GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
Gilroy, California

FINANCIAL STATEMENTS
June 30, 2011

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2011

TABLE OF CONTENTS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2011

TABLE OF CONTENTS
(Continued)

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 Gavilan Joint Community College District (the "District") as of and for the year ended June 30, 2011, which 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 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the net assets of the business-type activities of Gavilan Joint Community College District as of June 30, 2011, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the basic financial statements, the District restated its beginning net assets to correct an error in the recognition of the District's Other Postemployment Benefits asset at July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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. 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Management's Discussion and Analysis (MD&A) and the Required Supplementary Information, such as the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the District's basic financial statements. The accompanying Supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 16, 2011

GAVILAN COLLEGE

5055 Santa Teresa Blvd., Gilroy, CA 95020 www.gavilan.edu (408) 848-4800
Steven M. Kinsella, DBA, CPA, Superintendent/President

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities, programs and financial condition of Gavilan Joint Community College District (the District) as of June 30, 2011. The report consists of three basic financial statements: the Statement of Financial Position, Statement of Revenues, Expenses and Change 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, 2011. 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

Gavilan Joint Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements (GASB) Codification Section (Cod. Sec.) 2200.101, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and Cod. Sec. 2200.190-.191, 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 Change in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and non-operating, 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 System's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The fiscal year ending June 30, 2011, provided the District 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. The Board of Trustees, faculty, managers and professional support staff of the District have outlined primary values through a strategic planning update process. The product of this process is the updated five-year Strategic Plan 2011/12 – 2015/16. The Board of Trustees approved the Strategic Plan at the June 2011 Board of Trustees meeting. The District is also in the process of integrating all planning efforts to include the Strategic Plan. Resources are allocated to the priority activities identified through the strategic planning process.

Consistent allocation of financial resources to strategic plan initiatives has resulted in improved learning and working environments at the District. Capitalizing on past successes, the District continues to focus on supporting its service communities and increased access to the District through educational sites in Hollister and Morgan Hill. The schedules of classes at all sites are arranged so that students are able to further their goals by access to a wide range of courses at the sites.

In response to current and possible continued state budget issues, the District has repositioned itself to a smaller but adequately supported program. This matches program costs with available resources. This also offers the District the opportunity to manage program growth efficiently as additional resources are available.

The District has been concentrating on achieving maximum Full Time Equivalent Students (FTES) to obtain and stabilize growth revenue funds. In FY 06/07, FY 07/08, FY 08/09, FY 09/10, and FY 10/11 there has been substantial growth. It appears that in the FY 11/12, student demand will continue to increase. A number of other districts are "capping" the number of sections to equal state funding. Gavilan, however, is increasing the Fall 2011 semester in order to accommodate continued growth and funding potential. This highlights the District's need to maximize growth to the level of funding and also enhance non-state sources of revenue.

THE DISTRICT AS A WHOLE

<u>Net Assets</u>

The District's net assets were $18.6 million and $18.5 million for the fiscal years ended June 30, 2011 and June 30, 2010, respectively. Of this amount, $0.6 million and $0.9 million were unrestricted as of June 30, 2011 and 2010, respectively. During the year ended June 30, 2011, it was determined that the Other Postemployment Benefits (OPEB) asset was overstated by $4,739,981 as of June 30, 2010. Accordingly, the OPEB asset and the Net Assets were decreased by this amount as of July 1, 2010 for the correction of this error. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District 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. The more significant changes noted in Table 1 are primarily related to activity in the 2004 Measure E Bond program. In particular, the social science modernization project was completed. The Measure E Bond program issued $28 million in additional bonds in May 2011, which increased current and other assets and long-term liabilities. This Series D is the final series completing the $108 million Measure E program.

Table 1

(Amounts in thousands)	Governmental Activities as of June 30 for the Fiscal Year		
	2011	2010	Change
Current and other assets	$ 42,406	$ 17,876	$ 24,530
Capital assets	85,178	82,994	2,184
Total Assets	127,584	100,870	26,714
Current liabilities	6,308	8,231	(1,923)
Long-term obligations	102,658	74,100	28,558
Total Liabilities	108,966	82,331	26,635
Net assets			
Invested in capital assets, net of related debt	13,053	14,465	(1,412)
Restricted	4,940	3,159	1,781
Unrestricted	625	915	(290)
Total Net Assets	**$ 18,618**	**$ 18,539**	**$ 79**

The $625 thousand 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 $1.0 million left.

Change 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 Change 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. The more significant changes noted in Table 2 are primarily related to activity in the Pell Grant which increased $1.2 million and the financial aid direct loans program that went up by $2.0 million from the prior year.

Table 2

(Amounts in thousands)	Governmental Activities for the Fiscal Year		
	2011	2010	Change
Revenues			
Operating revenues:			
Tuition and fees	$ 1,748	$ 1,992	$ (244)
Non-operating revenues:			
State apportionment	13,316	11,908	1,408
Grants and contracts - Federal	11,275	9,024	2,251
Grants and contracts - State and local	4,871	4,772	99
Property taxes	17,436	17,782	(346)
State taxes and other revenue	151	278	(127)
Other revenues	704	689	15
Total Revenues	49,501	46,445	3,056
Expenses			
Salaries	20,664	21,040	(376)
Employee benefits	6,571	5,434	1,137
Supplies, materials and other operating expenses and services	16,771	16,730	41
Depreciation	1,829	1,512	317
Other non-operating expenses	3,587	4,174	(587)
Total Expenses	49,422	48,890	532
Restatement		(4,740)	4,740
Change in Net Assets	**$ 79**	**$ (7,185)**	**$ 7,264**

Governmental Activities

As reported in the *Statement of Revenues, Expenses and Change in Net Assets*, the cost of all of our governmental activities this year was $49 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $18 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with other revenues, including interest and general entitlements.

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 13, 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had $85 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 $2.2 million, or 3 percent, from last year, predominately due to ongoing Measure E projects.

Table 3

(Amounts in thousands)	Fixed Assets for the Fiscal Year		
	2011	2010	Change
Land	$ 27,841	$ 27,653	$ 188
Work in Progress	3,070	1,280	1,790
Land Improvements	876	866	10
Building and Improvements	65,245	63,691	1,554
Equipment and vehicles	5,326	4,856	470
Total	102,358	98,346	4,012
Less Accumulated Depreciation	(17,181)	(15,352)	(1,829)
Net Total	**$ 85,177**	**$ 82,994**	**$ 2,183**

The District is in the construction phase for bond renovation projects. A few capital projects are planned to continue through the 2011-12 year.

