

**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.

*Vauternek, 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>	<u>45,728</u>	<u>42,109</u>	<u>3,619</u>	<u>34,687</u>	<u>7,422</u>
<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>	<u>42,808</u>	<u>38,359</u>	<u>3,172</u>	<u>33,514</u>	<u>4,845</u>
<b>Change in Net Assets</b>	<u><u>\$ 2,920</u></u>	<u><u>\$ 3,750</u></u>	<u><u>\$ 447</u></u>	<u><u>\$ 1,173</u></u>	<u><u>\$ 2,577</u></u>

### 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>	<u>\$16,311,959</u>	<u>\$4,920,188</u>	<u>\$ 8,572,762</u>	<u>\$ 1,220,695</u>	<u>\$ 679,176</u>	<u>\$31,704,780</u>

<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.

