

**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.

