

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
Gilroy, California

FINANCIAL STATEMENTS
June 30, 2012

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

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GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Gavilan Joint Community College District (the "District") as of and for the year ended June 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary net assets of Gavilan Joint Community College District as of June 30, 2012, and the respective changes in financial position and, where applicable, its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2012, 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on page 3 through 8 and the Required Supplementary Information, such as the Schedule of Postemployment Benefits (OPEB) Funding Progress on page 33, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the District's financial statements that collectively comprise Gavilan Joint Community College District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information listed in the table of contents, except for the Combining Statement of Net Assets by Fund and the Combining Statement of Revenues, Expenses and Change in Net Assets by Fund, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other supplemental information listed in the table of contents, except for the Combining Statement of Net Assets by Fund and the Combining Statement of Revenues, Expenses and Change in Net Assets by Fund, are fairly stated, in all material respects, in relation to the financial statements as a whole. The Combining Statement of Net Assets by Fund and the Combining Statement of Revenues, Expenses and Change in Net Assets by Fund have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Crowe Horwath LLP

Sacramento, California
December 14, 2012

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, 2012. The report consists of three basic financial statements: the Statement of Net Assets, 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, 2012. 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.



Board of Trustees:

Tom Breen, Esq.
Laura A. Perry, Esq.

Kent Child
Tony Ruiz
A.J. Rodriguez, Student Trustee

Walt Glines
Jonathan Brusco

Mark Dover

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The fiscal year ending June 30, 2012, 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. Prior to issuance of this MD & A, the voters of California approved Proposition 30 that provides a \$0.25 increase in the state sales tax effective January 1, 2013 and higher tax rates for the highest wealth citizens of California. Combines these increases in State revenue will provide much needed relief in the form of additional revenue to community colleges. The District has made no assumption about receiving additional revenue in the upcoming future year so the results of operations for the period ended June 30, 2012 is likely to be the low point in the District's economic history that has caused reductions in services and fund balances to remain a stable entity.

The District has been concentrating on achieving maximum Full Time Equivalent Students (FTES) to obtain and stabilize growth revenue funds. In fiscal years 2006-2007 through fiscal year 2010-2011 there has been substantial growth. In fiscal year 2011-2012, the District had a workload reduction of \$1.8 million. This state-imposed workload reduction was caused by the economic situation of the state. In addition to the workload reduction of \$1.8 million, the District also experienced a one-time deficit coefficient of \$600,000 for a total reduction of \$2.4 million for the fiscal year. The District absorbed this \$2.4 million deficit using its reserves. At the end of the fiscal year 2011-2012 the college had 170 unfunded FTES.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$16.7 million and \$18.6 million for the fiscal years ended June 30, 2012 and June 30, 2011, respectively. Of this amount, \$0.7 million and \$0.6 million were unrestricted as of June 30, 2012 and 2011, respectively. 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 for the refunding of general obligation debt. Long-term liabilities and invested in capital assets net of related debt decreased \$1.0 million and \$2.0 million, respectively, from the prior year. This refinancing was pursued by the Board of Trustees to reduce total interest expense paid by property owners in future years. Additionally, the District has not entered into any Capital Appreciation Bonds with maturity dates of 30 or more years in the future. This Board of Trustees has maintained a conservative approach in its use of financing instruments and follows the

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

more conservative methodology of repaying loans over the anticipated life of the assets acquired or constructed with the proceeds of debt incurred which is generally not more than 25 to 30 years for the life of any debt issue.

Table 1

(Amounts in thousands)	Governmental Activities as of June 30 for the Fiscal Year		
	2012	2011	Change
Current and other assets	\$ 42,319	\$ 42,407	\$ (88)
Capital assets	85,412	85,177	235
Total Assets	127,731	127,584	147
Current liabilities	9,410	6,308	3,102
Long-term obligations	101,640	102,658	(1,018)
Total Liabilities	111,050	108,966	2,084
Net assets			
Invested in capital assets, net of related debt	11,014	13,053	(2,039)
Restricted	5,015	4,940	75
Unrestricted	652	625	27
Total Net Assets	\$ 16,681	\$ 18,618	\$ (1,937)

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 State apportionment revenue which decreased \$2.5 million from the prior year and supplies, materials, and other operating expenses and services which decreased \$1.3 million. In fiscal year 2011-2012, the District had a workload reduction of \$1.8 million and a one-time deficit coefficient of \$600,000 for a total apportionment reduction of \$2.4 million for the fiscal year. A lower level of activity in Measure E projects resulted in a reduction in supplies, materials, and operating expenses and services.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Table 2

Revenues

Operating revenues:

Tuition and fees	\$ 2,004	\$ 1,748	\$ 256
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Non-operating revenues:

State apportionment	10,811	13,316	(2,505)
Grants and contracts - Federal	11,436	11,275	161
Grants and contracts - State and local	4,668	4,871	(203)
Property taxes	18,053	17,436	617
State taxes and other revenue	152	151	1
Other revenues	2,498	704	1,794

Total Revenues	<u>49,622</u>	<u>49,501</u>	<u>121</u>
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Expenses

Salaries	20,999	20,664	335
Employee benefits	7,681	6,571	1,110
Supplies, materials and other operating expenses and services	6,527	7,825	(1,298)
Student Aid	9,435	8,946	489
Depreciation	1,996	1,829	167
Other non-operating expenses	4,922	3,587	1,335

Total Expenses	<u>51,560</u>	<u>49,422</u>	<u>2,138</u>
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Change in Net Assets	<u>\$ (1,938)</u>	<u>\$ 79</u>	<u>\$ (2,017)</u>
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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 \$52 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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 11, 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, 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 \$235 thousand from last year, predominately due to ongoing Measure E projects.

Table 3

(Amounts in thousands)	Fixed Assets for the Fiscal Year		
	2012	2011	Change
Land	\$ 27,998	\$ 27,841	\$ 157
Work in Progress	235	3,070	(2,835)
Land Improvements	876	876	-
Building and Improvements	69,857	65,245	4,612
Equipment and vehicles	5,622	5,326	296
Total	104,588	102,358	2,230
Less Accumulated Depreciation	(19,176)	(17,181)	(1,995)
Net Total	\$ 85,412	\$ 85,177	\$ 235

The District is in the construction phase for bond renovation projects. A few capital projects are planned to continue through the 2012-13 year.

Long-Term Obligations

At the end of this year, the District had \$103.5 million in long-term obligations outstanding. The long-term obligations consisted of:

Table 4

(Amounts in thousands)	Long-Term Obligations for the Fiscal Year		
	2012	2011	Changes
General obligation bonds	\$ 102,690	\$ 102,100	\$ 590
Premium	2,878	1,170	1,708
Deferred amount on refunding	(2,648)		(2,648)
Compensated absences	624	593	31
Total	\$ 103,544	\$ 103,863	\$ (319)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-12 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.

In fiscal year 2011-2012, the District activated the Expenditure Reduction Task Force to identify savings across the college. A substantial amount has been identified, most of it due to vacant employee positions that are not being filled. 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012-13 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

In fiscal year 2011-2012, the state budget included provisions that reduce workload (FTES) measures to the amount of state funding available. The reduction for the District was estimated to be (\$1,448,000). In addition, the fiscal year 2011-2012 Final Budget showed a deficit of (\$1,751,748) as projected expenditures exceed projected revenues. The District had adequate reserves to deal in the short term with a deficit.