Long-Term Obligations

At the end of this year, the District had $103.8 million in long-term obligations outstanding. The long-term obligations consisted of:

Table 4

(Amounts in thousands)	Long-Term Obligations for the Fiscal Year		
	2011	2010	Changes
General obligation bonds	$ 102,100	$ 74,535	$ 27,565
Premium	1,170	229	941
Compensated absences	593	581	12
Total	**$ 103,863**	**$ 75,345**	**$ 28,518**

We present more detailed information regarding our long-term liabilities in the Notes to the Basic Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-11 ARE NOTED BELOW:

The most significant accomplishment of fiscal year 2010-2011 was balancing the budget and the continued collaborative process used in a number of District projects including: campus renovation 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.
Other accomplishments included finalizing agreements 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 employee health benefit packages along with step/column increases.

In addition, as a carryover from FY 2007-2008, 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.gavlan.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 2011-12 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

In FY 2011/12 the state budget included provisions that reduce workload (FTES) measures to the amount of state funding available. The reduction for Gavilan is estimated to be ($1,448,000). In addition, the FY 2011/12 Final Budget shows a deficit of ($1,751,748) as projected expenditures exceed projected revenues. A deficit is a concern due to the uncertainty of the State budget and growth. The District has adequate reserves to deal in the short term with a deficit.

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

ASSETS	
Current assets:	
Cash, cash equivalents and investments (Note 2)	$ 1,412,500
Receivables, net (Note 3)	5,233,383
Prepaid expenses	260,810
Total current assets	6,906,693
Noncurrent assets:	
Restricted cash, cash equivalents and investments (Note 2)	34,478,320
Net OPEB asset (Note 10)	1,021,608
Depreciable capital assets, net (Notes 4 and 14)	54,266,584
Non-depreciable capital assets (Note 4)	30,911,053
Total noncurrent assets	120,677,565
Total assets	$ 127,584,258
LIABILITIES	
Current liabilities:	
Accounts payable	$ 1,588,577
Accrued payroll	613,826
Accrued interest payable	1,776,343
Deferred revenue (Note 5)	1,123,749
Compensated absences (Note 7)	592,624
Long-term liabilities - current portion (Note 7)	612,473
Total current liabilities	6,307,592
Noncurrent liabilities:	
Long-term liabilities - noncurrent portion (Note 7)	102,658,106
Total liabilities	108,965,698
Commitments and contingencies (Note 11)	
NET ASSETS	
Invested in capital assets, net of related debt	13,053,025
Restricted for:	
Debt service	3,785,971
Capital projects	63,938
Educational programs	68,258
Other special purposes	1,021,608
Unrestricted	625,760
Total net assets	18,618,560
Total liabilities and net assets	$ 127,584,258

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2011

Operating revenues:	
Tuition and fees	$ 4,544,923
Less: scholarship discounts and allowances	(2,796,196)
Net tuition and fees	1,748,727
Grants and contracts, non-capital:	
Federal	4,930,741
State	3,842,171
Local	1,029,141
Total operating revenues	11,550,780
Operating expenses (Note 13):	
Salaries	20,664,045
Employee benefits (Notes 9 and 10)	6,570,997
Supplies, materials, and other operating expenses and services	16,771,461
Depreciation (Note 4)	1,828,968
Total operating expenses	45,835,471
Loss from operations	(34,284,691)
Non-operating revenues (expenses):	
State apportionment, non-capital	13,245,041
Local property taxes (Note 8)	12,892,542
State taxes and other revenues	151,262
Pell grants	6,343,768
Investment income, noncapital	132,092
Interest expense on capital asset-related debt, net	(3,586,786)
Other non-operating revenues	571,612
Total non-operating revenues (expenses)	29,749,531
Loss before capital revenues	(4,535,160)
Capital revenues:	
State apportionment	71,085
Local property taxes and revenues (Note 8)	4,543,335
Total capital revenues	4,614,420
Change in net assets	79,260
Net assets, July 1, 2010, as previously reported	23,279,281
Restatement (Note 15)	(4,739,981)
Net assets, July 1, 2010, as restated	18,539,300
Net assets, June 30, 2011	$ 18,618,560

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

Cash flows from operating activities:	
Tuition and fees	$ 1,463,399
Federal grants and contracts	5,122,948
State grants and contracts	4,014,316
Local grants and contracts	1,316,073
Payments to suppliers	(8,287,976)
Payments to employees	(20,790,279)
Payments for benefits	(6,928,045)
Payments to students	(8,786,805)
Other payments	(1,701,533)
Net cash used in operating activities	(34,577,902)
Cash flows from noncapital financing activities:	
State appropriations	12,569,146
Local property taxes	12,892,542
State taxes and other apportionments	151,262
Pell grants	6,343,768
Other non-operating receipts (payments)	571,612
Net cash provided by noncapital financing activities	32,528,330
Cash flows from capital and related financing activities:	
State apportionment for capital purposes	71,085
Local property taxes and other revenues for capital purposes	4,543,335
Purchase of capital assets	(4,012,665)
Proceeds from debt issuance	28,000,000
Premium and issuance costs on debt issuance, net	691,861
Principal paid on capital debt	(435,000)
Interest paid on capital debt, net	(3,310,579)
Net cash provided by capital and related financing activities	25,548,037
Cash flows provided by investing activities:	
Interest income on investments	132,092
Net increase in cash, cash equivalents and investments	23,630,557
Cash, cash equivalents and investments, July 1, 2010	12,260,263
Cash, cash equivalents and investments, June 30, 2011	$ 35,890,820

(Continued)

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2011

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (34,284,691)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	1,828,968
Changes in assets and liabilities:	
Receivables, net	378,860
Prepaid expenses	(353,588)
Due from agency fund	
Accounts payable	(408,499)
Deferred revenue	88,815
Accrued payroll	(137,993)
TRANS payable	(1,420,000)
Compensated absences	11,759
Amounts held for trust	(281,533)
Net cash used in operating activities	$ (34,577,902)

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund	Student Center Agency Fund
ASSETS			
Cash, cash equivalents and investments	$ 344,313		$ 14,108
Restricted cash, cash equivalents and investments		$ 6,669,900	
Receivables			2
Due from other funds			3,021
Total assets	$ 344,313	$ 6,669,900	$ 17,131
LIABILITIES			
Accounts payable	$ 274		$ 1,039
Amounts held in trust for others			16,092
Total liabilities	274		17,131
NET ASSETS			
Net assets held in trust	344,039	$ 6,669,900	
Total liabilities and net assets	$ 344,313	$ 6,669,900	$ 17,131

