GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
Gilroy, California

FINANCIAL STATEMENTS
June 30, 2014

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2014

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FINANCIAL STATEMENTS
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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Gavilan Joint Community College District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Gavilan Joint Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of Gavilan Joint Community College District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application being encouraged. The District has implemented this Statement for June 30, 2014 resulting in restated net position as of July 1, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 10 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gavilan Joint Community College District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by U.S. Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Organization, Combining Statement of Net Position by Fund and Combining Statement of Revenues, Expenses, and Change in Net Position by Fund, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Organization, Combining Statement of Net Position by Fund and Combining Statement of Revenues, Expenses, and Change in Net Position by Fund, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Organization, Combining Statement of Net Position by Fund and Combining Statement of Revenues, Expenses, and Change in Net Position by Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 on our consideration of Gavilan Joint Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gavilan Joint Community College District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 18, 2014

GAVILAN COLLEGE

5055 Santa Teresa Blvd., Gilroy, CA 95020 www.gavilan.edu (408) 848-4800

Steven M. Kinsella, DBA, CPA, Superintendent/President

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities, programs and financial condition of Gavilan Joint Community College District (the District) as of June 30, 2014. The report consists of three basic financial statements: the Statement of Net Position, Statement of Revenues, Expenses and Change in Net Position, 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, 2014. 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 Position 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 Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and non-operating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges System's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The fiscal year ending June 30, 2014, continued to provide the District with the opportunity to reallocate and reduce resources through employee attrition in order to reduce the structural imbalance that occurred when the state suddenly reduced funding in the prior fiscal year. The Budget and actual results from general fund operations shows a small deficit but it is anticipated that increased funding from the State in FY 14/15 and beyond will allow the District to bring the budget back into balance by FY 15/16 while still maintaining a 10% reserve.

Over the year the college has made progress on all of its strategic initiatives with resources allocated to a number of improvements in achieving the goals of the Strategic Plan and the Educational Master. 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 2012/13 – 2016/17. The District uses an integrated planning and funding that includes all planning campus and District wide efforts. Individual plans feed requests into the resource process with items identified as strategic priorities receiving first dollar allocations.

Consistent allocation of financial resources to strategic plan initiatives has resulted in improved learning and working environment at the District. 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. Satellite operations in Morgan Hill still need to be enhanced if the District is going to adequately meet the needs for educational services in the communities of San Benito County and Morgan Hill/Greater Coyote Valley.

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

The District has been concentrating on achieving maximum Full Time Equivalent Students (FTES) to obtain earned growth revenue funds when available. In FY 11-12, the District had a workload reduction via reduced funding for total FTES. The change occurred just a month before the end of the year and resulted in a permanent reduction of on-going revenue 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 that fiscal year. The District absorbed this $2.4 million deficit using its reserves. At the end of the FY 11-12 the college had 170 unfunded FTES, 100 unfunded FTES in FY 12/13, and approximately 180 FTES in FY 13/14. The College also narrowed the difference between on-going revenues and expenditures leaving a manageable structural deficit mostly addressed in the subsequent budget year.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $14.5 million and $16.4 million for the fiscal years ended June 30, 2014 and June 30, 2013, respectively. Of this amount, ($3.2 million) and $0.2 million were unrestricted as of June 30, 2013 and 2012, respectively. The implementation of GASB Statement No. 65, required a restatement of bond issuance costs that had previously been capitalized, creating a negative unrestricted net position. Restricted net position is 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 position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Noted in the current year is a decrease in assets resulting largely due to the fact that the District held no tax revenue anticipation notes (TRAN) at June 30, 2014. In the prior year, assets included $3 million in cash from the issuance of TRANs. The college had to use TRANs during the year in order to pay for operating costs but had repaid the proceeds by the end of the fiscal year. The State has reduced the amount of deferrals for apportionment payments with the intent to have deferrals completely eliminated in the next year or so.

Table 1

GAVALIN JOINT CCD
Net Position

(Amounts in thousands)	Governmental Activities as of June 30 for the Fiscal Year		
	2014	2013	Change
Current and other assets	$ 38,104	$ 42,716	$ (4,612)
Capital assets	85,782	85,497	285
Total Assets	123,886	128,213	(4,327)
Deferred amount on refunding	2,406	-	(2,406)
Total Assets and deferred outflows	126,292	128,213	(6,733)
Current liabilities	9,546	11,382	(1,836)
Long-term obligations	102,215	100,435	1,780
Total Liabilities	111,761	111,817	(56)
Net position			
Net investment in capital assets	13,104	11,610	1,494
Restricted	4,607	4,559	48
Unrestricted	(3,180)	227	(3,407)
Change in accounting principle		(1,267)	1,267
Total Net Position	**$ 14,531**	**$ 15,129**	**$ (598)**

Change in Net Position

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 Position*. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.

State revenues moderately increased due to a cost of living adjustment (COLA) of 1.57% on computational revenue (the first such increase in several years) and increased funding for certain State-funded categorical programs such as EOPS, CalWORKs, and SSSP.

Table 2

GAVALIN JOINT CCD
Change in Net Position

(Amounts in thousands)	Governmental Activities for the Fiscal Year		
	2014	2013	Change
Revenues			
Operating revenues:			
Tuition and fees	$ 2,312	$ 2,383	$ (71)
Non-operating revenues:			
State apportionment	11,145	9,503	1,642
Grants and contracts - Federal	9,898	10,137	(239)
Grants and contracts - State and local	5,068	4,296	772
Property taxes	20,341	20,949	(608)
State taxes and other revenue	157	151	6
Other revenues	962	2,481	(1,519)
Total Revenues	49,883	49,900	(17)
Expenses			
Salaries	21,023	20,991	32
Employee benefits	7,641	7,903	(262)
Supplies, materials and other operating expenses and services	9,684	7,086	2,598
Student Aid	7,022	7,432	(410)
Depreciation	1,944	1,932	12
Other non-operating expenses	3,167	4,840	(1,673)
Total Expenses	50,481	50,184	297
Change in Net Position	**$ (598)**	**$ (284)**	**$ 314**

Governmental Activities

As reported in the *Statement of Revenues, Expenses and Change in Net Position*, the cost of all of our governmental activities this year was $50 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $20 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with other revenues, including interest and general entitlements.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 9, 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had $85.8 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 $286 thousand from last year, predominately due to ongoing Measure E and State Capital Outlay projects, offset by depreciation.

