

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT**

**GENERAL OBLIGATION BONDS
FINANCIAL REPORT**

JUNE 30, 2005

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND

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JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

Citizens' Fiscal Oversight Committee
And Governing Board
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying financial statements of the Bond Construction fund of the Gavilan Joint Community College District, as of and for the year ended June 30, 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 audit.

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

As discussed in Note 1, the financial statements present only the Bond Construction fund, and do not purport to, and do not, present fairly the financial position and results of operations of the Gavilan Joint Community College District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Construction fund, of the Gavilan Joint Community College District at June 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine Day & Co., LLP

Fresno, California
October 28, 2005

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND BALANCE SHEET JUNE 30, 2005

ASSETS

Cash and investments	\$ 26,357,902
Accounts receivable	176,544
Total Assets	<u>\$ 26,534,446</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	537,318
Due to	5,752
Total Liabilities	<u>543,070</u>

FUND EQUITY

Fund balances	
Undesignated	25,991,376
Total Fund Equity	<u>25,991,376</u>
Total Liabilities and Fund Equity	<u>\$ 26,534,446</u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**BOND CONSTRUCTION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

REVENUES	
Interest income	\$ 562,661
Total Revenues	<u>562,661</u>
EXPENDITURES	
Current Expenditures	
Classified salaries	15,111
Employee benefits	6,271
Services and operating expenditures	800,993
Capital outlay	102,716
Total Expenditures	<u>925,091</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>(362,430)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	(362,430)
FUND BALANCE, BEGINNING OF YEAR	<u>26,353,806</u>
FUND BALANCE, END OF YEAR	<u>\$ 25,991,376</u>

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gavilan Joint Community College District Bond Construction fund conforms to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Gavilan Joint Community College District Bond Construction fund, accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The financial statements include only the Bond Construction fund of the Gavilan Joint Community College District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2004. The authorized issuance amount of the bonds is \$108,000,000. The first and second series of bonds in the amounts of \$29,170,000 and \$830,000 have been sold. These financial statements are not intended to present fairly the financial position and results of operations of the Gavilan Joint Community College District in compliance with accounting principles generally accepted in the United States of America.

B. Fund Accounting

The operations of the Bond Construction fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Gavilan Joint Community College District Bond Construction fund are accounted for under the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on general long-term debt, which is recognized when due.

D. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. No amounts were reserved or designated at June 30, 2005.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

E. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. The County of Santa Clara collects supplemental taxes for repayment of bond proceeds from all taxable property within the District. 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. The District recognizes tax revenues when received. Property taxes are collected (or Secured and Supplemental taxes are collected) for repayment of bond proceeds from all property within the District.

F. Use of Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 26,357,902
Total Deposits and Investments	<u>\$ 26,357,902</u>

Deposits and investments as of June 30, 2005, consist of the following:

Investments	\$ 26,357,902
Total Deposits and Investments	<u>\$ 26,357,902</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**BOND CONSTRUCTION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Segmented Time Distribution

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More Than 60 Months</u>
County Pool	<u>\$ 26,357,902</u>	<u>\$ 26,357,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Not Required to be Rated</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool	<u>\$ 26,357,902</u>	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,357,902</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2005, consist of the following:

Interest		<u>\$ 176,544</u>
Total		<u>\$ 176,544</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consists of the following:

Vendor payables	\$ 537,017
Salaries and benefits	301
Total	<u>\$ 537,318</u>

NOTE 5 – LONG-TERM DEBT

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Assets in the Entity Wide financial statements of the Gavilan Joint Community College District.

General obligation bonds have been issued and are outstanding as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Beginning of Year	Redeemed	End of Year
6/10/04	8/1/2028	2.0-5.0%	\$ 29,170,000	\$ 29,170,000	-	\$ 29,170,000
6/10/04	8/1/2006	3.0-3.5%	830,000	830,000	-	830,000
	Total			<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ 30,000,000</u>

Debt Service Requirements

The general obligation bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2006	\$ 1,065,000	\$ 1,597,649	\$ 2,662,649
2007	1,465,000	1,416,138	2,881,138
2008	1,625,000	1,370,063	2,995,063
2009	135,000	1,321,313	1,456,313
2010	195,000	1,317,263	1,512,263
2011-2015	2,105,000	6,426,744	8,531,744
2016-2020	4,565,000	5,788,832	10,353,832
2021-2025	8,315,000	4,262,363	12,577,363
2026-2028	10,530,000	1,518,000	12,048,000
Total	<u>\$ 30,000,000</u>	<u>\$ 25,018,365</u>	<u>\$ 55,018,365</u>