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2011

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund
Additions:		
Unrealized and realized gains, net		$ 971,367
Employer contributions		283,596
ASB fees and sales	$ 107,417	
Donations and fundraising	71,720	
Other local receipts	39,202	
Total additions	218,339	1,254,963
Deductions:		
Administrative costs		500
Supplies and materials	58,337	
Operating expenses	33,761	
Capital outlay	4,858	
Scholarships	18,450	
Total deductions	115,406	500
Change in net assets	102,933	1,254,463
Net assets held in trust:		
Net assets, July 1, 2010	241,106	5,415,437
Net assets, June 30, 2011	$ 344,039	$ 6,669,900

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115 and is therefore exempt from federal taxes.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100.101 as amended by GASB Cod. Sec. 2100.138. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The Gavilan Joint Community College Foundation does not meet the criteria of GASB Cod. Sec. 2100.101 as amended by GASB Cod. Sec. 2100.138 as a component unit of the District.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB. Under this model, the District's financial statements provide a comprehensive entity-wide perspective at the District's financial position and activities. 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 the obligation has been incurred. All significant intra-agency transactions have been eliminated.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after that date.

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested with the OPEB Trust Investee and in the Santa Clara County Treasury are considered cash equivalents.

Restricted Cash, Cash Equivalents and Investments

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as non current assets in the statement of net assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Investments

The District records its investment in Santa Clara County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and change in net assets. The fair value of investments, including the Santa Clara County Treasury external investment pool, at June 30, 2011 approximated their carrying value.

Receivables

Receivables 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. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursements of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at $161,116 for the year ended June 30, 2011.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. For equipment, the District's capitalization policy included all items with a unit cost of $5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings, 20 to 50 years for building improvements, 5 to 20 years for equipment, and 5 to 10 years for vehicles.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Revenues from federal, state and local special projects and programs is recognized when qualified expenditures have been incurred. Tuition, fees and other support received but not earned are recorded as deferred revenue until earned.

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Restricted net assets: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District has no nonexpendable net assets.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District typically first applies the expense toward restricted resources, then to unrestricted resources. This practice ensures fully utilizing restricted funding each fiscal year.

State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation in February 2011 will be recorded in the year computed by the state.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On-Behalf Payments

GASB Cod. Sec. 2300.120 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructed districts not to record revenue and expenditures for these on-behalf payments. These payments consist of state general fund contributions to CalSTRS in the amount of $473,120 (4.267% of salaries subject to CalSTRS).

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Cod. Sec. 2200.190-.191 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

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, and (3) most Federal, State and local grants and contracts and Federal appropriations.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources described in GASB Cod. Sec. 2200.190-.191, such as State appropriations, property taxes and investment income.

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. These estimates and assumptions 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 during the reporting period. Accordingly, actual results may differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and change in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants and other federal, state and nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2011, consisted of the following:

	District	Fiduciary
Pooled Fund:		
Cash in County Treasury	$ 1,647,832	$ 14,108
Deposits:		
Cash on hand and in banks	27,533	344,313
Funds with Fiscal Agents	34,215,455	
Funds with Trust Investee		6,669,900
Total cash, cash equivalents and investments	35,890,820	7,028,321
Less: restricted cash, cash equivalents and investments:		
Funds invested by Fiscal Agents	34,215,455	
Other restricted	262,865	6,669,900
Total restricted cash, cash equivalents and investments	34,478,320	6,669,900
Net cash, cash equivalents and investments	$ 1,412,500	$ 358,421

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to $250,000 and non-interest bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2011, the carrying amount of the District's cash on hand and in banks for the primary governmental entity was $27,533 and the bank balance was $430,000 all of which was insured by the FDIC. Cash on hand and in banks for the fiduciary funds had a carrying amount and bank balance of $344,313 of which $67,873 was not insured by the FDIC at June 30, 2011.

Credit Risk

As provided for in Education Code, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool.

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2011, the Santa Clara County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by the financial institutions is entirely insured or collateralized.

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts held by a third party custodian in the District's name for future capital projects.

Cash with Trust Investee

Cash with Trust Investee represents amounts held by a third party investee in the District's name to fund its OPEB obligation.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

The table below identifies the investment types authorized for the District by the California Government Code Section 53601. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
Registered State Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers 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%	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
Joint Power Authority Pools	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	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's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2011, the District had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk

The District's investment policy places limits on the amount it may invest in any one issuer. At June 30, 2011, the District had no concentration of credit risk.

3. RECEIVABLES

Receivables at June 30, 2011 are summarized as follows:

Federal	$ 790,110
State	3,741,685
Local and other	849,633
	5,381,428
Less allowance for doubtful accounts	(161,116)
	$ 5,220,312

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2010	Additions	Deductions	Transfers	Balance June 30, 2011
Non-depreciable:					
Land	$ 27,653,002	$ 57,210		$ 130,518	$ 27,840,730
Construction in progress	1,280,180	2,851,511		(1,061,368)	3,070,323
Depreciable:					
Land improvements	865,502	10,847			876,349
Buildings and building improvements	63,691,027	623,309		930,850	65,245,186
Furniture and equipment	4,590,440	469,788			5,060,228
Vehicles	265,431				265,431
Total	98,345,582	4,012,665			102,358,247
Less accumulated depreciation:					
Land improvements	(639,024)	(16,486)			(655,510)
Buildings and building improvements	(11,524,146)	(1,349,352)			(12,873,498)
Furniture and equipment	(2,971,026)	(453,068)			(3,424,094)
Vehicles	(217,446)	(10,062)			(227,508)
Total	(15,351,642)	(1,828,968)			(17,180,610)
Capital assets, net	$ 82,993,940	$ 2,183,697	$ -	$ -	$ 85,177,637

5. DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

Deferred Federal and State revenue	$ 464,307
Deferred local revenue	164,852
Deferred tuition and other student fees	494,590
Total deferred revenue	$ 1,123,749

6. TAX REVENUE ANTICIPATION NOTES

Tax Revenue Anticipation Notes (TRANS) are short-term debt instruments. They are issued to eliminate cash flow deficiencies that result from fluctuations in revenue receipts and expenditure disbursements. A summary of the District's TRANS activity for the year ended June 30, 2011 is as follows:

	Outstanding July 1, 2010	Additions	Deletions	Outstanding June 30, 2011
Series 2010B - 2.25% Tax Revenue Anticipation Note	$ 1,420,000	$ 2,000,000	$ (3,420,000)	$ -

Subsequent to June 30, 2011, the District entered into a new TRANS agreement for $1,940,000 payable on June 30, 2012.