Table 3

GAVALIN JOINT CCD
Capital Assets at Year-end

(Amounts in thousands)	Fixed Assets for the Fiscal Year		
	2014	2013	Change
Land	$ 28,075	$ 28,036	$ 39
Work in Progress	2,419	1,219	1,200
Land Improvements	922	899	23
Building and Improvements	70,280	70,280	-
Equipment and vehicles	7,138	6,170	968
Total	108,834	106,604	2,230
Less Accumulated Depreciation	(23,052)	(21,108)	(1,944)
Net Total	**$ 85,782**	**$ 85,496**	**$ 286**

The District is in the construction phase for bond renovation projects. A few capital projects are planned to continue through the 2014-15 year and beyond.

Long-Term Obligations

At the end of this year, the District had $104 million in long-term obligations outstanding. The long-term obligations consisted of:

Table 4

GAVALIN JOINT CCD
Outstanding Debt at Year-end

(Amounts in thousands)	Long-Term Obligations for the Fiscal Year		
	2014	2013	Changes
General obligation bonds	$ 100,410	$ 101,415	$ (1,005)
Premium	3,207	2,616	591
Deferred amount on refunding	-	(2,530)	2,530
Compensated absences	699	626	73
Total	**$ 104,316**	**$ 102,127**	**$ 2,189**

More detailed information regarding our long-term liabilities, including debt repayment schedules, may be found in the Notes to the Basic Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013/14 ARE NOTED BELOW:

In fiscal year 2012-2013 the District absorbed a large reduction in unrestricted revenues that necessitated use of funds set aside for retired employee medical benefit costs. These funds were set aside for just this type of a situation and will be reconstituted as funds become available. In FY 13/14 the District was able to contribute approximately $617,000 to the OPEB trust, representing the planned contribution for FY 12/13 and FY 13/14. Balancing the structural difference between expenditures and revenues continued as a high priority throughout the year. The structural shortage has been narrowed substantially since FY 12/13 with a structurally balanced budget expected in FY 15/16.

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. 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. A few projects remain with delays caused by the extraordinarily long term period that is required in order to obtain all environmental clearances.

Other accomplishments included finalizing the collective bargaining agreement with the California School Employee Association (CSEA); the Gavilan College Faculty Association (GCFA) agreement was subsequently settled in December 2014. In spite of a tight budget year, the District was able to continue to fund employee health benefit packages along with step/column increases and no employee layoffs were made.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2014-15 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

The State's economy continued to improve in Budget Years 13/14 and 14/15. As the State releases funds that have exceeded initial projections, the colleges across the state can expect slight increases. At Gavilan College there was an overall increase in unrestricted general fund revenue of 2.5% for the FY 14/15 year. Additional increases in matriculation (now Student Success Initiative) and funding for programs that provide services to students who meet certain eligibility criteria have helped reduce the pressure on the unrestricted general fund as those resources were restored as the economy improved. For FY 14/15 and beyond, additional increases in revenues is expected. The State's economy is yielding revenues larger than what was anticipated when the FY 14/15 budget was prepared. A portion of those funds will eventually work their way down to the California community colleges. In short, the economy is strong and is generating large increases in revenues in excess of planned amounts. The challenge now is for colleges to be allocated the surplus funds in a manner that allows action plans generated through the planning process to be implemented.

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 wellis@gavilan.edu.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,357,561
Receivables, net	4,883,610
Prepaid expenses	24,135
Total current assets	7,265,306
Noncurrent assets:	
Restricted cash and cash equivalents	29,979,869
Net OPEB asset	858,813
Depreciable capital assets, net	55,287,563
Non-depreciable capital assets	30,494,314
Total noncurrent assets	116,620,559
Total assets	123,885,865
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	2,406,063
Total assets and deferred outflows of resources	$ 126,291,928
LIABILITIES	
Current liabilities:	
Accounts payable	$ 3,098,011
Accrued payroll	611,143
Accrued interest payable	1,983,052
Unearned revenue	1,753,116
Compensated absences	698,621
Long-term liabilities - current portion	1,402,280
Total current liabilities	9,546,223
Noncurrent liabilities:	
Long-term liabilities - noncurrent portion	102,214,504
Total liabilities	111,760,727
NET POSITION	
Net investment in capital assets	13,103,989
Restricted for:	
Debt service	3,564,500
Capital projects	183,822
Other special purposes	858,813
Unrestricted	(3,179,923)
Total net position	14,531,201
Total liabilities and net position	$ 126,291,928

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

For the Year Ended June 30, 2014

Operating revenues:	
Tuition and fees	$ 5,098,373
Less: scholarship discounts and allowances	(2,786,086)
Net tuition and fees	2,312,287
Grants and contracts, non-capital:	
Federal	3,875,116
State	4,455,354
Local	612,901
Total operating revenues	11,255,658
Operating expenses:	
Salaries	21,023,008
Employee benefits	7,641,283
Supplies, materials, and other operating expenses and services	9,683,921
Student aid	7,022,058
Depreciation	1,943,827
Total operating expenses	47,314,097
Loss from operations	(36,058,439)
Non-operating revenues (expenses):	
State apportionment, non-capital	11,034,851
Local property taxes	14,400,623
State taxes and other revenues	156,512
Pell grants	6,023,026
Investment income, noncapital	160,389
Interest expense on capital asset-related debt, net	(3,167,331)
Other non-operating revenues	802,454
Total non-operating revenues (expenses)	29,410,524
Loss before capital revenues	(6,647,915)
Capital revenues:	
State apportionment	109,713
Local property taxes and revenues	5,940,516
Total capital revenues	6,050,229
Change in net position	(597,686)
Net position, July 1, 2013	16,396,315
Cumulative effect of change in accounting principle	(1,267,428)
Net position, July 1, 2013, as restated	15,128,887
Net position, June 30, 2014	$ 14,531,201