For fiscal year 2012-2013, the District is reversing this deficit in part or in whole. At the start of the fiscal year, the District showed a deficit of approximately \$1.6 million but it appears that the District will not need to use as much of its reserves as was anticipated.

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, 2012

ASSETS

Current assets:

Cash, cash equivalents and investments (Note 2)	\$ 27,560
Receivables, net (Note 3)	8,481,793
Prepaid expenses	<u>502,642</u>
Total current assets	<u>9,011,995</u>

Noncurrent assets:

Restricted cash, cash equivalents and investments (Note 2)	31,855,879
Net OPEB asset (Note 9)	1,451,602
Depreciable capital assets, net (Note 4)	57,179,184
Non-depreciable capital assets (Note 4)	<u>28,232,393</u>
Total noncurrent assets	<u>118,719,058</u>

Total assets	<u><u>\$ 127,731,053</u></u>
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LIABILITIES

Current liabilities:

Deficit cash (Note 2)	\$ 1,454,284
Accounts payable	1,250,790
Accrued payroll	1,412,647
Accrued interest payable	2,121,900
Deferred revenue (Note 5)	1,267,307
Compensated absences (Note 6)	623,713
Long-term liabilities - current portion (Note 6)	<u>1,279,554</u>
Total current liabilities	<u>9,410,195</u>

Noncurrent liabilities:

Long-term liabilities - noncurrent portion (Note 6)	<u>101,640,218</u>
Total liabilities	<u>111,050,413</u>

Commitments and contingencies (Note 10)

NET ASSETS

Invested in capital assets, net of related debt	11,014,061
Restricted for:	
Debt service	3,488,536
Capital projects	54,749
Educational programs	20,084
Other special purposes	1,451,602
Unrestricted	<u>651,608</u>
Total net assets	<u>16,680,640</u>
Total liabilities and net assets	<u><u>\$ 127,731,053</u></u>

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2012

Operating revenues:	
Tuition and fees	\$ 4,282,836
Less: scholarship discounts and allowances	<u>(2,278,593)</u>
Net tuition and fees	<u>2,004,243</u>
Grants and contracts, non-capital:	
Federal	4,790,024
State	3,882,710
Local	<u>785,328</u>
Total operating revenues	<u>11,462,305</u>
Operating expenses (Note 12):	
Salaries	20,998,750
Employee benefits (Notes 8 and 9)	7,680,771
Supplies, materials, and other operating expenses and services	6,527,146
Student Aid	9,435,357
Depreciation (Note 4)	<u>1,995,568</u>
Total operating expenses	<u>46,637,592</u>
Loss from operations	<u>(35,175,287)</u>
Non-operating revenues (expenses):	
State apportionment, non-capital	10,776,786
Local property taxes (Note 7)	13,154,729
State taxes and other revenues	152,339
Pell grants	6,645,503
Investment income, noncapital	262,526
Interest expense on capital asset-related debt, net	(4,921,650)
Other non-operating revenues	<u>2,235,717</u>
Total non-operating revenues (expenses)	<u>28,305,950</u>
Loss before capital revenues	<u>(6,869,337)</u>
Capital revenues:	
State apportionment	33,589
Local property taxes and revenues (Note 7)	<u>4,897,828</u>
Total capital revenues	<u>4,931,417</u>
Change in net assets	(1,937,920)
Net assets, July 1, 2011	<u>18,618,560</u>
Net assets, June 30, 2012	<u><u>\$ 16,680,640</u></u>

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Tuition and fees	\$ 1,557,797
Federal grants and contracts	5,022,667
State grants and contracts	3,460,684
Local grants and contracts	1,302,164
Payments to suppliers	(6,861,037)
Payments to employees	(20,168,840)
Payments for benefits	(8,120,260)
Payments to students	(9,415,735)
Other payments	<u>(1,906,148)</u>
Net cash used in operating activities	<u>(35,128,708)</u>
Cash flows from noncapital financing activities:	
State appropriations	9,686,948
Local property taxes	13,154,729
State taxes and other apportionments	152,339
Pell grants	6,645,503
Other non-operating receipts (payments)	<u>3,690,001</u>
Net cash provided by noncapital financing activities	<u>33,329,520</u>
Cash flows from capital and related financing activities:	
State apportionment for capital purposes	33,589
Local property taxes and other revenues for capital purposes	4,897,828
Purchase of capital assets	(2,229,508)
Premium and issuance costs on debt issuance, net	(36,535)
Principal paid on capital debt	(560,000)
Interest paid on capital debt, net	<u>(4,576,093)</u>
Net cash used in capital and related financing activities	<u>(2,470,719)</u>
Cash flows provided by investing activities:	
Interest income on investments	<u>262,526</u>
Net decrease in cash, cash equivalents and investments	(4,007,381)
Cash, cash equivalents and investments, July 1, 2011	<u>35,890,820</u>
Cash, cash equivalents and investments, June 30, 2012	<u>\$ 31,883,439</u>

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2012

Reconciliation of loss from operations to net cash used in operating activities:

Loss from operations	\$ (35,175,287)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	1,995,568
Changes in assets and liabilities:	
Receivables, net	(2,158,572)
Prepaid expenses	(426,098)
Accounts payable	(337,787)
Deferred revenue	143,558
Accrued payroll	798,821
Compensated absences	<u>31,089</u>
Net cash used in operating activities	<u>\$ (35,128,708)</u>

Noncash capital and financing activities:

The District issued general obligation refunding bonds to refund existing debt outstanding. The proceeds from the refunding issuance totaled \$25,550,547 and were deposited into an irrevocable trust for the future defeasance of \$22,770,000 of previously outstanding general obligation bonds.

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund	Student Center Agency Fund
ASSETS			
Cash, cash equivalents and investments (Note 2)	\$ 358,697	\$ -	\$ 3,481
Restricted cash, cash equivalents and investments (Note 2)	-	7,175,222	-
Receivables	37,742	742,565	34
Due from other funds	<u>-</u>	<u>-</u>	<u>10,019</u>
Total assets	<u><u>\$ 396,439</u></u>	<u><u>\$ 7,917,787</u></u>	<u><u>\$ 13,534</u></u>
LIABILITIES			
Accounts payable	\$ 7,984	\$ 2,110,978	\$ 2,628
Amounts held in trust for others	<u>-</u>	<u>-</u>	<u>10,906</u>
Total liabilities	<u>7,984</u>	<u>2,110,978</u>	<u>13,534</u>
NET ASSETS			
Net assets held in trust	388,455	-	-
Net assets held in trust for other postemployment benefits	<u>-</u>	<u>5,806,809</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$ 396,439</u></u>	<u><u>\$ 7,917,787</u></u>	<u><u>\$ 13,534</u></u>

See accompanying notes to financial statements.