7. LONG-TERM LIABILITIES

General Obligation Bonds

In June 2004, the District issued $29,170,000 of General Obligation Bonds 2004 Series A and $830,000 General Obligation Bonds 2004 Series B. The Bonds were issued to finance the construction and modernization of District facilities and to refund certain lease obligations. The Bonds mature through August 2028 and bear interest at rates ranging from 2.00% to 5.38%.

The 2004 Series B bonds matured on August 1, 2006.

Net bond premium of $140,900 (net of accumulated amortization) was capitalized and is amortized over the term of the Bond.

The following is a schedule of future payments for the 2004 Series A General Obligation Bonds:

Year Ending June 30,	Principal	Interest	Total
2012	$ 335,000	$ 1,295,457	$ 1,630,457
2013	415,000	1,280,876	1,695,876
2014	500,000	1,262,575	1,762,575
2015	590,000	1,240,776	1,830,776
2016	690,000	1,214,313	1,904,313
2017-2021	5,195,000	5,440,373	10,635,373
2022-2026	9,255,000	3,588,597	12,843,597
2027-2029	8,270,000	711,425	8,981,425
	$ 25,250,000	$ 16,034,392	$ 41,284,392

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

On December 12, 2007, the District issued $50,000,000 of General Obligation Bonds 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment and to pay the costs of issuance associated with the Bonds. The Bonds mature through August 2032 and bear interest at rates ranging from 4.00% to 5.00%.

Net bond premium of $75,870 (net of accumulated amortization) was capitalized and is amortized over the term of the Bond.

The following is a schedule of the future payments for the 2004 Series C General Obligation Bonds:

Year Ending June 30,	Principal	Interest	Total
2012	$ 225,000	$ 2,282,843	$ 2,507,843
2013	300,000	2,273,844	2,573,844
2014	385,000	2,261,844	2,646,844
2015	470,000	2,246,444	2,716,444
2016	560,000	2,227,644	2,787,644
2017-2021	4,460,000	10,715,020	15,175,020
2022-2026	7,985,000	9,368,720	17,353,720
2027-2031	19,580,000	6,920,176	26,500,176
2032-2033	14,885,000	1,074,688	15,959,688
	$ 48,850,000	$ 39,371,223	$ 88,221,223

On May 12, 2011, the District issued $28,000,000 of General Obligation Bonds 2004 Series D. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment and to pay the costs of issuance associated with the Bonds. The Bonds mature through August 2035 and bear interest at rates ranging from 2.00% to 5.75%.

Net bond premium of $953,449 (net of accumulated amortization) were capitalized and will be amortized over the term of the Bond.

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The following is a schedule of the future payments for the 2004 Series D General Obligation Bonds:

Year Ending June 30,	Principal	Interest	Total
2012		$ 339,321	$ 339,321
2013	$ 255,000	1,546,275	1,801,275
2014		1,541,175	1,541,175
2015	10,000	1,541,175	1,551,175
2016	50,000	1,540,875	1,590,875
2017-2021	840,000	7,646,675	8,486,675
2022-2026	2,095,000	7,371,625	9,466,625
2027-2031	3,895,000	6,668,975	10,563,975
2032-2036	20,855,000	4,518,588	25,373,588
	$ 28,000,000	$ 32,714,684	$ 60,714,684

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
General Obligation Bonds	$ 74,535,000	$ 28,000,000	$ (435,000)	$ 102,100,000	$ 560,000
Premiums	229,031	973,735	(32,187)	1,170,579	52,473
Compensated absences	580,865	11,759		592,624	592,624
	$ 75,344,896	$ 28,985,494	$ (467,187)	$ 103,863,203	$ 1,205,097

8. PROPERTY TAXES

Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The Santa Clara and San Benito Counties each bill and collect taxes for the District. Tax revenues are recognized by the District when received. The District is considered an "excess tax school entity" pursuant to Revenue and Tax Code 95.1 and, accordingly, has deferred recognition of the Education Revenue Augmentation Fund tax payments received in excess of the District's estimated allocation until a final allocation is determined by the County.

9. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, postretirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. Disability benefits of up to 90 percent of final compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the District and employee contribution always being equal or greater than 8%.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2009, 2010 and 2011 were $945,705, $931,744 and $914,469, respectively, and equals 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

California Public Employees' Retirement System (CalPERS)

Plan Descriptions

Full-time classified employees participate in CalPERS, a multiple employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7% of their salary and the district is required to contribute an actuarially determined rate. The required employer contribution rate for fiscal year 2010-2011 was 10.707% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2010 and 2011 were $751,025, $754,958 and $814,143, respectively, and equaled 100 percent of the required contributions for each year.

10. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

The Gavilan Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of approximately 85 retirees and beneficiaries currently receiving benefits and approximately 230 active plan members.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB asset:

Annual required contribution	$ 509,881
Interest on net OPEB asset	(33,228)
Adjustment to annual required contribution	53,557
Annual OPEB cost	530,210
Contributions made	(887,258)
Change in net OPEB asset	(357,048)
Net OPEB asset - beginning of year	(664,560)
Net OPEB asset - end of year	$ (1,021,608)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
June 30, 2009	$ 509,881	178.2%	$ (398,633)
June 30, 2010	$ 509,981	154.5%	$ (664,560)
June 30, 2011	$ 509,981	174.0%	$ (1,021,608)

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of July 1, 2008, the most recent actuarial valuation date, the plan was 65 percent funded. The actuarial accrued liability for benefits was $8,202,275, and the actuarial value of assets was $5,299,464, resulting in an unfunded actuarial accrued liability (UAAL) of $2,902,811. The covered payroll (annual payroll of active employees covered by the Plan) was $14,899,544, and the ratio of the UAAL to the covered payroll was 19 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as Required Supplementary Information following this section, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 9 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 27 years.

11. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liabilities (Continued)

The District has received Federal and State funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect.

12. JOINT POWERS AGREEMENTS

Gavilan Joint Community College District participates in public entity risk pool joint power agreements (JPAs), with Bay Area Community College Districts Joint Powers Authority (BACCDJPA) and Northern California Community College Pool (NCCCP). The relationship between Gavilan Joint Community College District and the JPAs is such that they are not component units of Gavilan Joint Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. Gavilan Joint Community College District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are not subject to any approval other than that of the governing board.