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

Cash flows from operating activities:	
Tuition and fees	$ 2,312,287
Federal grants and contracts	3,875,116
State grants and contracts	4,634,631
Local grants and contracts	612,901
Payments to suppliers	(8,286,241)
Payments to employees	(21,361,572)
Payments for benefits	(7,364,410)
Payments to students	(6,839,330)
Net cash used in operating activities	(32,416,618)
Cash flows from noncapital financing activities:	
State appropriations	11,147,780
Local property taxes and other revenues	14,557,135
Pell grants	6,023,026
Tax and revenue anticipation notes payable	(3,000,000)
Other non-operating receipts	541,896
Net cash provided by noncapital financing activities	29,269,837
Cash flows from capital and related financing activities:	
Local property taxes and other revenues for capital purposes	6,050,229
Purchase of capital assets	(926,327)
Principal paid on capital debt	(1,005,000)
Interest paid on capital debt, net	(4,778,225)
Net cash used in capital and related financing activities	(659,323)
Cash flows provided by investing activities:	
Interest income on investments	160,389
Net decrease in cash and cash equivalents	(3,645,715)
Cash and cash equivalents, July 1, 2013	35,983,145
Cash and cash equivalents, June 30, 2014	$ 32,337,430

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2014

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (36,058,439)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	1,943,827
Changes in assets and liabilities:	
Receivables, net	182,728
Prepaid expenses	(22,369)
Accounts payable	1,420,049
Unearned revenue	179,277
Accrued payroll	(410,923)
Compensated absences	72,359
OPEB asset	276,873
Net cash used in operating activities	$ (32,416,618)

Supplementary disclosure of non-cash transactions:

Amortization of bond premiums	$ 260,558
Amortization of deferred amount on refunding	$ 124,205

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund	Student Center Agency Fund
ASSETS			
Cash, cash equivalents and investments	$ 137,590	$ -	$ 5,677
Restricted cash and cash equivalents	285,350	-	-
Restricted trust investments - mutual funds	-	5,091,482	-
Receivables	500	617,709	7
Due from other funds	-	-	19,826
Total assets	$ 423,440	$ 5,709,191	$ 25,510
LIABILITIES			
Accounts payable	$ 10,286	$ -	$ 2,556
Amounts held in trust for others	-	-	22,954
Total liabilities	10,286	-	25,510
RESTRICTED NET POSITION			
Restricted net position held in trust	413,154	5,709,191	-
Total liabilities and net position	$ 423,440	$ 5,709,191	$ 25,510

See accompanying notes to financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2014

	Associated Students Trust Fund	OPEB Irrevocable Trust Fund
Additions:		
Unrealized and realized gains, net	$ -	$ 102,075
Employer contributions	-	308,206
ASB fees and sales	48,588	-
Donations and fundraising	79,930	-
Other local receipts	10,439	-
Total additions	138,957	410,281
Deductions:		
Supplies and services	31,503	-
Operating expenses	74,223	625
Capital outlay	28,224	-
Scholarships	14,135	-
Total deductions	148,085	625
Change in net position	(9,128)	409,656
Net position held in trust:		
Net position, July 1, 2013	422,282	5,299,535
Net position, June 30, 2014	$ 413,154	$ 5,709,191

See accompanying notes to 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 accounting principles generally accepted in the United States of America (GAAP) and GASB Cod. Sec. 2100.138. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District has no component units.

Basis of Presentation and 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. All significant intra-agency transactions have been eliminated. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the obligation has been incurred. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

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 Position and the Statement of Change in Fiduciary Net Position at the fund financial statement level.

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 in the Santa Clara County Treasury are considered cash equivalents and are stated at fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position.

Investments in trust are valued at fair value based upon quoted market prices, when available, or estimates of fair value in the statement of fiduciary net position and unrealized gains and losses are included in the statement of change in fiduciary net position.

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 $173,334 for the year ended June 30, 2014.

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 expense and interest capitalized totaled $3,167,331 and $1,302,682, respectively, during the year ended June 30, 2014.

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.

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 Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. At June 30, 2014, the deferred amount on refunding was $2,406,063.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item of this type.

Unearned 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 unearned revenue until earned.

Net Position

The District's net position is classified as follows:

Net investment in capital assets: 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 of net investment in capital assets.

Restricted net position: Restricted expendable net position 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 position 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. At June 30, 2014, there is no balance of nonexpendable restricted net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Unrestricted net position: Unrestricted net position represents 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.

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 $453,000 (3.041% of salaries subject to CalSTRS).

Classification of Revenues and Expenses

The District has classified its revenues and expenses 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 and expenses: Operating revenues and expenses 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. All expenses are considered operating expenses except for interest expense on capital related debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues and Expenses (Continued)

Nonoperating revenues and expenses: Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as Pell grants, gifts and contributions, and other revenue sources and uses described in GASB Cod. Sec. 2200.190-.191, such as State appropriations, property taxes, investment income, and interest expense. Interest expense on capital related debt is the only nonoperating expense.

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.

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 position. 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.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for the District’s fiscal year ended June 30, 2014. Based on the implementation of Statement No. 65, the District's 2014 beginning net position was restated by $1,267,428 because bond issuance costs were no longer capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In March 2012, the GASB issued Statement No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, districts should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application encouraged. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the District's financial period ending June 30, 2015. Management expects this GASB statement to have a material impact on its financial statements.

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This liability should be reported until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units by specifying the information required to be disclosed by governments that extend nonexchange financial guarantee as well as new information to be disclosed by governments that receive nonexchange financial guarantees. This statement was adopted for the District's fiscal year ended June 30, 2014 with no material impact on the District.

In November 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and are effective for the District's fiscal year ending June 30, 2015. Management expects that this GASB statement along with GASB statement No. 68 will have a material impact on its financial statements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments at June 30, 2014, consisted of the following:

	District	Fiduciary
Pooled Fund:		
Cash in County Treasury	$ 2,444,391	$ 5,677
Deposits and investments:		
Cash on hand and in banks	27,560	422,940
Funds with Fiscal Agents	29,865,479	-
Trust Investments - Mutual Funds	-	5,091,482
Total cash, cash equivalents, and investments	32,337,430	5,520,099
Less: restricted cash, cash equivalents, and investments:		
Funds with Fiscal Agents	29,865,479	-
Trust Investments	-	5,091,482
Other restricted	114,390	285,350
Total restricted cash, cash equivalents, and investments	29,979,869	5,376,832
Net cash, cash equivalents, and investments	$ 2,357,561	$ 143,267

Deposits

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2014, 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 $144,933 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 $422,740 and $423,651, respectively. The entire bank balance was insured by the FDIC.

Cash in County Treasury

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.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial risk classifications is required.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash in County Treasury (Continued)

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2014, 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.

