>\$31,704,780</b>

<sup>1</sup> Excludes on behalf payments made to STRS by the State of California.

### ***THE DISTRICT'S FUNDS***

As the District completed this year, our governmental funds reported a combined fund balance of \$60.4 million, which is an increase of \$37.4 million from last year.

The primary reasons for these changes are:

1. Our General Fund increased by \$0.5 million.
2. Our Special Revenues Funds remained stable this year.
3. Our Debt Service Funds increased due to the contribution made to fund the General Obligations Bonds.
4. The Measure E Construction Fund increased by \$36.4 million due to the issuance of General Obligation Bonds to fund ongoing construction projects.

### ***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 September 9, 2008.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

### *CAPITAL ASSEST AND DEBT ADMINISTRATION*

#### *Capital Assets*

At June 30, 2008, the District had \$44.0 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 \$14.9 million, or 51 percent, from last year, predominately due to ongoing Measure E projects.

**Table 6**

(Amounts in thousands)	Fixed Assets for the Fiscal Year				
	2008	2007	Change	2006	Change
Land	\$ 351	\$ 351	\$ -	\$ 351	\$ -
Work in Progress	8,354	12,771	(4,417)	2,202	10,569
Land Improvements	866	866	-	830	36
Building and Improvements	43,438	23,531	19,907	22,270	1,261
Equipment and vehicles	3,554	3,121	433	2,897	224
<b>Total</b>	<b>56,563</b>	<b>40,640</b>	<b>15,923</b>	<b>28,550</b>	<b>12,090</b>
Less Accumulated Depreciation	(12,546)	(11,537)	(1,009)	(10,829)	(708)
<b>Net Total</b>	<b>\$ 44,017</b>	<b>\$ 29,103</b>	<b>\$ 14,914</b>	<b>\$ 17,721</b>	<b>\$ 11,382</b>

The District is in the construction phase for bond renovation projects. Many capital projects are planned to continue through the 2008-09 year.

#### *Long-Term Obligations*

At the end of this year, the District had \$75.8 million in bonds outstanding. The long-term obligations consisted of:

**Table 7**

(Amounts in thousands)	Debt for the Fiscal Year				
	2008	2007	Changes	2006	Changes
General obligation bonds	\$ 75,845	\$ 27,470	\$ 48,375	\$ 28,935	\$ (1,465)
Compensated absences	509	476	33	370	106
<b>Total</b>	<b>\$ 76,354</b>	<b>\$ 27,946</b>	<b>\$ 48,408</b>	<b>\$ 29,305</b>	<b>\$ (1,359)</b>

Other obligations include compensated absences payable. We present more detailed information regarding our long-term liabilities in Note 10 of the financial statements.

# **GAVILAN JOINT COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2008**

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### ***SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-08 ARE NOTED BELOW:***

The most significant accomplishment of fiscal year 2007-2008 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 are being 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.

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.

In addition, the Accrediting Commission for Community and Junior Colleges (of the Western Associations of Schools and Colleges) took action to reaffirm the six-year accreditation of Gavilan College. The Accrediting Commission reached its decision after a review of the institution's Self-Study Report (available at <http://www.gavilan.edu/accreditation/>) and the report of the evaluation team which visited Gavilan College in March, 2007.

### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

In considering the District Budget for the 2008-09 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

In fiscal year 2008-09 it is expected that Gavilan College's base revenue of \$27,100,000 million will increase from that of fiscal year 2007-08 by a net of approximately \$700,000. The 2008-09 adopted budget is based on \$700,000 in growth revenue and no COLA.

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](mailto:scheu@gavilan.edu).

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATEMENTS OF NET ASSETS

JUNE 30, 2008 AND 2007

	June 30, 2008	June 30, 2007
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 156,142	\$ 156,092
Investments	3,099,148	2,533,374
Restricted investments	58,362,491	22,194,080
Accounts receivable, net	2,652,066	3,321,290
Student loans receivable, net	104,975	15,808
Prepaid expenses	963,833	462,045
Prepaid debt issuance costs	34,382	34,382
<b>Total Current Assets</b>	<u>65,373,037</u>	<u>28,717,071</u>
<b>Noncurrent Assets:</b>		
Prepaid debt issuance costs	344,422	378,804
Nondepreciable capital assets	8,705,220	13,122,288
Depreciable capital assets	47,857,814	27,517,080
Less: Accumulated depreciation	(12,545,763)	(11,536,740)
<b>Total Noncurrent Assets</b>	<u>44,361,693</u>	<u>29,481,432</u>
<b>TOTAL ASSETS</b>	<u>109,734,730</u>	<u>57,819,699</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	3,131,701	3,707,645
Accrued interest payable	1,654,419	570,860
Deferred revenue	1,222,033	1,286,062
Amounts held in custody on behalf of others	537,238	393,656
Long-term liabilities - current portion	1,519,336	2,101,238
<b>Total Current Liabilities</b>	<u>8,064,727</u>	<u>8,059,461</u>
<b>Noncurrent Liabilities:</b>		
Long-term liabilities - noncurrent portion	74,835,000	25,845,000
<b>Total Noncurrent Liabilities</b>	<u>74,835,000</u>	<u>25,845,000</u>
<b>TOTAL LIABILITIES</b>	<u>82,899,727</u>	<u>33,904,461</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	16,696,742	1,232,628
Restricted for:		
Debt service	8,119,775	7,133,374
Capital projects	378,147	12,454,289
Educational programs	179,758	278,390
Unrestricted	1,460,581	2,816,557
<b>Total Net Assets</b>	<u>\$ 26,835,003</u>	<u>\$ 23,915,238</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, 2008 AND 2007**