Condensed financial information of the JPAs for the most recent year available is as follows:

	BACCDJPA June 30, 2011	NCCCP June 30, 2011
Total assets	$ 6,981,722	$ 3,007,284
Total liabilities	$ 1,798,548	$ 1,164,629
Net assets	$ 5,183,174	$ 1,842,655
Total revenues	$ 3,691,311	$ 3,612,417
Total expenses	$ 2,919,517	$ 3,536,102
Change in net assets	$ 771,794	$ 76,315

13. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and change in net assets for the year ended June 30, 2011.

Functional Classifications	Salaries	Employee Benefits	Supplies Materials and Other Operating Expenses and Services	Depreciation	Total
Instruction	$ 9,430,561	$ 2,206,852	$ 611,706		$ 12,249,119
Academic Support	3,435,048	1,168,858	781,800		5,385,706
Student Services	3,688,226	1,129,662	281,972		5,099,860
Operations and Maintenance of Plant	603,355	299,054	4,144,204		5,046,613
Institution Support	2,102,364	1,401,208	1,137,800		4,641,372
Community Services & Economic Development	795,080	200,451	504,418		1,499,949
Auxiliary Operations	609,411	164,912	373,618		1,147,941
Student Aid			8,830,657		8,830,657
Depreciation				$ 1,828,968	1,828,968
Physical Property and Related Acquisitions			105,286		105,286
	$ 20,664,045	$ 6,570,997	$ 16,771,461	$ 1,828,968	$ 45,835,471

14. CONSTRUCTION COMMITMENTS

As of June 30, 2011, the District has approximately $885,000 in outstanding commitments on construction contracts.

15. RESTATEMENT

During the year ended June 30 2011, it was determined that the Other Postemployment Benefits (OPEB) asset was overstated by $4,739,981 as of June 30, 2010. Accordingly, the OPEB asset and the Net Assets were decreased by this amount as of July 1, 2010 for the correction of this error.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2011

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/09	July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	65%	$ 14,777,481	20%
6/30/10	July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	65%	$ 15,450,194	19%
6/30/11	July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	65%	$ 14,899,544	19%

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULE

Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2011

The District was established on July 1, 1963. The District operations cover virtually all of San Benito County and the Southern part of Santa Clara County which includes the Morgan Hill Unified School District, the Gilroy Unified School District, and the San Benito County Joint Union High School District. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Western Association of Schools and Colleges.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2011, were composed of the following members:

BOARD OF TRUSTEES

Members	Office	Term Expires
Laura Perry, Esq.	President	2014
Kent Child	Vice President	2014
Mike Davenport.	Clerk	2012
Tom Breen, Esq.	Trustee	2012
Mark Dover	Trustee	2012
Walter Glines	Trustee	2014
Anthony Ruiz	Trustee	2014

DISTRICT ADMINISTRATION

Dr. Steven Kinsella
Superintendent/President

Dr. Kathleen Rose
Executive Vice President & Chief Instructional Officer

John Pruitt
Vice President of Student Services

Joseph Keeler
Vice President of Administrative Services

Sherrean Carr
Dean of Technical and Public Services

Frances Lozano
Dean of Liberal Arts and Sciences

Ron Hannon
Dean of Physical Education and Athletics

Frances Lopez
Associate Dean, Disabled Student Programs and Services

Rachel Perez
Associate Dean, Community Outreach and Grants Management

Anne Ratto
Associate Dean, Extended Opportunity Programs and Services/CalWORKs

Susan Cheu
Director, Business Services

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET ASSETS BY FUND

June 30, 2011

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Child Development Fund	Bond Interest and Redemption Fund	Capital Projects Fund
Assets							
Current assets:							
Cash, cash equivalents and investments	$ 1,232,532	$ 191,758	$ 17,805	$ 53,302	$ 14,902	$ 3,778,271	$ 224,619
Receivables, net	4,000,618	697,553			43,895	7,700	82,145
Due from other funds	333,211	245			16,934		11,269
Prepaid expenses	11,123						
Total current assets	5,577,484	889,556	17,805	53,302	75,731	3,785,971	318,033
Noncurrent assets:							
Restricted cash, cash equivalents and investments							
Net OPEB asset							
Depreciable capital assets, net							
Non-depreciable capital assets							
Total noncurrent assets							
Total assets	$ 5,577,484	$ 889,556	$ 17,805	$ 53,302	$ 75,731	$ 3,785,971	$ 318,033
Liabilities							
Current liabilities:							
Accounts payable	$ 497,434	$ 297,531		$ 2,759	$ 3,592		$ 8,095
Accrued payroll	526,182	86,570		90	984		
Accrued interest payable							
Deferred revenue	619,061	504,688					
Due to other funds	19,188	767			71,155		246,000
Compensated absences							
Long-term liabilities - current portion							
Total current liabilities	1,661,865	889,556		2,849	75,731		254,095
Noncurrent liabilities:							
Long-term liabilities - noncurrent portion							
Total liabilities	1,661,865	889,556		2,849	75,731		254,095
Net Assets							
Invested in capital assets, net of related debt							
Restricted for:							
Debt service						$ 3,785,971	
Capital projects							63,938
Educational programs			$ 17,805	50,453			
Other special purposes							
Unrestricted	3,915,619						
Total net assets	3,915,619		17,805	50,453		3,785,971	63,938
Total liabilities and net assets	$ 5,577,484	$ 889,556	$ 17,805	$ 53,302	$ 75,731	$ 3,785,971	$ 318,033

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET ASSETS BY FUND
(Continued)
June 30, 2011

	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Assets
Assets					
Current assets:					
Cash, cash equivalents and investments	$ 30,437,184	$ (59,553)	$ 35,890,820	$ (34,478,320)	$ 1,412,500
Receivables, net	31,875	356,526	5,220,312	13,071	5,233,383
Due from other funds			361,659	(361,659)	
Prepaid expenses			11,123	249,687	260,810
Total current assets	30,469,059	296,973	41,483,914	(34,577,221)	6,906,693
Noncurrent assets:					
Restricted cash, cash equivalents and investments				34,478,320	34,478,320
Net OPEB asset				1,021,608	1,021,608
Depreciable capital assets, net				54,266,584	54,266,584
Non-depreciable capital assets				30,911,053	30,911,053
Total noncurrent assets				120,677,565	120,677,565
Total assets	$ 30,469,059	$ 296,973	$ 41,483,914	$ 86,100,344	$ 127,584,258
Liabilities					
Current liabilities:					
Accounts payable	$ 482,193	$ 296,973	$ 1,588,577		$ 1,588,577
Accrued payroll			613,826		613,826
Accrued interest payable				$ 1,776,343	1,776,343
Deferred revenue			1,123,749		1,123,749
Due to other funds	11,478		348,588	(348,588)	
Compensated absences				592,624	592,624
Long-term liabilities - current portion				612,473	612,473
Total current liabilities	493,671	296,973	3,674,740	2,632,852	6,307,592
Noncurrent liabilities:					
Long-term liabilities - noncurrent portion				102,658,106	102,658,106
Total liabilities	493,671	296,973	3,674,740	105,290,958	108,965,698
Net Assets					
Invested in capital assets, net of related debt				13,053,025	13,053,025
Restricted for:					
Debt service			3,785,971		3,785,971
Capital projects	29,975,388		30,039,326	(29,975,388)	63,938
Educational programs			68,258		68,258
Other special purposes				1,021,608	1,021,608
Unrestricted			3,915,619	(3,289,859)	625,760
Total net assets	29,975,388		37,809,174	(19,190,614)	18,618,560
Total liabilities and net assets	$ 30,469,059	$ 296,973	$ 41,483,914	$ 86,100,344	$ 127,584,258