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS**

For the Year Ended June 30, 2012

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund
Additions:		
Unrealized and realized gains, net	\$ -	\$ 331,366
Employer contributions	-	917,021
ASB fees and sales	76,094	-
Donations and fundraising	83,373	-
Other local receipts	<u>30,326</u>	<u>-</u>
Total additions	<u>189,793</u>	<u>1,248,387</u>
Deductions:		
Supplies and services	81,878	-
Operating expenses	50,639	2,111,478
Capital outlay	7,023	-
Scholarships	<u>5,836</u>	<u>-</u>
Total deductions	<u>145,376</u>	<u>2,111,478</u>
Change in net assets	44,417	(863,091)
Net assets held in trust:		
Net assets, July 1, 2011	<u>344,038</u>	<u>6,669,900</u>
Net assets, June 30, 2012	<u>\$ 388,455</u>	<u>\$ 5,806,809</u>

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC 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. 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 District has no component units.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged 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.

Fiduciary funds for which the District acts only as an agent are not included in the business-type activities of the District. These funds are reported in the Statement of Fiduciary Net Assets and the Statement of Change in Fiduciary Net Assets at the fund financial statement level.

The District records revenue when earned and expenses when a liability is incurred regardless of the timing of the related cash flows. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and are stated at fair value.

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.

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 \$64,405 for the year ended June 30, 2012.

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.

The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets. Interest capitalized totaled \$73,631 during the year ended June 30, 2012.

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Prior year corrections due to a recalculation will be recorded in the year computed by the state. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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 \$478,666 (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. Co5.101 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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, 2012, consisted of the following:

	<u>District</u>	<u>Fiduciary</u>
Pooled Fund:		
Cash in County Treasury	\$ 14,537	\$ 3,481
Deposits:		
Cash on hand and in banks	27,560	358,697
Funds with Fiscal Agents	31,841,342	-
Funds with Trust Investee	<u>-</u>	<u>7,175,222</u>
Total cash, cash equivalents and investments	<u>31,883,439</u>	<u>7,537,400</u>
Less: restricted cash, cash equivalents and investments:		
Funds with Fiscal Agents	31,841,342	-
Funds with Trust Investee	-	7,175,222
Other restricted	<u>14,537</u>	<u>-</u>
Total restricted cash, cash equivalents and investments	<u>31,855,879</u>	<u>7,175,222</u>
Net cash, cash equivalents and investments	<u>\$ 27,560</u>	<u>\$ 362,178</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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, 2012, the carrying amount of the District's cash on hand and in banks for the primary governmental entity was \$27,560 and the bank balance was \$53,602 all of which was insured by the FDIC. Cash on hand and in banks for the fiduciary funds had a carrying amount and a bank balance of \$358,697 all of which was insured by the FDIC.

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, 2012, 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 and the repayment of long-term liabilities.

Cash with Trust Investee

Cash with Trust Investee represents amounts held by a third party investee in an irrevocable trust in the District's name to fund its obligation for other postemployment benefits.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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.

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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% - 40%	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%
Collateralized Bank Deposits	5 years	None	None
Bank / Time Deposits	5 years	None	None
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, 2012, 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, 2012, the District had no concentration of credit risk.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3. RECEIVABLES

Receivables at June 30, 2012 are summarized as follows:

Federal	\$ 708,958
State	4,817,857
Local and other	<u>3,019,383</u>
	<u>8,546,198</u>
Less allowance for doubtful accounts	<u>(64,405)</u>
	<u><u>\$ 8,481,793</u></u>

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2011	Additions	Deductions	Transfers	Balance June 30, 2012
Non-depreciable:					
Land	\$ 27,840,730	\$ 157,167	\$ -	\$ -	\$ 27,997,897
Construction in progress	3,070,323	1,601,624	-	(4,437,451)	234,496
Depreciable:					
Land improvements	876,349	-	-	-	876,349
Buildings and building improvements	65,245,186	239,928	-	4,372,304	69,857,418
Furniture and equipment	5,060,228	230,789	-	65,147	5,356,164
Vehicles	<u>265,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,431</u>
Total	<u>102,358,247</u>	<u>2,229,508</u>	<u>-</u>	<u>-</u>	<u>104,587,755</u>
Less accumulated depreciation:					
Land improvements	(655,510)	(16,486)	-	-	(671,996)
Buildings and building improvements	(12,873,498)	(1,436,084)	-	-	(14,309,582)
Furniture and equipment	(3,424,094)	(532,811)	-	-	(3,956,905)
Vehicles	<u>(227,508)</u>	<u>(10,187)</u>	<u>-</u>	<u>-</u>	<u>(237,695)</u>
Total	<u>(17,180,610)</u>	<u>(1,995,568)</u>	<u>-</u>	<u>-</u>	<u>(19,176,178)</u>
Capital assets, net	<u>\$ 85,177,637</u>	<u>\$ 233,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,411,577</u>

5. DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

Deferred Federal and State revenue	\$ 290,525
Deferred local revenue	295,094
Deferred tuition and other student fees	<u>681,688</u>
Total deferred revenue	<u><u>\$ 1,267,307</u></u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES

General Obligation Bonds

In June 2004, the District issued \$29,170,000 of General Obligation Bonds 2004 Series A. The Bonds were issued to finance the construction and modernization of District facilities and to refund certain lease obligations. In March 2012, the District refunded \$22,770,000 of the 2004 Series A General Obligation Bonds through the issuance of the 2012 Series A and Series B General Obligation Refunding Bonds. The remaining unfunded 2004 Series A General Obligation Bonds mature through August 2028 and bear interest at rates ranging from 2.00% to 5.38%.

Net bond premium of \$132,611 (net of accumulated amortization) was capitalized and is amortized over the term of the Bond.

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 415,000	\$ 85,506	\$ 500,506
2014	500,000	67,206	567,206
2015	590,000	45,406	635,406
2016	20,000	33,181	53,181
2017	20,000	32,319	52,319
2018-2022	160,000	141,062	301,062
2023-2027	280,000	84,709	364,709
2028-2029	<u>160,000</u>	<u>9,076</u>	<u>169,076</u>
	<u>\$ 2,145,000</u>	<u>\$ 498,465</u>	<u>\$ 2,643,465</u>

In December 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, to finance 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 \$72,257 (net of accumulated amortization) was capitalized and is amortized over the term of the Bond.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 300,000	\$ 2,267,844	\$ 2,567,844
2014	385,000	2,254,144	2,639,144
2015	470,000	2,237,044	2,707,044
2016	560,000	2,216,444	2,776,444
2017	660,000	2,192,044	2,852,044
2018-2022	5,065,000	10,410,620	15,475,620
2023-2027	8,830,000	8,777,005	17,607,005
2028-2032	24,615,000	5,412,489	30,027,489
2033	<u>7,740,000</u>	<u>183,825</u>	<u>7,923,825</u>
	<u>\$ 48,625,000</u>	<u>\$ 35,951,459</u>	<u>\$ 84,576,459</u>

In May 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, to finance 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 \$912,877 (net of accumulated amortization) was capitalized and is amortized over the term of the Bond.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. 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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 255,000	\$ 1,543,725	\$ 1,798,725
2014		1,541,175	1,541,175
2015	10,000	1,541,025	1,551,025
2016	50,000	1,540,125	1,590,125
2017	85,000	1,537,675	1,622,675
2018-2022	1,060,000	7,591,875	8,651,875
2023-2027	2,405,000	7,215,200	9,620,200
2028-2032	4,335,000	6,338,613	10,673,613
2033-2036	<u>19,800,000</u>	<u>2,752,813</u>	<u>22,552,813</u>
	<u>\$ 28,000,000</u>	<u>\$ 31,602,226</u>	<u>\$ 59,602,226</u>

In April 2012, the District issued \$12,120,000 of General Obligation Refunding Bonds 2012 Series A and \$11,800,000 of General Obligation Refunding Bonds 2012 Series B. The Bonds were issued to partially refund the General Obligations Bonds 2004 Series A and to pay the costs of issuance associated with the Bonds. The 2012 Series A and Series B Refunding Bonds mature through August 2024 and August 2029, respectively, and bear interest at rates ranging from 2.00% to 5.00%.