	June 30, 2008	June 30, 2007
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 2,872,972	\$ 2,943,060
Less: Scholarship discount and allowance	(1,224,562)	(1,216,396)
Net tuition and fees	<u>1,648,410</u>	<u>1,726,664</u>
Grants and Contracts, noncapital:		
Federal	3,656,443	3,054,153
State	3,248,796	3,215,399
Local	109,973	106,336
<b>TOTAL OPERATING REVENUES</b>	<u>8,663,622</u>	<u>8,102,552</u>
<b>OPERATING EXPENSES</b>		
Salaries	20,298,756	17,818,468
Employee benefits	6,669,659	5,861,238
Supplies, materials, and other operating expenses and services	11,943,571	12,364,634
Depreciation	1,009,023	707,292
<b>TOTAL OPERATING EXPENSES</b>	<u>39,921,009</u>	<u>36,751,632</u>
<b>OPERATING LOSS</b>	<u>(31,257,387)</u>	<u>(28,649,080)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State apportionments, noncapital	11,680,835	11,080,449
Local property taxes, levied for general purposes	17,342,877	15,524,647
State taxes and other revenues	5,901,693	5,647,020
Investment income	1,452,671	1,258,293
Interest expense on capital related debt	(2,429,247)	(1,380,100)
Other non-operating expenses	(456,926)	(228,909)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>33,491,903</u>	<u>31,901,400</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES</b>	2,234,516	3,252,320
<b>OTHER REVENUES AND EXPENSES</b>		
State revenues, capital	338,296	446,658
Local revenues, capital	346,953	50,352
<b>TOTAL OTHER REVENUES AND EXPENSES</b>	<u>685,249</u>	<u>497,010</u>
<b>CHANGE IN NET ASSETS</b>	2,919,765	3,749,330
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>23,915,238</u>	<u>20,165,908</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 26,835,003</u>	<u>\$ 23,915,238</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, 2008 AND 2007

	June 30, 2008	June 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 1,709,631	\$ 1,745,057
Non-capital grants and contracts	6,626,111	6,763,869
Local grants and contracts	143,582	-
Payments to suppliers	(13,069,769)	(12,006,548)
Payments to/(on behalf of) employees	(27,274,240)	(23,651,128)
<b>Net Cash Used by Operating Activities</b>	<u>(31,864,685)</u>	<u>(27,148,750)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State apportionments	12,658,477	9,897,431
Other nonoperating	(242,766)	(194,532)
Property taxes	13,491,457	12,522,201
State taxes and other apportionments	5,901,693	5,647,020
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>31,808,861</u>	<u>30,874,566</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of capital assets	(16,164,025)	(10,818,886)
State revenue, capital projects	338,296	446,658
Local revenue, capital projects	346,953	50,352
Property tax collections for debt obligations	3,851,420	3,002,446
Deferred cost on issuance	34,382	-
Proceeds from issuance of General Obligation Bonds	50,000,000	-
Principal paid on capital debt	(1,625,000)	(1,465,000)
Interest paid on capital debt	(1,345,688)	(1,416,138)
<b>Net Cash Provided by Capital Financing Activities</b>	<u>35,436,338</u>	<u>(13,203,014)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received from investments	1,353,721	1,279,222
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	36,734,235	(8,197,976)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	24,883,546	33,081,522
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 61,617,781</u>	<u>\$ 24,883,546</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, 2008 AND 2007

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

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating loss	\$ (31,257,387)	\$ (28,649,080)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,009,023	707,292
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivables	(239,338)	(1,032,077)
(Increase)/decrease in prepaids and deferred issuance costs	(880,592)	(25,513)
Increase/(decrease) in accounts payable and accrued liabilities	(575,944)	1,502,047
Increase/(decrease) in deferred revenue	(64,029)	276,362
Increase in funds held for others	143,582	72,219
Total Adjustments	<u>(607,298)</u>	<u>1,500,330</u>
<b>Net Cash Flows From Operating Activities</b>	<u>\$ (31,864,685)</u>	<u>\$ (27,148,750)</u>

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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### NOTE 1 - 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**

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

The following entities do not meet the criteria for inclusion as component units of the District.

**Public Entity Risk Pools** The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. These organizations are:

Bay Area Community College District (BACCD)  
Northern California Community College Pool (NCCCP)

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2008 AND 2007**

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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.

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 States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges System'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. The District has not elected apply FASB pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State System's Office *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's 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 No. 38. The Business type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
  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

### **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. Restricted cash and cash equivalents represented balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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### **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.

### **Prepaid Expenses**

Prepaid 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, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost 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 to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded 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; vehicles, 5 to 10 years.

### **Accrued Liabilities and Long-term Obligations**

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

### **Deferred Issuance Costs**

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.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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### 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. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee 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.

### 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 such as Endowment funds where future investment earnings may be used for the donor stipulated purpose. The District has no nonexpendable net assets.

**Restricted - Expendable:** Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2008 AND 2007**

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**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 nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statement No. 35. Classifications are as follows:

**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.

**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.

### **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 System (CalPERS) on behalf of all community colleges in California. The amounts of on-behalf payments were \$484,783 for CalSTRS. No contribution for CalPERS was made.