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS BY FUND

For the Year Ended June 30, 2011

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Child Development Fund	Bond Interest and Redemption Fund	Capital Projects Fund
Operating revenues:							
Tuition and fees	$ 1,362,445	$ 386,282					
Less: Scholarship discounts and allowance							
Net tuition and fees	1,362,445	386,282					
Grants and contracts, non-capital:							
Federal	23,088	2,776,853			$ 27,547		
State	1,025,929	2,555,835			260,407		
Local	223,774	641,135			164,232		
Total operating revenues	2,635,236	6,360,105			452,186		
Operating expenses:							
Salaries	15,547,644	4,568,424		$ 95,450	439,903		
Employee benefits	5,339,538	1,335,467		43,186	209,854		
Supplies, materials and other operating expenses and services	5,909,763	2,056,714	$ 1,611	24,518	28,006	$ 551	$ 140,408
Depreciation							
Total operating expenses	26,796,945	7,960,605	1,611	163,154	677,763	551	140,408
Operating loss	(24,161,709)	(1,600,500)	(1,611)	(163,154)	(225,577)	(551)	(140,408)
Non-operating revenues (expenses):							
State apportionment, non-capital	13,245,761	(720)					
Local property taxes	12,892,542						
State taxes and other revenues	113,927					37,335	
Pell grants							
Investment income - non-capital	62,134				577	6,411	509
Interest expense on capital asset related debt						(3,592,453)	
Other non-operating revenues (expenses)	359,547	77,210		124,913	9,437		
Debt reduction						(435,000)	
Interfund transfers out	(1,821,491)	(767)					
Interfund transfers in		1,524,777			215,563		
Total non-operating revenues (expenses)	24,852,420	1,600,500		124,913	225,577	(3,983,707)	509
Income (loss) before capital revenues	690,711		(1,611)	(38,241)		(3,984,258)	(139,899)
Capital revenues:							
Proceeds from issuance of debt						973,735	
State apportionment							71,085
Local property taxes and other revenues, capital						4,543,335	
Total capital revenues						5,517,070	71,085
Change in net assets	690,711		(1,611)	(38,241)		1,532,812	(68,814)
Net assets, July 1, 2010, as previously reported	3,224,908		19,416	88,694		2,253,159	132,752
Restatement							
Net assets, July 1, 2010, as restated	3,224,908		19,416	88,694		2,253,159	132,752
Net assets, June 30, 2011	$ 3,915,619	$ -	$ 17,805	$ 50,453	$ -	$ 3,785,971	$ 63,938

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS BY FUND
(Continued)
For the Year Ended June 30, 2011

	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Revenues, Expenses and Change in Net Assets
Operating revenues:					
Tuition and fees			$ 1,748,727	$ 2,796,196	$ 4,544,923
Less: Scholarship discounts and allowance				(2,796,196)	(2,796,196)
Net tuition and fees			1,748,727		1,748,727
Grants and contracts, non-capital:					
Federal		$ 2,103,253	4,930,741		4,930,741
State			3,842,171		3,842,171
Local			1,029,141		1,029,141
Total operating revenues		2,103,253	11,550,780		11,550,780
Operating expenses:					
Salaries			20,651,421	12,624	20,664,045
Employee benefits			6,928,045	(357,048)	6,570,997
Supplies, materials and other operating expenses and services	$ 4,093,616	8,447,021	20,702,208	(3,930,747)	16,771,461
Depreciation				1,828,968	1,828,968
Total operating expenses	4,093,616	8,447,021	48,281,674	(2,446,203)	45,835,471
Operating loss	(4,093,616)	(6,343,768)	(36,730,894)	2,446,203	(34,284,691)
Non-operating revenues (expenses):					
State apportionment, non-capital			13,245,041		13,245,041
Local property taxes			12,892,542		12,892,542
State taxes and other revenues			151,262		151,262
Pell grants		6,343,768	6,343,768		6,343,768
Investment income - non-capital	62,461		132,092		132,092
Interest expense on capital asset related debt			(3,592,453)	5,667	(3,586,786)
Other non-operating revenues (expenses)			571,107	505	571,612
Debt reduction			(435,000)	435,000	
Interfund transfers out			(1,822,258)	1,822,258	
Interfund transfers in			1,740,340	(1,740,340)	
Total non-operating revenues (expenses)	62,461	6,343,768	29,226,441	523,090	29,749,531
Income (loss) before capital revenues	(4,031,155)		(7,504,453)	2,969,293	(4,535,160)
Capital revenues:					
Proceeds from issuance of debt	28,000,000		28,973,735	(28,973,735)	
State apportionment			71,085		71,085
Local property taxes and other revenues, capital			4,543,335		4,543,335
Total capital revenues	28,000,000		33,588,155	(28,973,735)	4,614,420
Change in net assets	23,968,845		26,083,702	(26,004,442)	79,260
Net assets, July 1, 2010, as previously reported	6,006,543		11,725,472	11,553,809	23,279,281
Restatement				(4,739,981)	(4,739,981)
Net assets, July 1, 2010, as restated	6,006,543		11,725,472	6,813,828	18,539,300
Net assets, June 30, 2011	$ 29,975,388	$ -	$ 37,809,174	$ (19,190,614)	$ 18,618,560

