

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2003**

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS

JUNE 30, 2003

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussions and Analysis	4
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Financial Statements	15

SUPPLEMENTARY INFORMATION

District Organization	33
Schedule of Expenditures of Federal Awards	34
Schedule of Expenditures of State Awards	35
Schedule of Workload Measures for State Apportionment Annualized Attendance and Annual Apprenticeship Hours of Instruction	36
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	37
Note to Supplementary Information	38

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	42
Report on State Compliance	44

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	49
Financial Statement Findings and Recommendations	50
Federal Awards Findings and Questioned Costs	50
State Awards Findings and Questioned Costs	50
Summary Schedule of Prior Audit Findings	51

ADDITIONAL SUPPLEMENTARY INFORMATION

Balance Sheet – General Funds	54
Balance Sheet – Governmental Funds	55
Balance Sheet Reconciliation	56
Statement of Revenues, Expenditures, and Changes In Fund Balance – General Funds	57
Statement of Revenues, Expenditures, and Changes in Fund Balance – All Governmental Funds	58
Statement of Revenues, Expenses, and Changes in Net Assets Reconciliation	59
Balance Sheet – Fiduciary Funds	60
Statement of Revenue Expenditures and Changes in Fund Balance	61



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying financial statements of the business-type activities of the Gavilan Joint Community College District, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Contracted District Audit Manual*, issued by the California Community College Chancellor's Office. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Gavilan Joint Community College District as of June 30, 2003, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 October 17, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34, "Basic Financial Statements and Management's Discussions and Analysis – for State and Local Governments", and Statement No. 35, "Basic

Financial Statements and Management's Discussions and Analysis – for Colleges and Universities" for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other 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* and the additional supplementary information listed in the table of contents, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California

October 17, 2003

FINANCIAL SECTION

Steven M. Kinsella, DBA, CPA, President

This section of Gavilan Joint Community College District's 2002-2003 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section.

This is the first year that Gavilan Joint Community College District is presenting financial statements in accordance with the Governmental Accounting Standards Board (GASB) No. 34. Therefore, certain data is not available for fiscal year ended June 30, 2002 for comparative analysis. Comparative analysis will be presented in future years.

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) and its component units using the integrated approach as prescribed by GASB Statement Number 35.

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 debt). 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.

A *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Gavilan Joint Community College District. There is a component unit known as the Gavilan College Financing Corporation. The Corporation is in existence but is currently inactive.



GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

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 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 does not have any proprietary funds.

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*. We exclude the associated student body and student center fund activities from the District's other financial statements because the District cannot use these assets to finance its operations. 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 \$14.5 million for the fiscal year ended June 30, 2003. Of this amount, \$1.4 million was unrestricted. 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, 2003**

Table 1

(Amounts in millions)	Business-Type Activities
Current and other assets	\$ 9.8
Capital assets	12.7
Total Assets	22.5
Current liabilities	4.0
Long-term debt	4.0
Total Liabilities	8.0
Net assets	
Invested in capital assets, net of related debt	8.3
Restricted	4.8
Unrestricted	1.4
Total Net Assets	\$ 14.5

The \$1.4 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 \$1.4 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* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, 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, 2003

Table 2

(Amounts in millions)	<u>Business-Type Activities</u>
Revenues	
Program revenues	
Tuition and fees	\$ 0.7
Grants and contracts - Federal	3.3
Grants and contracts - State	8.9
General revenues:	
Property taxes	12.7
Other general revenues	3.7
Total Revenues	<u>29.3</u>
Expenses	
Salaries	14.9
Employee benefits	3.8
Supplies, materials and other operating expenses and services	6.8
Equipment, maintenance, and repairs	0.8
Depreciation	0.5
Total Expenses	<u>26.8</u>
Excess (Deficiency)	2.5
Interest	(0.1)
Transfers	(1.4)
Change in Net Assets	<u><u>\$ 1.0</u></u>

Governmental Activities

As reported in the Statement of Revenues, Expenses and Changes in Net Assets on page 13, the cost of all of our governmental activities this year was \$26.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$12.7 million because the cost was paid by those who benefited from the programs (\$0.7 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$12.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$1.3 million in 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, 2003

Table 3

(Dollar amounts in millions)	Total Cost of Services
Salaries	\$ 15.0
Employee benefits	3.8
Supplies, materials, and other operating expenses and services	6.8
Equipment, maintenance, and repairs	0.8
Other	0.5
Totals	\$ 26.9

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$6.3 million, which is an increase of \$1.3 million from last year.

The primary reasons for the increases are:

- a. Our Unrestricted General Fund is our principal operating fund. The fund balance in the General Fund decreased \$1.8 million to \$1.6 million. This decrease is due to the transfer of approximately \$3.3 million to the retiree benefits fund to fund future retiree health benefits.
- b. Our special revenue funds (child development fund) remained fairly stable from the prior year showing a net increase of approximately \$67,000.
- c. The capital projects funds remained fairly stable from the prior year showing a net decrease of approximately \$23,000.
- d. The debt service funds showed an increase of approximately \$3.3M due to the transfer in for future retiree benefit obligations.

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, 2003.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$12.7 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 \$1.1M, or 10 percent, from last year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

Table 4

(Amounts in millions)	Business-Type Activities
Land	\$ 0.3
Construction in progress	0.6
Buildings and improvements	11.0
Furniture and equipment	0.7
Vehicles	0.1
Totals	\$ 12.7

This year's major additions included (in millions):

Theatre air conditioning project	\$ 0.7
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This year's additions also included \$33,000 for child development center equipment. No debt was issued for the equipment additions.

Two capital projects are planned for the 2003-04 year. We anticipate capital additions to be approximately \$4.5 million for the 2003-04 year and to include completion of the library air conditioning project and the start of the adaptive Physical Education Building. We present more detailed information about our capital assets in Note 5 to the financial statements.

Long-Term Debt

At the end of this year, the District had \$4.0 million in bonds outstanding versus \$2.3 million last year, an increase of 70 percent due to the issuance of the 2003 lease revenue bond for \$2.0 million. The long term debt consisted of:

Table 5

(Amounts in millions)	Business-Type Activities
Revenue bonds	\$ 4.0
Other	0.4
Totals	\$ 4.4

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