Net bond premium of \$1,892,213 was capitalized and will be amortized over the term of the Bond.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,647,936. The difference, reported as a deduction from bonds payable, is charged to operations through June 30, 2027 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments by \$2.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2.0 million.

There was no accrued interest or sinking fund resources related to the new debt proceeds.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The following is a schedule of the future payments for the 2012 Series A General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 140,000	\$ 172,657	\$ 312,657
2014		523,950	523,950
2015	20,000	523,950	543,950
2016	690,000	523,950	1,213,950
2017	605,000	509,750	1,114,750
2018-2022	5,525,000	2,134,800	7,659,800
2023-2027	<u>5,140,000</u>	<u>529,750</u>	<u>5,669,750</u>
	<u>\$ 12,120,000</u>	<u>\$ 4,918,807</u>	<u>\$ 17,038,807</u>

The following is a schedule of the future payments for the 2012 Series B General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 165,000	\$ 112,271	\$ 277,271
2014	120,000	392,950	512,950
2015	100,000	390,550	490,550
2016	100,000	388,550	488,550
2017	280,000	386,550	666,550
2018-2022	535,000	1,880,750	2,415,750
2023-2027	5,030,000	1,728,938	6,758,938
2028-2030	<u>5,470,000</u>	<u>297,950</u>	<u>5,767,950</u>
	<u>\$ 11,800,000</u>	<u>\$ 5,578,509</u>	<u>\$ 17,378,509</u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds	\$ 102,100,000	\$ 23,920,000	\$ (23,330,000)	\$ 102,690,000	\$ 1,275,000
Premiums	1,170,579	1,892,213	(185,084)	2,877,708	122,222
Deferred Amount on Refunding	-	(2,647,936)	-	(2,647,936)	(117,668)
Compensated absences	<u>592,624</u>	<u>39,199</u>	<u>(8,110)</u>	<u>623,713</u>	<u>623,713</u>
	<u>\$ 103,863,203</u>	<u>\$ 23,203,476</u>	<u>\$ (23,523,194)</u>	<u>\$ 103,543,485</u>	<u>\$ 1,903,267</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. 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.

8. 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

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 2011-2012 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%.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2010, 2011 and 2012 were \$931,744, \$914,469 and \$924,498, respectively, and equals 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to 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

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. 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 2011-2012 was 10.923% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2011 and 2012 were \$754,958, \$814,143 and \$855,271, respectively, and equaled 100 percent of the required contributions for each year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. 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 90 retirees currently receiving benefits and approximately 217 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	\$ 452,878
Interest on net OPEB asset	(51,080)
Adjustment to annual required contribution	<u>85,229</u>
Annual OPEB cost	487,027
Contributions made	<u>(917,021)</u>
Change in net OPEB asset	(429,994)
Net OPEB asset - beginning of year	<u>(1,021,608)</u>
Net OPEB asset - end of year	<u><u>\$ (1,451,602)</u></u>

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, 2012 and preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
June 30, 2010	\$ 529,198	149.4%	\$ (664,560)
June 30, 2011	\$ 530,210	167.3%	\$ (1,021,608)
June 30, 2012	\$ 487,027	188.3%	\$ (1,451,602)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of July 1, 2011, the most recent actuarial valuation date, the plan was 77 percent funded. The actuarial accrued liability for benefits was \$8,643,029, and the actuarial value of assets was \$6,669,900, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,973,129. For the year ended June 30, 2012, covered payroll (annual payroll of active employees covered by the Plan) was \$15,075,427, and the ratio of the UAAL to the covered payroll was 13 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, 2011, actuarial valuation, the projected unit credit 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 ranging from 5 of 7 percent. The actuarial value of assets was determined using a market value basis. The UAAL is being amortized on a level-dollar method on a closed basis. The remaining amortization period at June 30, 2012, was 26 years.

10. 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

10. 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.

11. 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:

	<u>BACCDJPA</u> <u>June 30, 2011</u>	<u>NCCCP</u> <u>June 30, 2011</u>
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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)**

12. 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, 2012.

<u>Functional Classifications</u>	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Supplies Materials and Other Operating Expenses and Services</u>	<u>Student Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 9,719,889	\$ 2,154,229	\$ 702,417	\$ -	\$ -	\$ 12,576,535
Academic Support	3,547,020	1,372,999	546,787	-	-	5,466,806
Student Services	3,430,492	1,251,398	235,387	-	-	4,917,277
Operations and Maintenance of Plant	642,904	352,893	2,720,732	-	-	3,716,529
Institution Support	2,159,269	2,121,425	1,409,221	-	-	5,689,915
Community Services & Economic Development	658,180	182,261	416,613	-	-	1,257,054
Auxiliary Operations	840,996	245,566	457,934	-	-	1,544,496
Student Aid	-	-	-	9,435,357	-	9,435,357
Depreciation	-	-	-	-	1,995,568	1,995,568
Physical Property and Related Acquisitions	-	-	38,055	-	-	38,055
	<u>\$ 20,998,750</u>	<u>\$ 7,680,771</u>	<u>\$ 6,527,146</u>	<u>\$ 9,435,357</u>	<u>\$ 1,995,568</u>	<u>\$ 46,637,592</u>

13. CONSTRUCTION COMMITMENTS

As of June 30, 2012, the District has no outstanding commitments on construction contracts.

14. SUBSEQUENT EVENTS

On August 16, 2012, the District issued \$5,000,000 of Tax Revenue Anticipation Notes, maturing on June 25, 2013, with interest at 2.5%, to provide for cash flow deficits during the fiscal year. The notes are a general obligation of the District and are payable solely from revenues and cash receipts generated by the District during the fiscal year ending June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2012

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%
6/30/12	July 1, 2011	\$ 6,669,900	\$ 8,643,029	\$ 1,973,129	77%	\$ 15,075,427	13%

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
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, 2012

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, 2012, were composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Laura Perry, Esq.	President	2014
Kent Child	Vice President	2014
Jonathan Brusco	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, Department of Kinesiology 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, 2012

(UNAUDITED)