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Direct Programs:		
TRIO Staff Training Program	84.042A	$ 255,580
Student Financial Aid Cluster:		
College Work Study Program	84.033	91,587
Pell Grant Program	84.063	6,365,699
SEOG	84.007	54,022
Academic Competitiveness Grant	84.375	74,308
Direct Loans	84.268	1,952,992
Subtotal Student Financial Aid Cluster		8,538,608
Higher Education - Institutional Aid Cluster		
Passed through California Department of Education:		
Higher Education - Title V	84.031	343,327
Higher Education - STEM	84.031C	1,028,767
Passed through Hartnell Community College:		
Title V - Higher Education	84.031S	305,550
Subtotal Higher Education - Institutional Aid Cluster		1,677,644
Passed through California Department of Education:		
Vocational and Applied Technology - Title IC	84.011	168,652
Vocational and Applied Technology - Tech Prep	84.048	69,708
State Vocational Rehabilitation Services	84.126A	178,747
ARRA ROP	84.394	39,175
ARRA Funding	84.394	23,088
Subtotal U.S. Department of Education		10,951,202
U.S. Department of Agriculture		
Passed through California Department of Education		
Child and Adult Care Food Program	10.558	27,547
U.S. Department of Health and Human Services		
Direct Programs		
Passed through Department of Education:		
GAIN	93.558	143,014
Temporary Assistance for Needy Families	93.714	47,080
Passed through County of Santa Clara:		
CalWorks: Stimulus	93.558	105,666
Subtotal U.S. Department of Health and Human Services		295,760
Total Federal Programs		$ 11,274,509

See accompanying notes to
supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2011

	Program Entitlements			Program Revenues				
	Prior Year Carry-forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue/ Accounts Payable	Total	Program Expend-itures
TANF		$ 94,178	$ 94,178	$ 55,016	$ 39,162		$ 94,178	$ 94,178
Financial Aid - BFAP		215,809	215,809	215,809		$ (47,671)	168,138	168,138
EOPS	$ 15,182	357,015	372,197	372,197			372,197	372,197
CARE		116,650	116,650	115,314	1,336		116,650	116,650
DSPS		452,241	452,241	452,241			452,241	452,241
Cal WORKs		219,306	219,306	152,532	66,774		219,306	219,306
Matriculation - Credit		230,865	230,865	230,865			230,865	230,865
Matriculation - Noncredit	8,464	9,673	18,137	18,137			18,137	18,137
DRC Carryover	43,916		43,916	43,916			43,916	43,916
Staff Diversity		4,785	4,785	4,785			4,785	4,785
HRDAC		12,771	12,771	12,771		(12,771)		
Basic Skills	199,869	122,293	322,162	322,162		(259,721)	62,441	62,441
Region 4		10,000	10,000	10,000			10,000	10,000
Cal Grant B & C		299,132	299,132	299,132			299,132	299,132
MESA	13,520	39,886	53,406	53,406		(5,754)	47,652	47,652
Economic Work Force Dev - Water Grant		179,031	179,031	179,031		(3,287)	175,744	175,744
CTC Apprenticeship		131,302	131,302	153,042		(21,740)	131,302	131,302
Capacity RN Grant		89,687	89,687	75,337	14,350		89,687	89,687
Breathe CA Grant		1,308	1,308		1,308		1,308	1,308
CTE Comm. Collaborative Project		17,438	17,438	13,183	4,255		17,438	17,438
Total State Programs	$ 280,951	$ 2,603,370	$ 2,884,321	$ 2,778,876	$ 127,185	$ (350,944)	$ 2,555,117	$ 2,555,117

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

Annual Attendance as of June 30, 2011

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2010 only)			
1. Noncredit	90		90
2. Credit	335		335
B. Summer Intersession (Summer 2011 - Prior to July 1, 2011)			
1. Noncredit	-		-
2. Credit	-		-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	3,528		3,528
b. Daily Census Contact Hours	39		39
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	617		617
b. Credit	693	(77)	616
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	217		217
b. Daily Census Contact Hours	27		27
c. Noncredit Independent Study/ Distance Education Courses	-		-
D. Total FTES	5,546	(77)	5,469
Supplemental Information:			
E. In-Service Training Courses (FTES)	343		343
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	78		78
b. Credit	801		801
<u>CCFS 320 Addendum</u>			
CDCP	-		-
Centers FTES			
a. Noncredit	-		-
b. Credit	-		-

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

There were no adjustments proposed to any funds of the District.

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Combining Statement of Net Assets by Fund and Statement of Revenues, Expenses and Change in Net Assets by Fund

These statements report the financial position and operational results of the individual funds of the District, and the reconciling adjusting entries under GASB Cod. Sec. Co5.101. The information is presented at the request of District management.

B - Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

C - Schedule of State Financial Awards

The accompanying Schedule of State Financial Awards includes State grant activity of the District and is presented on the accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

D - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionment of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

E - Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited basic financial statements.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the compliance of Gavilan Joint Community College District with the types of compliance requirements described in Section 400 of the California State Chancellor's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California for the year ended June 30, 2011. Compliance with the requirements of state laws and regulations is the responsibility of Gavilan Joint Community College District's management. Our responsibility is to express an opinion on Gavilan Joint Community College District's compliance based on our audit.

We conducted our audit of compliance 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Gavilan Joint Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gavilan Joint Community College District's compliance with those requirements.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the *Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM)*:

Salaries of Classroom Instructors (50 Percent Law)
Apportionment for Instructional Service Agreements/Contracts
State General Apportionment Funding System
Residency Determination for Credit Courses
Students Actively Enrolled
Concurrent Enrollment of K-12 Students in Community College Credit Courses
Gann Limit Calculation
Enrollment Fee
California Work Opportunity and Responsibility to Kids (CalWORKs)
Open Enrollment
Student Fees-Instructional Materials and Health Fees
Economic and Workforce Development (EWD)
Extended Opportunity Programs and Services (EOPS)
Disabled Student Programs and Services (DSPS)
Cooperative Agencies Resources for Education (CARE)
Preference for Veterans and Qualified Spouse for Federally Funded Qualified Training Programs
To Be Arranged Hours (TBA)

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS
(Continued)

As described in Findings 2011-02 and 2011-03 in the accompanying Schedule of Audit Findings and Questioned Costs, Gavilan Joint Community College District did not comply with requirements regarding Disabled Students Programs and Services recordkeeping or instructor contracts under Instructional Service Agreements. Compliance with such requirements is necessary, in our opinion, for Gavilan Joint Community College District to comply with state laws and regulations applicable to Disabled Students Programs and Services and to Instructional Service Agreements.

In our opinion, except for the noncompliance with Disabled Students Programs and Services and with Instructional Service Agreements identified in the Schedule of Audit Findings and Questioned Costs as Findings 2011-02 and 2011-03, Gavilan Joint Community College District complied with the state laws and regulations referred to above for the year ended June 30, 2011. Further, based on our audit, for items not tested, nothing came to our attention to indicate that Gavilan Joint Community College District had not complied with the state laws and regulations.