Trust Investments

Trust Investments represent amounts held by a third party investee in an irrevocable trust in the District's name to fund its obligation for other postemployment benefits and may be invested in accordance with California Government Code Sections 53600 through 53622. Trust investments are stated at fair value and have a maturity of 12 months or less that consist of unrated mutual funds in a portfolio equally balanced for equity and fixed income securities.

Credit Risk

The table below identifies the investment types authorized for the District by the California Government Code Section 53601 and 53602. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Credit Risk (Continued)

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
Registered State Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25% - 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, 2014, 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, 2014, the District had no concentration of credit risk.

3. RECEIVABLES

Receivables at June 30, 2014 are summarized as follows:

Federal	$ 868,523
State	3,230,271
Local and other	958,150
	5,056,944
Less allowance for doubtful accounts	(173,334)
	$ 4,883,610

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2013	Additions	Deductions	Transfers	Balance June 30, 2014
Non-depreciable:					
Land	$ 28,036,377	$ 38,480	$ -	$ -	$ 28,074,857
Construction in progress	1,219,362	1,302,682	(102,587)	-	2,419,457
Depreciable:					
Land improvements	899,012	22,500	-	-	921,512
Buildings and building improvements	70,280,050	-	-	-	70,280,050
Furniture and equipment	5,899,608	962,173	-	-	6,861,781
Vehicles	270,453	5,761	-	-	276,214
Total	106,604,862	2,331,596	(102,587)	-	108,833,871
Less accumulated depreciation:					
Land improvements	(689,616)	(18,744)	-	-	(708,360)
Buildings and building improvements	(15,767,858)	(1,450,928)	-	-	(17,218,786)
Furniture and equipment	(4,402,186)	(462,981)	-	-	(4,865,167)
Vehicles	(248,507)	(11,174)	-	-	(259,681)
Total	(21,108,167)	(1,943,827)	-	-	(23,051,994)
Capital assets, net	$ 85,496,695	$ 387,769	$ (102,587)	$ -	$ 85,781,877

5. UNEARNED REVENUE

Unearned revenue for the District consisted of the following:

Unearned Federal and State revenue	$ 562,833
Unearned local revenue	238,609
Unearned tuition and other student fees	951,674
Total unearned revenue	$ 1,753,116

6. TAX REVENUE ANTICIPATION NOTES (TRANS)

Tax Revenue Anticipation Notes (TRANs) are short-term debt instruments. They are issued to eliminate cash flow deficiencies that result from fluctuations in revenue receipts and expenditure disbursements. The District made re-payments of $1,00,000 and $2,000,000 on January 31, 2014 and June 30, 2014, respectively. A summary of the District's TRANs activity for the year ended June 30, 2014 is as follows:

	Outstanding July 1, 2013	Additions	Deletions	Outstanding June 30, 2014
Series 2013 - 2.5% Tax Revenue Anticipation Note due by June 30, 2014	$ 3,000,000	$ -	$ (3,000,000)	$ -

7. 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%.

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 590,000	$ 45,406	$ 635,406
2016	20,000	33,181	53,181
2017	20,000	32,319	52,319
2018	25,000	31,319	56,319
2019	30,000	29,969	59,969
2020-2024	200,000	122,133	322,133
2025-2029	345,000	51,426	396,426
	$ 1,230,000	$ 345,753	$ 1,575,753

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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%.

Bond premium (net of accumulated amortization) of $560,323 is capitalized and will be amortized over the term of the Bond.

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

Year Ending June 30,	Principal	Interest	Total
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	765,000	2,163,544	2,928,544
2019	910,000	2,130,044	3,040,044
2020-2024	6,385,000	9,874,095	16,259,095
2025	10,660,000	7,867,905	18,527,905
2030-2033	27,530,000	2,748,351	30,278,351
	$ 47,940,000	$ 31,429,471	$ 79,369,471

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%.

Bond premium (net of accumulated amortization) of $831,732 is capitalized and will be amortized over the term of the Bond.

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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

Year Ending June 30,	Principal	Interest	Total
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	125,000	1,533,475	1,658,475
2019	165,000	1,527,675	1,692,675
2020-2024	1,545,000	7,485,900	9,030,900
2025-2029	3,095,000	6,935,638	10,030,638
2030-2034	9,900,000	5,671,188	15,571,188
2035-2036	12,770,000	744,625	13,514,625
	$ 27,745,000	$ 28,517,326	$ 56,262,326

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 2028, respectively, and bear interest at rates ranging from 2.00% to 5.00%.

Bond premium (net of accumulated amortization) of $1,814,729 is capitalized and will be amortized over the term of the Bond.

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 20,000	$ 523,950	$ 543,950
2016	690,000	516,850	1,206,850
2017	605,000	503,700	1,108,700
2018	875,000	488,900	1,363,900
2019	935,000	461,450	1,396,450
2020-2024	6,990,000	1,418,750	8,408,750
2025	1,865,000	46,625	1,911,625
	$ 11,980,000	$ 3,960,225	$ 15,940,225

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 100,000	$ 389,550	$ 489,550
2016	100,000	387,550	487,550
2017	280,000	383,750	663,750
2018	105,000	379,900	484,900
2019	100,000	377,850	477,850
2020-2024	565,000	1,842,895	2,407,895
2025-2029	10,265,000	1,117,238	11,382,238
	$ 11,515,000	$ 4,878,733	$ 16,393,733

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Amounts Due Within One Year
General Obligation Bonds	$ 101,415,000	$ -	$ (1,005,000)	$ 100,410,000	$ 1,190,000
Premiums	2,616,291	851,051	(260,558)	3,206,784	212,280
Compensated absences	626,262	72,359	-	698,621	698,621
	$ 104,657,553	$ 923,410	$ (1,265,558)	$ 104,315,405	$ 2,100,901

8. PROPERTY TAXES

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

9. EMPLOYEE RETIREMENT SYSTEMS

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

State Teachers' Retirement System (STRS)

Plan Description

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

The State Teachers' Retirement Plan (STRP), a multiple employer cost-sharing 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 CB Benefit Program is an alternative STRS contribution plan for part-time instructors. Part-time instructors who may elect the CB plan in lieu of the APPLE retirement plan prior to becoming vested by CalSTRS regulations. 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.

9. 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 2013-2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. 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, 2012, 2013 and 2014 were $924,498, $932,362 and $924,715, respectively, and equals 100% of the required contributions for each year. On June 24, 2014, the Governor of California signed Assembly Bill 1469 which will increase the member contribution to 19.1% over the next seven years.