	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	\$ (1,460,216)	\$ 144,332	\$ 12,499	\$ 9,168	\$ 12,101	\$ 3,481,871	\$ (336)
Receivables, net	7,285,690	732,166	-	400	36,567	6,665	115,429
Due from other funds	288,749	2,952	-	-	154,917	-	-
Prepaid expenses	<u>6,639</u>	<u>588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>6,120,862</u>	<u>880,038</u>	<u>12,499</u>	<u>9,568</u>	<u>203,585</u>	<u>3,488,536</u>	<u>115,093</u>
Noncurrent assets:							
Restricted cash, cash equivalents and investments	-	-	-	-	-	-	-
Net OPEB asset	-	-	-	-	-	-	-
Depreciable capital assets, net	-	-	-	-	-	-	-
Non-depreciable capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 6,120,862</u>	<u>\$ 880,038</u>	<u>\$ 12,499</u>	<u>\$ 9,568</u>	<u>\$ 203,585</u>	<u>\$ 3,488,536</u>	<u>\$ 115,093</u>
Liabilities							
Current liabilities:							
Deficit cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	667,316	359,468	-	1,111	1,280	-	14,344
Accrued payroll	1,306,492	100,851	-	872	4,432	-	-
Accrued interest payable	-	-	-	-	-	-	-
Deferred revenue	847,597	419,710	-	-	-	-	-
Due to other funds	167,879	9	-	-	197,873	-	46,000
Compensated absences	-	-	-	-	-	-	-
Long-term liabilities - current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>2,989,284</u>	<u>880,038</u>	<u>-</u>	<u>1,983</u>	<u>203,585</u>	<u>-</u>	<u>60,344</u>
Noncurrent liabilities:							
Long-term liabilities - noncurrent portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,989,284</u>	<u>880,038</u>	<u>-</u>	<u>1,983</u>	<u>203,585</u>	<u>-</u>	<u>60,344</u>
Net Assets							
Invested in capital assets, net of related debt	-	-	-	-	-	-	-
Restricted for:							
Debt service	-	-	-	-	-	3,488,536	-
Capital projects	-	-	-	-	-	-	54,749
Educational programs	-	-	12,499	7,585	-	-	-
Other special purposes	-	-	-	-	-	-	-
Unrestricted	<u>3,131,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>3,131,578</u>	<u>-</u>	<u>12,499</u>	<u>7,585</u>	<u>-</u>	<u>3,488,536</u>	<u>54,749</u>
Total liabilities and net assets	<u>\$ 6,120,862</u>	<u>\$ 880,038</u>	<u>\$ 12,499</u>	<u>\$ 9,568</u>	<u>\$ 203,585</u>	<u>\$ 3,488,536</u>	<u>\$ 115,093</u>

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF NET ASSETS BY FUND
(Continued)
June 30, 2012

(UNAUDITED)

	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	\$ 28,359,471	\$ (129,735)	\$ 30,429,155	\$ (30,401,595)	\$ 27,560
Receivables, net	44,460	259,529	8,480,906	887	8,481,793
Due from other funds	-	-	446,618	(446,618)	-
Prepaid expenses	-	-	7,227	495,415	502,642
	<u>28,403,931</u>	<u>129,794</u>	<u>39,363,906</u>	<u>(30,351,911)</u>	<u>9,011,995</u>
Total current assets					
Noncurrent assets:					
Restricted cash, cash equivalents and investments	-	-	-	31,855,879	31,855,879
Net OPEB asset	-	-	-	1,451,602	1,451,602
Depreciable capital assets, net	-	-	-	57,179,184	57,179,184
Non-depreciable capital assets	-	-	-	28,232,393	28,232,393
	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,719,058</u>	<u>118,719,058</u>
Total noncurrent assets					
Total assets	<u>\$ 28,403,931</u>	<u>\$ 129,794</u>	<u>\$ 39,363,906</u>	<u>\$ 88,367,147</u>	<u>\$ 127,731,053</u>
Liabilities					
Current liabilities:					
Deficit cash	\$ -	\$ -	\$ -	\$ 1,454,284	\$ 1,454,284
Accounts payable	77,477	129,794	1,250,790	-	1,250,790
Accrued payroll	-	-	1,412,647	-	1,412,647
Accrued interest payable	-	-	-	2,121,900	2,121,900
Deferred revenue	-	-	1,267,307	-	1,267,307
Due to other funds	33,970	-	445,731	(445,731)	-
Compensated absences	-	-	-	623,713	623,713
Long-term liabilities - current portion	-	-	-	1,279,554	1,279,554
	<u>111,447</u>	<u>129,794</u>	<u>4,376,475</u>	<u>5,033,720</u>	<u>9,410,195</u>
Total current liabilities					
Noncurrent liabilities:					
Long-term liabilities - noncurrent portion	-	-	-	101,640,218	101,640,218
	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,640,218</u>	<u>101,640,218</u>
Total liabilities					
Total liabilities	<u>111,447</u>	<u>129,794</u>	<u>4,376,475</u>	<u>106,673,938</u>	<u>111,050,413</u>
Net Assets					
Invested in capital assets, net of related debt	-	-	-	11,014,061	11,014,061
Restricted for:					
Debt service	-	-	3,488,536	-	3,488,536
Capital projects	28,292,484	-	28,347,233	(28,292,484)	54,749
Educational programs	-	-	20,084	-	20,084
Other special purposes	-	-	-	1,451,602	1,451,602
Unrestricted	-	-	3,131,578	(2,479,970)	651,608
	<u>28,292,484</u>	<u>-</u>	<u>34,987,431</u>	<u>(18,306,791)</u>	<u>16,680,640</u>
Total net assets					
Total liabilities and net assets	<u>\$ 28,403,931</u>	<u>\$ 129,794</u>	<u>\$ 39,363,906</u>	<u>\$ 88,367,147</u>	<u>\$ 127,731,053</u>

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, 2012

(UNAUDITED)