Gavilan Joint Community College District's responses to the findings identified in our audit are included in the Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, do not express an opinion on them.

This report is intended solely for the information and use of District management, the Board of Trustees, the California Community Colleges Chancellor's Office and the Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 16, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the basic business-type activities of Gavilan Joint Community College District as of and for the year ended June 30, 2011, which comprise Gavilan Joint Community College District's basic financial statements and have issued our report thereon dated December 16, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Gavilan Joint Community College District is responsible for establishing and maintaining effective internal control over financial reports. In planning and performing our audit, we considered Gavilan Joint Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gavilan Joint Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gavilan Joint Community College District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2011-01, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2011-01 to be a material weakness.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gavilan Joint Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Gavilan Joint Community College District's responses to the findings identified in our audit are included in the Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, do not express an opinion on them.

This report is intended solely for the information and use of the Board of Trustees, District management, and the Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 16, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

Compliance

We have audited Gavilan Joint Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gavilan Joint Community College District's major Federal programs for the year ended June 30, 2011. Gavilan Joint Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Gavilan Joint Community College District's management. Our responsibility is to express an opinion on Gavilan Joint Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits obtained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gavilan Joint Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gavilan Joint Community College District's compliance with those requirements.

In our opinion, Gavilan Joint Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control Over Compliance

Management of Gavilan Joint Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Gavilan Joint Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, District management, and the Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 16, 2011

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	___ No
Significant deficiency(ies) identified not considered to be material weakness(es)?	___ Yes	X None reported
Noncompliance material to financial statements noted?	___ Yes	X No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	___ Yes	X None reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	___ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.033, 84.063, 84.007, 84.375, 84.268	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	X Yes	___ No

STATE AWARDS

Internal control over state programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified not considered to be material weaknesses?	___ Yes	X None reported
Type of auditors' report issued on compliance for state programs:	Qualified - Disabled Students Programs and Services; Instructional Service Agreements	

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-01 MATERIAL WEAKNESS - OPEB ASSET

Criteria

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting.

Condition

The FY 08-09 audit was the first year of implementation of GASB 45 accounting for Other Postemployment Benefits (OPEB) for the District. In the FY 08-09 Audited Financial Statements, an asset for amounts in the irrevocable trust was recognized which had already been considered in the Actuary's calculation of the Unfunded Actuarial Accrued Liability.

Effect

The District's OPEB asset as presented in the Audited Financial Statements was overstated by $4,739,981. However, this overstatement does not affect the amount of the cash held in the irrevocable trust or the actuarial calculations also reported in the Audited Financial Statements. In addition, the current liability for retiree health benefits was not changed.

Cause

An error was made based on a misinterpretation of information provided by the actuary on a new OPEB reporting standard as required by GASB.

Fiscal Impact

The District's assets and net assets on the Statement of Net Assets were overstated by $4,739,981 at July 1, 2010. By reversing this entry the misstatement in the Audited Financial Statements is corrected. The financial information reported to the State on the Form 311 was correct, as presented, with no adjustments proposed at the fund level.

Recommendation

The District should enhance their procedures to interpret the information within its actuarial reports in order to properly record the OPEB asset.

Corrective Action Plan

The District has established procedures to ensure that the appropriate adjustments to the OPEB asset are made at the end of each fiscal year, based on the Actuarial Reports.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2011

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2011-02 STATE COMPLIANCE - DISABLED STUDENTS PROGRAMS AND SERVICES (DSPS)

Criteria

CCR, Title 5 Section 56022 states: "An up-to-date SEC (Student Educational Contract) for the current year, signed by the student and the DSPS professional staff person, should be available in the file of each student receiving services paid through the DSPS office."

Condition

The District did not obtain up-to-date signed SEC contracts for nine students served by DSPS.

Effect

The extrapolated error resulted in the District being out of compliance for 300 out of 852 students served by DSPS.

Cause

Adequate procedures are not in place to ensure up-to-date SEC contracts are obtained, signed by both the student and the DSPS professional and maintained in each student's file.

Fiscal Impact

Not determinable.

Recommendation

The District should develop and implement procedures to ensure compliance with DSPS recordkeeping requirements.

Corrective Action Plan

The District agrees with the finding. To address the finding the Disability Resource Center (DRC) has taken the following actions:

The DRC department conducted a file review on 100% of the DRC student files for the current year to ensure that Student Educational Contract (SEC) was signed by the student and the DRC faculty or coordinator.

Student file processes were re-evaluated and steps were taken to review all files for content of the essential components required by Title 5, Section 56022. The Student Educational Contract, Student Rights and Responsibilities, Educational Limitations and the Consent to Release Information were updated in alignment with the Gavilan Group best practices. Additionally, an Application for DSPS Services and case note reporting protocol was redesigned.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2011-02 STATE COMPLIANCE - DISABLED STUDENTS PROGRAMS AND SERVICES (DSPS) (Continued)

Corrective Action Plan (Continued)

All faculty and staff received procedural training on SEC's and student files record keeping practices at the DRC department meetings on November 3, 2011 and December 1, 2011. Annual trainings will continue to be provided.

2011-03 STATE COMPLIANCE - INSTRUCTIONAL SERVICE AGREEMENTS

Criteria

Contracted District Audit Manual, Section 423 states: "Where the instructor is not a paid employee of the district, the college or district has a written agreement or contract with each instructor conducting instruction. Such written agreement or contract shall state that the college or district has the primary right to control and direct the instructional activities of the instructor (CCR, Title 5, Section 58058)."

Condition

The District did not obtain agreements or contracts with individual instructors conducting instruction under two of the District's instructional service agreements.

Effect

The District is out of compliance for two instructional service agreements resulting in the overstatement of 76.91 FTES.

Cause

Adequate procedures are not in place to ensure all instructional service agreements comply with State requirements.

Fiscal Impact

Not applicable as the District re-submitted the 2010/2011 CCFS-320 on November 30, 2011.

Recommendation

The District should implement internal control procedures to monitor activities under all instructional service agreements. These procedures should ensure the District obtains instructor agreements or contracts which contain the appropriate language in accordance with State requirements.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2011-03 STATE COMPLIANCE - INSTRUCTIONAL SERVICE AGREEMENTS (Continued)

Corrective Action Plan

The District agrees with the finding and has re-submitted the CCFS-320 to exclude the disallowed FTES claimed under the two instructional service agreements. The District will implement policies and procedures to obtain instructor agreements or contracts with the appropriate language.

STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2011

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented
No findings were identified in the prior year.		