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 2013-2014 was 11.442% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2013 and 2014 were $855,271, $878,835 and $889,267, respectively, and equaled 100 percent of the required contributions for each year.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Accumulation Program for Part-Time and Limited-Service Employees

The District has also adopted the Accumulation Program for Part-Time and Limited-Service Employees (APPLE). The defined contribution plan is covered under Internal Revenue Code, Section 401A. APPLE participants include all individuals who have worked for the District on or after January 1, 1992, provided that they are not covered by any other retirement program (e.g., CalPERS or CalSTRS) through the District's employment. Each participant makes tax deferred contributions to APPLE equal to 7.5% of total compensation. Accounts are established in the name of each participant. Employee contributions are allocated directly to employee accounts. The minimum allocation participants will receive is 7.5% of compensation. Participant account balances are fully vested and non-forfeitable. Participant account balances will be paid in a single distribution upon retirement or other termination. The District is not required to make contributions to APPLE.

10. OTHER POSTEMPLOYMENT BENEFITS

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

The Gavilan Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision and dental insurance benefits to eligible retirees and their spouses. The Plan is operated as a pay-as-you-go plan. However, the District does maintain an irrevocable trust to provide for retiree health costs in the future. The Trust is included in the District's financial report as a separately presented fiduciary fund.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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	$ 747,160
Interest on net OPEB asset	(56,784)
Adjustment to annual required contribution	106,514
Annual OPEB cost	796,890
Contributions made	(520,017)
Change in net OPEB asset	276,873
Net OPEB asset - beginning of year	(1,135,686)
Net OPEB asset - end of year	$ (858,813)

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, 2014 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
June 30, 2012	$ 487,027	188.3%	$ (1,451,602)
June 30, 2013	$ 625,420	49.5%	$ (1,135,686)
June 30, 2014	$ 796,890	65.3%	$ (858,813)

10. 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. As of the latest actuarial, covered payroll (annual payroll of active employees covered by the Plan) was $14,754,000, 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, 2014, was 24 years.

11. CONTINGENCIES

Contingent Liabilities

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

11. 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.

Construction Commitments

As of June 30, 2014, the District has no outstanding commitments on construction contracts.

12. JOINT POWERS AGREEMENTS

Gavilan Joint Community College District participates in public entity risk pool joint power agreements (JPAs), with Bay Area Community College Districts Joint Powers Authority (BACCDJPA) and Northern California Community College Pool (NCCCP). Settled claims resulting from associated risks have not exceeded commercial insurance coverage in any of the past three years. The relationship between Gavilan Joint Community College District and the JPAs is such that they are not component units of Gavilan Joint Community College District for financial reporting purposes.

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

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

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

	BACCDJPA June 30, 2014	NCCCP June 30, 2014
Total assets	$ 7,092,820	$ 1,723,117
Total liabilities	$ 3,043,554	$ 735,130
Net position	$ 4,049,266	$ 987,987
Total revenues	$ 4,362,974	$ 3,354,590
Total expenses	$ 3,085,955	$ 3,258,858
Change in net position	$ 1,277,019	$ 95,732

13. SUBSEQUENT EVENT

On July 16, 2014, the District issued $2,000,000 of Tax Revenue Anticipation Notes, maturing on June 30, 2015, with interest at 2%, 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, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS

For the Year Ended June 30, 2014

Schedule of Funding Progress

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
July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	65%	$ 14,777,481	20%
July 1, 2011	$ 6,669,900	$ 8,643,029	$ 1,973,129	77%	$ 14,754,000	13%

Only two years of actuarial valuation data is provided because the District has only had two valuations performed.

See independent auditor's report on required supplementary information.

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

ORGANIZATION

June 30, 2014

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, 2014, were composed of the following members:

BOARD OF TRUSTEES

Members	Office	Term Expires
Kent Child	President	2014
Walter Glines	Vice President	2014
Jonathan Brusco	Clerk	2016
Tom Breen, Esq.	Trustee	2016
Mark Dover	Trustee	2016
Laura Perry, Esq.	Trustee	2014
Anthony Ruiz	Trustee	2014
Anel Tovar	Student Trustee	2014

DISTRICT ADMINISTRATION

Dr. Steven Kinsella
Superintendent/President

Dr. Kathleen Rose
Executive Vice President & Chief Instructional Officer

Vacant
Vice President of Student Services

Terry Newman
Senior Director 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
Chief Financial Officer

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET POSITION BY FUND

June 30, 2014

(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 and cash equivalents	$ 2,348,295	$ 383,079	$ 2,927	$ (2,219)	$ 3,696	$ 3,563,176	$ 4,862
Receivables, net	3,204,738	880,909	-	5,445	11,473	1,324	346,202
Due from other funds	186,522	-	-	-	-	-	470,210
Prepaid expenditures	9,126	-	-	-	-	-	-
Total current assets	5,748,681	1,263,988	2,927	3,226	15,169	3,564,500	821,274
Noncurrent assets:							
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Net OPEB asset	-	-	-	-	-	-	-
Depreciable capital assets, net	-	-	-	-	-	-	-
Non-depreciable capital assets	-	-	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-	-	-
Total assets	5,748,681	1,263,988	2,927	3,226	15,169	3,564,500	821,274
Deferred Outflows of Resources							
Deferred amount on refunding	-	-	-	-	-	-	-
Total assets	$ 5,748,681	$ 1,263,988	$ 2,927	$ 3,226	$ 15,169	$ 3,564,500	$ 821,274
Liabilities							
Current liabilities:							
Accounts payable	$ 1,090,828	$ 612,264	$ 253	$ 3,053	$ 9,517	$ -	$ 270,147
Accrued payroll	507,373	103,597	-	173	-	-	-
Accrued interest payable	-	-	-	-	-	-	-
Unearned revenue	951,652	548,127	-	-	-	-	253,337
Due to other funds	492,968	-	-	-	5,652	-	242,778
Compensated absences	-	-	-	-	-	-	-
Long-term liabilities - current portion	-	-	-	-	-	-	-
Total current liabilities	3,042,821	1,263,988	253	3,226	15,169	-	766,262
Noncurrent liabilities:							
Long-term liabilities - noncurrent portion	-	-	-	-	-	-	-
Total liabilities	3,042,821	1,263,988	253	3,226	15,169	-	766,262
Net Position							
Net investment in capital assets	-	-	-	-	-	-	-
Restricted for:							
Debt service	-	-	-	-	-	3,564,500	-
Capital projects	-	-	-	-	-	-	55,012
Other special purposes	-	-	-	-	-	-	-
Unrestricted	2,705,860	-	2,674	-	-	-	-
Total net position	2,705,860	-	2,674	-	-	3,564,500	55,012
Total liabilities and net position	$ 5,748,681	$ 1,263,988	$ 2,927	$ 3,226	$ 15,169	$ 3,564,500	$ 821,274