	<u>Unrestricted General Fund</u>	<u>Restricted General Fund</u>	<u>Restricted Instructional Equipment Fund</u>	<u>Restricted Parking Fund</u>	<u>Child Development Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Capital Projects Fund</u>
Operating revenues:							
Tuition and fees	\$ 1,677,123	\$ 327,120	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Scholarship discounts and allowance	-	-	-	-	-	-	-
Net tuition and fees	<u>1,677,123</u>	<u>327,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grants and contracts, non-capital:							
Federal	-	2,432,429	-	-	23,428	-	-
State	1,096,258	2,611,928	-	-	174,524	-	-
Local	233,111	441,952	-	-	110,265	-	-
Total operating revenues	<u>3,006,492</u>	<u>5,813,429</u>	<u>-</u>	<u>-</u>	<u>308,217</u>	<u>-</u>	<u>-</u>
Operating expenses:							
Salaries	16,046,487	4,369,340	-	94,893	456,941	-	-
Employee benefits	6,425,716	1,419,075	-	44,926	221,048	-	-
Supplies, materials and other operating expenses and services	5,613,311	1,278,172	5,306	17,797	27,102	264,105	44,065
Student Aid	-	467,546	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Total operating expenses	<u>28,085,514</u>	<u>7,534,133</u>	<u>5,306</u>	<u>157,616</u>	<u>705,091</u>	<u>264,105</u>	<u>44,065</u>
(Loss) income from operations	<u>(25,079,022)</u>	<u>(1,720,704)</u>	<u>(5,306)</u>	<u>(157,616)</u>	<u>(396,874)</u>	<u>(264,105)</u>	<u>(44,065)</u>
Non-operating revenues (expenses):							
State apportionment, non-capital	10,656,307	120,479	-	-	-	-	-
Local property taxes	13,154,729	-	-	-	-	-	-
State taxes and other revenues	110,510	-	-	-	-	41,829	-
Pell grants	-	-	-	-	-	-	-
Investment income - non-capital	44,629	-	-	-	284	11,606	1,287
Interest expense on capital asset related debt	-	-	-	-	-	(7,466,806)	-
Other non-operating revenues (expenses)	2,372,755	37,391	-	114,748	1,888	-	-
Debt reduction	-	-	-	-	-	(560,000)	-
Other financing sources (uses)	-	-	-	-	-	3,042,213	-
Interfund transfers out	(2,043,949)	(116)	-	-	-	-	-
Interfund transfers in	-	1,562,950	-	-	394,702	-	-
Total non-operating revenues (expenses)	<u>24,294,981</u>	<u>1,720,704</u>	<u>-</u>	<u>114,748</u>	<u>396,874</u>	<u>(4,931,158)</u>	<u>1,287</u>
(Loss) income before capital revenues	<u>(784,041)</u>	<u>-</u>	<u>(5,306)</u>	<u>(42,868)</u>	<u>-</u>	<u>(5,195,263)</u>	<u>(42,778)</u>
Capital revenues:							
State apportionment	-	-	-	-	-	-	33,589
Local property taxes and other revenues, capital	-	-	-	-	-	4,897,828	-
Total capital revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,897,828</u>	<u>33,589</u>
Change in net assets	<u>(784,041)</u>	<u>-</u>	<u>(5,306)</u>	<u>(42,868)</u>	<u>-</u>	<u>(297,435)</u>	<u>(9,189)</u>
Net assets, July 1, 2011	<u>3,915,619</u>	<u>-</u>	<u>17,805</u>	<u>50,453</u>	<u>-</u>	<u>3,785,971</u>	<u>63,938</u>
Net assets, June 30, 2012	<u>\$ 3,131,578</u>	<u>\$ -</u>	<u>\$ 12,499</u>	<u>\$ 7,585</u>	<u>\$ -</u>	<u>\$ 3,488,536</u>	<u>\$ 54,749</u>

(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, 2012

(UNAUDITED)

	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	\$ -	\$ -	\$ 2,004,243	\$ 2,278,593	\$ 4,282,836
Less: Scholarship discounts and allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,278,593)</u>	<u>(2,278,593)</u>
Net tuition and fees	<u>-</u>	<u>-</u>	<u>2,004,243</u>	<u>-</u>	<u>2,004,243</u>
Grants and contracts, non-capital:					
Federal	-	2,334,167	4,790,024	-	4,790,024
State	-	-	3,882,710	-	3,882,710
Local	<u>-</u>	<u>-</u>	<u>785,328</u>	<u>-</u>	<u>785,328</u>
Total operating revenues	<u>-</u>	<u>2,334,167</u>	<u>11,462,305</u>	<u>-</u>	<u>11,462,305</u>
Operating expenses:					
Salaries	-	-	20,967,661	31,089	20,998,750
Employee benefits	-	-	8,110,765	(429,994)	7,680,771
Supplies, materials and other operating expenses and services	1,596,559	11,859	8,858,276	(2,331,130)	6,527,146
Student Aid	-	8,967,811	9,435,357	-	9,435,357
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,995,568</u>	<u>1,995,568</u>
Total operating expenses	<u>1,596,559</u>	<u>8,979,670</u>	<u>47,372,059</u>	<u>(734,467)</u>	<u>46,637,592</u>
(Loss) income from operations	<u>(1,596,559)</u>	<u>(6,645,503)</u>	<u>(35,909,754)</u>	<u>734,467</u>	<u>(35,175,287)</u>
Non-operating revenues (expenses):					
State apportionment, non-capital	-	-	10,776,786	-	10,776,786
Local property taxes	-	-	13,154,729	-	13,154,729
State taxes and other revenues	-	-	152,339	-	152,339
Pell grants	-	6,645,503	6,645,503	-	6,645,503
Investment income - non-capital	204,720	-	262,526	-	262,526
Interest expense on capital asset related debt	-	-	(7,466,806)	2,545,156	(4,921,650)
Other non-operating revenues (expenses)	(291,065)	-	2,235,717	-	2,235,717
Debt reduction	-	-	(560,000)	560,000	-
Other financing sources (uses)	-	-	3,042,213	(3,042,213)	-
Interfund transfers out	-	-	(2,044,065)	2,044,065	-
Interfund transfers in	<u>-</u>	<u>-</u>	<u>1,957,652</u>	<u>(1,957,652)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(86,345)</u>	<u>6,645,503</u>	<u>28,156,594</u>	<u>149,356</u>	<u>28,305,950</u>
(Loss) income before capital revenues	<u>(1,682,904)</u>	<u>-</u>	<u>(7,753,160)</u>	<u>883,823</u>	<u>(6,869,337)</u>
Capital revenues:					
State apportionment	-	-	33,589	-	33,589
Local property taxes and other revenues, capital	<u>-</u>	<u>-</u>	<u>4,897,828</u>	<u>-</u>	<u>4,897,828</u>
Total capital revenues	<u>-</u>	<u>-</u>	<u>4,931,417</u>	<u>-</u>	<u>4,931,417</u>
Change in net assets	<u>(1,682,904)</u>	<u>-</u>	<u>(2,821,743)</u>	<u>883,823</u>	<u>(1,937,920)</u>
Net assets, July 1, 2011	<u>29,975,388</u>	<u>-</u>	<u>37,809,174</u>	<u>(19,190,614)</u>	<u>18,618,560</u>
Net assets, June 30, 2012	<u>\$ 28,292,484</u>	<u>\$ -</u>	<u>\$ 34,987,431</u>	<u>\$ (18,306,791)</u>	<u>\$ 16,680,640</u>

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>		
<i>Direct Programs:</i>		
TRIO Staff Training Program	84.042A	\$ 256,359
<i>Student Financial Aid Cluster:</i>		
College Work Study Program	84.033	77,462
Pell Grant Program	84.063	6,645,503
SEOG	84.007	61,350
Direct Loans	84.268	<u>2,272,819</u>
Subtotal Student Financial Aid Cluster		<u>9,057,134</u>
<i>Higher Education - Institutional Aid Cluster</i>		
<i>Passed through California Department of Education:</i>		
Higher Education - Title V	84.031	776,706
Higher Education - STEM	84.031C	518,502
<i>Passed through Hartnell Community College:</i>		
Title V - Higher Education	84.031S	<u>294,249</u>
Subtotal Higher Education - Institutional Aid Cluster		<u>1,589,457</u>
<i>Passed through California Department of Education:</i>		
Vocational and Applied Technology - Title IC	84.011	146,400
Vocational and Applied Technology - Tech Prep	84.048	46,970
State Vocational Rehabilitation Services	84.126A	<u>172,767</u>
Subtotal U.S. Department of Education		<u>11,269,087</u>
<u>U.S. Department of Agriculture</u>		
<i>Passed through California Department of Education</i>		
Child and Adult Care Food Program	10.558	<u>23,426</u>
<u>U.S. Department of Health and Human Services</u>		
<u>Direct Programs</u>		
<i>Passed through Department of Education:</i>		
GAIN	93.558	<u>143,014</u>
Total Federal Programs		<u>\$ 11,435,527</u>

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2012

	Program Entitlements		Program Revenues				Program Expenditures
	Prior Year Carry-forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue/Accounts Payable	
TANF	\$ -	\$ 42,156	\$ 42,156	\$ 42,156	\$ -	\$ -	\$ 42,156
Financial Aid - BFAP	45,171	207,775	252,946	252,946	-	(13,648)	239,298
EOPS	-	365,865	365,865	365,865	-	-	365,865
CARE	-	116,197	116,197	116,197	-	-	116,197
DSPS	16	449,581	449,577	449,577	-	-	449,577
Cal WORKs	1	154,813	154,814	154,814	-	-	154,814
Matriculation - Credit	-	230,719	230,719	230,719	-	-	230,719
Matriculation - Noncredit	993	9,673	10,666	10,666	-	(651)	10,015
CSUMB	-	9,665	9,665	-	9,665	-	9,665
Staff Diversity	-	4,785	4,785	4,785	-	-	4,785
HRDAC	12,771	-	12,771	12,771	-	(12,771)	-
Basic Skills	265,853	111,235	377,088	377,088	-	(254,126)	122,962
Region 4	-	10,000	10,000	10,000	-	-	10,000
Cal Grant B & C	-	317,556	317,556	315,135	2,421	-	317,556
MESA	10,614	47,461	58,075	48,489	9,586	-	58,075
Economic Work Force Dev -							
Water Grant	-	406,779	406,779	406,779	-	-	406,779
CTC Apprenticeship	-	138,117	138,117	134,500	-	(55,369)	79,131
Capacity RN Grant	-	89,687	89,687	75,337	14,350	-	89,687
Breathe CA Grant	-	8,692	8,692	7,384	1,308	-	8,692
CTE Comm. Collaborative Project	-	15,910	15,910	12,252	3,658	-	15,910
Lifeline	-	-	1,853	1,853	1,853	-	(1,329)
524							
Child Development - Preschool	-	174,524	174,524	163,442	11,082	-	174,524
Total State Programs	\$ 335,419	\$ 2,913,023	\$ 3,248,442	\$ 3,192,755	\$ 52,070	\$ (337,894)	\$ 2,906,931

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, 2012

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2011 only)			
1. Noncredit	47		47
2. Credit	289		289
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)			
1. Noncredit	-		-
2. Credit	-		-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	3,276		3,276
b. Daily Census Contact Hours	45		45
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	517		517
b. Credit	520		520
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	445		445
b. Daily Census Contact Hours	40		40
c. Noncredit Independent Study/ Distance Education Courses	-		-
D. Total FTES	5,179	-	5,179
Supplemental Information:			
E. In-Service Training Courses (FTES)	136		136
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	164		164
b. Credit	636		636
<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, 2012

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

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION

For the Year Ended June 30, 2012

	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
<u>Object/TOP Codes</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
<u>Academic Salaries</u>						
Instructional salaries:						
Contract or regular	\$ 4,584,097	\$ -	\$ 4,584,097	\$ 4,760,348	\$ -	\$ 4,760,348
Other	<u>4,856,133</u>	<u>-</u>	<u>4,856,133</u>	<u>5,350,295</u>	<u>-</u>	<u>5,350,295</u>
Total instructional salaries	<u>9,440,230</u>	<u>-</u>	<u>9,440,230</u>	<u>10,110,643</u>	<u>-</u>	<u>10,110,643</u>
Non-instructional salaries:						
Contract or regular	-	-	-	1,836,619	-	1,836,619
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,992</u>	<u>-</u>	<u>75,992</u>
Total non-instructional salaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,912,611</u>	<u>-</u>	<u>1,912,611</u>
Total academic salaries	<u>9,440,230</u>	<u>-</u>	<u>9,440,230</u>	<u>12,023,254</u>	<u>-</u>	<u>12,023,254</u>
<u>Classified Salaries</u>						
Non-instructional salaries:						
Regular status	-	-	-	4,583,615	-	4,583,615
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,757</u>	<u>-</u>	<u>155,757</u>
Total non-instructional salaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,739,372</u>	<u>-</u>	<u>4,739,372</u>
Instructional aides:						
Regular status	423,513	-	423,513	423,513	-	423,513
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instructional aides	<u>423,513</u>	<u>-</u>	<u>423,513</u>	<u>423,513</u>	<u>-</u>	<u>423,513</u>
Total classified salaries	<u>423,513</u>	<u>-</u>	<u>423,513</u>	<u>5,162,885</u>	<u>-</u>	<u>5,162,885</u>
Employee benefits	2,981,009	-	2,981,009	5,842,484	-	5,842,484
Supplies and materials	<u>-</u>	<u>-</u>	<u>-</u>	<u>534,106</u>	<u>-</u>	<u>534,106</u>
Other operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,464,687</u>	<u>-</u>	<u>3,464,687</u>
Equipment replacement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures prior to exclusions	<u>\$ 12,844,752</u>	<u>\$ -</u>	<u>\$ 12,844,752</u>	<u>\$ 27,027,416</u>	<u>\$ -</u>	<u>\$ 27,027,416</u>

See accompany notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION

(Continued)

For the Year Ended June 30, 2012

Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110		Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799	
	Reported Data	Audit Adjustments	Reported Data	Audit Adjustments
	\$ -	\$ -	\$ -	\$ -
5900	\$ -	\$ -	\$ -	\$ -
6441	-	-	-	-
6491	-	-	-	-
6740	-	-	-	-
5060	-	-	392,836	-
1000	-	-	-	-
2000	-	-	-	-
3000	-	-	-	-
4000	-	-	-	-
4100	-	-	-	-
4200	-	-	-	-
4300	-	-	221,219	-
4400	-	-	-	-
	-	-	221,219	-
	-	-	877,121	-
5000	-	-	-	-
6000	-	-	-	-
6300	-	-	-	-
6400	-	-	-	-
6410	-	-	-	-
6420	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	\$ -	\$ -	\$ 1,491,176	\$ -
	\$ 12,844,752	\$ -	\$ 12,844,752	\$ 25,536,240
	50.3%	-	50.3%	100%
			\$ 12,768,120	\$ -
			\$ 12,768,120	\$ 12,768,120

Exclusions

Activities to exclude:
 Instructional staff-retirees' benefits and retirement incentives
 Student health services above amount collected
 Student transportation
 Noninstructional staff-retirees' benefits and retirement incentives
 Objects to exclude:
 Rents and leases
 Lottery expenditures
 Academic salaries
 Classified salaries
 Employee benefits
 Supplies and materials:
 Software
 Books, magazines and periodicals
 Instructional supplies and materials
 Noninstructional supplies and materials
 Total supplies and materials
 Other operating expenses and services
 Capital outlay
 Library books
 Equipment:
 Equipment - additional
 Equipment - replacement
 Total equipment
 Total capital outlay
 Other outgo
 Total exclusions
 Total for ECS 84362, 50% Law
 Percent of CEE (Instructional salary cost / Total CEE)
 50% of current expense of education

See accompany 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 and has been derived from audited information.

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.

F - Reconciliation of ECS 84362 (50 Percent Law) Calculation

This schedule provides the information necessary to reconcile the 50 Percent Law Calculation reported on the CCFS-311 to the audited data.