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET POSITION BY FUND
(Continued)
June 30, 2014

(UNAUDITED)

	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Position
Assets					
Current assets:					
Cash and cash equivalents	$ 26,302,303	$ (268,689)	$ 32,337,430	$ (29,979,869)	$ 2,357,561
Receivables, net	26,007	404,384	4,880,482	3,128	4,883,610
Due from other funds	210,177	-	866,909	(866,909)	-
Prepaid expenses	15,009	-	24,135	-	24,135
Total current assets	26,553,496	135,695	38,108,956	(30,843,650)	7,265,306
Noncurrent assets:					
Restricted cash and cash equivalents	-	-	-	29,979,869	29,979,869
Net OPEB asset	-	-	-	858,813	858,813
Depreciable capital assets, net	-	-	-	55,287,563	55,287,563
Non-depreciable capital assets	-	-	-	30,494,314	30,494,314
Total noncurrent assets	-	-	-	116,620,559	116,620,559
Total assets	26,553,496	135,695	38,108,956	85,776,909	123,885,865
Deferred Outflows of Resources					
Deferred amount on refunding	-	-	-	2,406,063	2,406,063
Total assets and deferred outflows of resources	$ 26,553,496	$ 135,695	$ 38,108,956	$ 88,182,972	$ 126,291,928
Liabilities					
Current liabilities:					
Accounts payable	$ 976,254	$ 135,695	$ 3,098,011	$ -	$ 3,098,011
Accrued payroll	-	-	611,143	-	611,143
Accrued interest payable	-	-	-	1,983,052	1,983,052
Unearned revenue	-	-	1,753,116	-	1,753,116
Due to other funds	122,383	-	863,781	(863,781)	-
Compensated absences	-	-	-	698,621	698,621
Long-term liabilities - current portion	-	-	-	1,402,280	1,402,280
Total current liabilities	1,098,637	135,695	6,326,051	3,220,172	9,546,223
Noncurrent liabilities:					
Long-term liabilities - noncurrent portion	-	-	-	102,214,504	102,214,504
Total liabilities	1,098,637	135,695	6,326,051	105,434,676	111,760,727
Net Position					
Net investment in capital assets	-	-	-	13,103,989	13,103,989
Restricted for:					
Debt service	-	-	3,564,500	-	3,564,500
Capital projects	25,454,859	-	25,509,871	(25,326,049)	183,822
Other special purposes	-	-	-	858,813	858,813
Unrestricted	-	-	2,708,534	(5,888,457)	(3,179,923)
Total net position	25,454,859	-	31,782,905	(17,251,704)	14,531,201
Total liabilities and net position	$ 26,553,496	$ 135,695	$ 38,108,956	$ 88,182,972	$ 126,291,928

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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

For the Year Ended June 30, 2014

(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
Operating revenues:							
Tuition and fees	$ 1,996,166	$ 316,121	$ -	$ -	$ -	$ -	$ -
Less: Scholarship discounts and allowance	-	-	-	-	-	-	-
Net tuition and fees	1,996,166	316,121	-	-	-	-	-
Grants and contracts, non-capital:							
Federal	-	3,383,171	-	-	10,579	-	-
State	951,079	2,912,499	-	-	112,950	-	478,826
Local	235,393	366,201	-	-	11,307	-	-
Total operating revenues	3,182,638	6,977,992	-	-	134,836	-	478,826
Operating expenses:							
Salaries	16,049,944	4,603,899	-	95,843	200,963	-	-
Employee benefits	5,740,545	1,472,230	-	48,681	102,954	-	-
Supplies, materials and other operating expenses and services	5,605,258	2,061,184	119,538	35,018	11,595	5,400	478,826
Student aid	-	527,141	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Total operating expenses	27,395,747	8,664,454	119,538	179,542	315,512	5,400	478,826
Loss from operations	(24,213,109)	(1,686,462)	(119,538)	(179,542)	(180,676)	(5,400)	-
Non-operating revenues (expenses):							
State apportionment, non-capital	10,884,327	150,524	-	-	-	-	-
Local property taxes	14,400,623	-	-	-	-	-	-
State taxes and other revenues	103,530	-	-	-	-	52,982	-
Pell grants	-	-	-	-	-	-	-
Investment income - non-capital	42,470	-	-	-	56	3,332	82
Interest expense on capital asset related debt	-	-	-	-	-	(4,778,225)	-
Other non-operating revenues (expenses)	297,963	103,390	-	138,066	170	-	-
Debt reduction	-	-	-	-	-	(1,005,000)	-
Other financing sources (uses)	-	-	-	-	-	-	-
Interfund transfers out	(1,747,860)	-	-	-	-	-	-
Interfund transfers in	-	1,432,548	-	41,476	180,450	-	-
Total non-operating revenues (expenses)	23,981,053	1,686,462	-	179,542	180,676	(5,726,911)	82
Loss before capital revenues	(232,056)	-	(119,538)	-	-	(5,732,311)	82
Capital revenues:							
State apportionment	-	-	109,713	-	-	-	-
Local property taxes and other revenues, capital	-	-	-	-	-	5,940,516	-
Total capital revenues	-	-	109,713	-	-	5,940,516	-
Change in net position	(232,056)	-	(9,825)	-	-	208,205	82
Net position, July 1, 2013, as previously stated	2,937,916	-	12,499	-	-	3,356,295	54,930
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-
Net position, July 1, 2013, as restated	2,937,916	-	12,499	-	-	3,356,295	54,930
Net position, June 30, 2014	$ 2,705,860	$ -	$ 2,674	$ -	$ -	$ 3,564,500	$ 55,012

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION BY FUND
(Continued)
For the Year Ended June 30, 2014

(UNAUDITED)