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, 2012. 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
- California Work Opportunity and Responsibility to Kids (CalWORKs)
- Open Enrollment
- Student Fees-Instructional Materials and Other Materials
- Student Fees-Health Fees and Use of Fee Funds
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- Curriculum and Instruction
- To Be Arranged Hours (TBA)

As described in Findings 2012-01 and 2012-02 in the accompanying Schedule of Audit Findings and Questioned Costs, Gavilan Joint Community College District did not comply with requirements regarding State General Apportionment Funding System or Extended Opportunity Programs and Services (EOPS). Compliance with such requirements is necessary, in our opinion, for Gavilan Joint Community College District to comply with state laws and regulations applicable to State General Apportionment Funding System and EOPS.

In our opinion, except for the noncompliance with State General Apportionment System and EOPS identified in the Schedule of Audit Findings and Questioned Costs as Findings 2012-01 and 2012-02, Gavilan Joint Community College District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012. However, we identified a deficiency in compliance that we consider to be immaterial as described in the Schedule of Audit Findings and Questioned Costs as Finding 2012-03.

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 14, 2012

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 business-type activities and fiduciary activities of Gavilan Joint Community College District as of and for the year ended June 30, 2012, which collectively comprise Gavilan Joint Community College District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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

Sacramento, California
December 14, 2012

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, 2012. 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, 2012.

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 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

Sacramento, California
December 14, 2012

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes 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 No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.033, 84.063, 84.007, 84.268 84.031, 84.031C, 84.031S	Student Financial Aid Cluster Higher Education - Institutional Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

STATE AWARDS

Type of auditors' report issued on compliance for state programs: Qualified - State General Apportionment Funding System; EOPS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2012-01 STATE COMPLIANCE - STATE GENERAL APPORTIONMENT FUNDING SYSTEM

Criteria

Contracted District Audit Manual, Item No. 424, *State General Apportionment Funding System*.

Condition

- District incorrectly coded independent study courses as weekly census courses with TBA hours and accordingly, calculated FTEs under the Weekly Student Contact Hour Procedures and not the Alternative Attendance Accounting Procedure.
- District calculated FTEs for one identified daily census courses based on an incorrect number of meeting times.
- District calculated FTEs for courses with meeting times in increments less than 5 minutes. The courses were described in the Schedule of Classes as having meeting times in increments less than 5 minutes but students met for the full period to meet the requirement for 5 minute increments.

Effect

District is not in compliance with requirements for the classification and calculation of FTEs for state general apportionment.

- FTEs were overstated by 96.5 and misclassified as weekly census courses and not alternative attendance courses. The District re-submitted the CCFS-320 to correct this overstatement.
- FTEs were overstated by 0.25. The extrapolated error identified a potential overstatement of 4.5 FTEs. The District re-submitted the CCFS-320 to correct the 0.25 known overstatement.
- Nineteen courses were incorrectly scheduled and described to students with improper meeting times. FTEs were understated by 0.88 FTEs.

Cause

Effective procedures are not in place over the classification and scheduling of courses or the calculation of contact hours in accordance with applicable compliance requirements.

Fiscal Impact

Not determinable.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2012-01 STATE COMPLIANCE - STATE GENERAL APPORTIONMENT FUNDING SYSTEM

Recommendation

The District should implement procedures to ensure all courses are classified and scheduled and contact hours are calculated in accordance with compliance requirements.

Corrective Action Plan

The District reviewed all sections in Summer 2012 and Fall 2012 and adjusted the TBA coding as appropriate. Additional scrutiny is occurring in the Spring 2013 scheduling period to ensure the coding is accurate. An Enrollment Management Task Force has been created to provide an additional level of oversight to this process and provide training to all stakeholders. Going forward, a District policy for TBA hours will be created to ensure standard practices are in place.

The schedule has been thoroughly reviewed by the divisions and the scheduling committee of the District and the contact hours have been adjusted accordingly to allow for correct start and end times for all sections, in increments of 5 minutes.

2012-02 STATE COMPLIANCE - ECONOMIC OPPORTUNITY PROGRAMS AND SERVICES (EOPS)

Criteria

Per guidelines set forth by the California State Chancellor's Office, the EOPS student eligibility should be verified and documented. Required documents are: 1) EOPS application; 2) EOPS student educational plan; 3) EOPS mutual responsibility contract. The documentation in an EOPS student's file should have the necessary information cited above, and it should be signed by the appropriate college staff, i.e., EOPS director, EOPS counselor or regular college counselor, along with the signature of the student to whom services were provided.

Condition

The District did not obtain signed student educational plans for seven students served by EOPS.

Effect

The extrapolated error resulted in the District being out of compliance for 99 out of 353 students served by EOPS.

Cause

Adequate procedures are not in place to ensure education plans signed by the appropriate college staff and student are maintained in the student's file.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

2012-02 STATE COMPLIANCE - ECONOMIC OPPORTUNITY PROGRAMS AND SERVICES (EOPS)

Fiscal Impact

Not determinable.

Recommendation

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

Corrective Action Plan

Extended Opportunity Programs and Services (EOPS) conducted an extensive file review on 100% of the EOPS student files to ensure that student educational plans were signed by the student and the counselor. Student and counselor signatures were acquired during the Fall 2012 semester.

Student file processes were re-evaluated to ensure that education plans produced by Degree-Works, a paperless electronic plan system, are printed and that the student and counselor sign the document during the education plan appointment. The EOPS Senior Program Specialist reviews each file to guarantee that signatures from both student and counselor are maintained in the student file.

2012-03 STATE COMPLIANCE - STUDENT HEALTH FEES

Criteria

Districts are permitted to charge a mandatory health fee under Education Code Section 76355. However, they must exempt from payment of such a fee, students who depend exclusively on prayer for healing and students under an approved apprenticeship program.

With respect to health fees, it is important that districts advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions.

Condition

The District did not advise students of the exemptions from payment of health fees nor did it have a process in place for students to claim an exemption.

Effect

District is out of compliance.

Cause

Proper procedures are not in place to ensure compliance with State requirements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2012

2012-03 STATE COMPLIANCE - STUDENT HEALTH FEES

Fiscal Impact

Not determinable.

Recommendation

The District should ensure a process is in place for students to claim exemptions for payment of health fees and that process is communicated through the annual course catalog.

Corrective Action Plan

The District has updated its virtual 2012-2013 catalog to appropriately include information on exemptions from the health fee per state regulations. This information has been added to the Student Health website as well. A review of Board Policy has been conducted and the schedule of classes for Spring 2013, both printed and virtual, contains these exemptions.

**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, 2012

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented
<p>2011-01</p> <p>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.</p> <p>The District should enhance their procedures to interpret the information within its actuarial reports in order to properly record the OPEB asset.</p>	<p>Implemented.</p>	
<p>2011-02</p> <p>The District did not obtain up-to-date signed SEC contracts for nine students served by DSPS.</p> <p>The District should develop and implement procedures to ensure compliance with DSPS recordkeeping requirements.</p>	<p>Implemented.</p>	
<p>2011-03</p> <p>The District did not obtain agreements or contracts with individual instructors conducting instruction under two of the District's instructional service agreements.</p> <p>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.</p>	<p>Implemented.</p>	