	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Revenues, Expenses and Change in Net Position
Operating revenues:					
Tuition and fees	$ -	$ -	$ 2,312,287	$ 2,786,086	$ 5,098,373
Less: Scholarship discounts and allowance	-	-	-	(2,786,086)	(2,786,086)
Net tuition and fees	-	-	2,312,287	-	2,312,287
Grants and contracts, non-capital:					
Federal	-	481,366	3,875,116	-	3,875,116
State	-	-	4,455,354	-	4,455,354
Local	-	-	612,901	-	612,901
Total operating revenues	-	481,366	11,255,658	-	11,255,658
Operating expenses:					
Salaries	-	-	20,950,649	72,359	21,023,008
Employee benefits	-	-	7,364,410	276,873	7,641,283
Supplies, materials and other operating expenses and services	2,190,568	9,475	10,516,862	(832,941)	9,683,921
Student aid	-	6,494,917	7,022,058	-	7,022,058
Depreciation	-	-	-	1,943,827	1,943,827
Total operating expenses	2,190,568	6,504,392	45,853,979	1,460,118	47,314,097
Loss from operations	(2,190,568)	(6,023,026)	(34,598,321)	(1,460,118)	(36,058,439)
Non-operating revenues (expenses):					
State apportionment, non-capital	-	-	11,034,851	-	11,034,851
Local property taxes	-	-	14,400,623	-	14,400,623
State taxes and other revenues	-	-	156,512	-	156,512
Pell grants	-	6,023,026	6,023,026	-	6,023,026
Investment income - non-capital	114,449	-	160,389	-	160,389
Interest expense on capital asset related debt	-	-	(4,778,225)	1,610,894	(3,167,331)
Other non-operating revenues (expenses)	2,307	-	541,896	260,558	802,454
Debt reduction	-	-	(1,005,000)	1,005,000	-
Other financing sources (uses)	-	-	-	-	-
Interfund transfers out	-	-	(1,747,860)	1,747,860	-
Interfund transfers in	-	-	1,654,474	(1,654,474)	-
Total non-operating revenues (expenses)	116,756	6,023,026	26,440,686	2,969,838	29,410,524
Loss before capital revenues	(2,073,812)	-	(8,157,635)	1,509,720	(6,647,915)
Capital revenues:					
State apportionment	-	-	109,713	-	109,713
Local property taxes and other revenues, capital	-	-	5,940,516	-	5,940,516
Total capital revenues	-	-	6,050,229	-	6,050,229
Change in net position	(2,073,812)	-	(2,107,406)	1,509,720	(597,686)
Net position, July 1, 2013, as previously stated	27,528,671	-	33,890,311	(17,493,996)	16,396,315
Cumulative effect of change in accounting principle	-	-	-	(1,267,428)	(1,267,428)
Net position, July 1, 2013, as restated	27,528,671	-	33,890,311	(18,761,424)	15,128,887
Net position, June 30, 2014	$ 25,454,859	$ -	$ 31,782,905	$ (17,251,704)	$ 14,531,201

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Direct Programs:		
TRIO Staff Training Program	84.042A	$ 241,488
Adult Education	84.002A	104,052
21st Century Afterschool Program	84.287C	15,160
Student Financial Aid Cluster:		
College Work Study Program	84.033	86,285
Pell Grant Program	84.063	6,023,026
Pell admin	84.063	9,475
SEOG	84.007	71,281
Direct Loans	84.268	400,610
Subtotal Student Financial Aid Cluster		6,590,677
Higher Education - Institutional Aid Program		
Passed through California Department of Education:		
Higher Education - STEM	84.031C	1,046,246
Passed through Hartnell Community College:		
Title V - Higher Education	84.031S	1,408,779
Subtotal Higher Education - Institutional Aid Program		2,455,025
Passed through California Department of Education:		
Vocational and Applied Technology - Title IC	84.011	153,550
Vocational and Applied Technology - CTE Transitions	84.048	44,025
State Vocational Rehabilitation Services	84.126A	110,331
Subtotal U.S. Department of Education		9,714,308
U.S. Department of Agriculture		
Passed through California Department of Education		
Child and Adult Care Food Program	10.558	10,579
U.S. Department of Health and Human Services		
Direct Program:		
Gain	93.558	173,255
Total Federal Programs		$ 9,898,142

See accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2014

	Program Entitlements			Program Revenues				
	Prior Year Carry-forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Unearned Revenue/ Accounts Payable	Total	Program Expend-itures
TANF	$ 799	$ 49,755	$ 50,554	$ 50,554	$ -	$ -	$ 50,554	$ 50,554
Financial Aid - BFAP	-	234,858	234,858	234,858	-	(1,573)	233,285	233,285
EOPS	-	440,453	440,453	440,453	-	-	440,453	440,453
CARE	-	118,157	118,157	118,157	-	-	118,157	118,157
DSPS	80	513,832	513,912	513,912	-	-	513,912	513,912
Cal WORKs	-	313,677	313,677	313,144	533	-	313,677	313,677
Matriculation - Credit	-	431,643	431,643	431,643	-	-	431,643	431,643
Matriculation - Noncredit	651	48,870	49,521	49,521	-	-	49,521	49,521
CCC SMHP	-	64,803	64,803	56,961	7,842	-	64,803	64,803
Staff Diversity	-	4,577	4,577	4,577	-	-	4,577	4,577
HRDAC	12,771	-	12,771	12,771	-	(12,771)	-	-
Basic Skills	107,818	104,212	212,030	212,030	-	(61,583)	150,447	150,447
Region 4	-	10,000	10,000	10,000	-	-	10,000	10,000
Cal Grant B & C	863	343,058	343,921	343,921	-	(1,600)	342,321	342,321
MESA	14,814	46,264	61,078	45,114	15,964	-	61,078	61,078
CTC Apprenticeship	32,930	134,644	167,574	167,574	-	(11,912)	155,662	155,662
Capacity RN Grant	-	107,000	107,000	89,880	17,120	-	107,000	107,000
CTE Comm. Collaborative Project	-	15,936	15,936	15,936	-	-	15,936	15,936
Lifeline	10,171	7,488	17,659	17,659	-	(17,659)	-	-
Adult Education	-	111,956	111,956	111,956	-	(111,956)	-	-
Instructional Equipment	-	109,713	109,713	109,713	-	-	109,713	109,713
Scheduled Maintenance	-	109,710	109,710	109,710	-	(109,710)	-	-
Proposition 39	-	181,627	181,627	181,627	-	(143,632)	37,995	37,995
Water System Replacement	-	440,831	440,831	100,532	340,299	-	440,831	440,831
Child Development - Preschool	-	112,950	112,950	112,950	-	-	112,950	112,950
Total State Programs	$ 180,897	$ 4,056,014	$ 4,236,911	$ 3,855,153	$ 381,758	$ (472,396)	$ 3,764,515	$ 3,764,515

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, 2014

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2013 only)			
1. Noncredit	51		51
2. Credit	306		306
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit	-		-
2. Credit	123		123
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	3,024		3,024
b. Daily Census Contact Hours	37		37
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	532		532
b. Credit	665		665
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	445		445
b. Daily Census Contact Hours	41		41
c. Noncredit Independent Study/ Distance Education Courses	-		-
D. Total FTES	5,224	-	5,224
Supplemental Information:			
E. In-Service Training Courses (FTES)	147		147
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	190		190
b. Credit	522		522
CCFS 320 Addendum			
CDCP	60		60
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, 2014

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, 2014

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional salaries:							
Contract or regular	1100	$ 4,365,895	$ -	$ 4,365,895	$ 4,476,777	$ -	$ 4,476,777
Other	1300	5,602,837	-	5,602,837	6,041,730	-	6,041,730
Total instructional salaries		9,968,732	-	9,968,732	10,518,507	-	10,518,507
Non-instructional salaries:							
Contract or regular	1200	-	-	-	1,729,483	-	1,729,483
Other	1400	-	-	-	84,712	-	84,712
Total non-instructional salaries		-	-	-	1,814,195	-	1,814,195
Total academic salaries		9,968,732	-	9,968,732	12,332,702	-	12,332,702
Classified Salaries							
Non-instructional salaries:							
Regular status	2100	-	-	-	4,368,210	-	4,368,210
Other	2300	-	-	-	66,927	-	66,927
Total non-instructional salaries		-	-	-	4,435,137	-	4,435,137
Instructional aides:							
Regular status	2200	665,561	(125,881)	539,680	665,561	-	665,561
Other	2400	156,113	-	156,113	156,113	-	156,113
Total instructional aides		821,674	(125,881)	695,793	821,674	-	821,674
Total classified salaries		821,674	(125,881)	695,793	5,256,811	-	5,256,811
Employee benefits	3000	2,530,041	(49,232)	2,480,809	5,240,252	-	5,240,252
Supplies and materials	4000	-	-	-	354,957	-	354,957
Other operating expenses	5000	-	-	-	3,498,468	-	3,498,468
Equipment replacement	6420	-	-	-	-	-	-
Total expenditures prior to exclusions		$ 13,320,447	$ (175,113)	$ 13,145,334	$ 26,683,190	$ -	$ 26,683,190

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION
(Continued)
For the Year Ended June 30, 2014

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
Exclusions	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Activities to exclude:							
Instructional staff-retirees' benefits and retirement incentives	5900	$ -	$ -	$ -	$ -	$ -	$ -
Student health services above amount collected	6441	-	-	-	-	-	-
Student transportation	6491	-	-	-	-	-	-
Noninstructional staff-retirees' benefits and retirement incentives	6740	-	-	-	-	-	-
Objects to exclude:							
Rents and leases	5060	-	-	-	386,758	-	386,758
Lottery expenditures		-	-	-	-	-	-
Academic salaries	1000	-	-	-	-	-	-
Classified salaries	2000	-	-	-	-	-	-
Employee benefits	3000	-	-	-	-	-	-
Supplies and materials:	4000						
Software	4100	-	-	-	-	-	-
Books, magazines and periodicals	4200	-	-	-	-	-	-
Instructional supplies and materials	4300	-	-	-	-	-	-
Noninstructional supplies and materials	4400	-	-	-	51,466	-	51,466
Total supplies and materials		-	-	-	51,466	-	51,466
Other operating expenses and services	5000	-	-	-	1,188,725	-	1,188,725
Capital outlay	6000	-	-	-	-	-	-
Library books	6300	-	-	-	-	-	-
Equipment:	6400						
Equipment - additional	6410	-	-	-	-	-	-
Equipment - replacement	6420	-	-	-	-	-	-
Total equipment		-	-	-	-	-	-
Total capital outlay		-	-	-	-	-	-
Other outgo		-	-	-	-	-	-
Total exclusions		$ -	$ -	$ -	$ 1,626,949	$ -	$ 1,626,949
Total for ECS 84362, 50% Law		$ 13,320,447	$ (175,113)	$ 13,145,334	$ 25,056,241	$ -	$ 25,056,241
Percent of CEE (instructional salary cost /Total CEE)		53.2 %	-	52.5 %	100%	-	100%
50% of current expense of education					$ 12,528,121	$ -	$ 12,528,121

See accompany notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

PROP 30 EPA EXPENDITURE REPORT
For the Year Ended June 30, 2014

EPA Proceeds: $ 4,079,472

Activity Classification	Activity Code (0100-5900)	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities		$ 4,079,472			$ 4,079,472

1. PURPOSE OF SCHEDULES

A - Combining Statement of Net Position by Fund and Statement of Revenues, Expenses and Change in Net Position 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 Expenditure of Federal Awards

The accompanying Schedule of Expenditure 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.

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.

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

G - Prop 30 EPA Expenditure Report

This schedule provides the information about the District's EPA proceeds and summarizes how the EPA proceeds were spent.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

Report on Compliance with State Laws and Regulations

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, 2014:

- 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
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Student Fees - Health Fees and Use of Health Fee Funds
- Proposition 39 Clean Energy
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D State Bond Funded Projects
- Proposition 30 Education Protection Account Funds

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with state laws and regulations as listed above of Gavilan Joint Community College District. 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 and the California State Chancellor's Office's California Community College District Audit Manual. 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 on compliance with state laws and regulations. However, our audit does not provide legal determination of Gavilan Joint Community College District's compliance with those requirements.

Opinion with State Laws and Regulations

In our opinion, Gavilan Joint Community College District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2014. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Gavilan Community College District had not complied with the state laws and regulations.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with the Contracted District Audit Manual and which is described in the accompanying Schedule of Audit Findings and Questioned Costs as item 2014-002. Our opinion on State Laws and Regulations is not modified with respect to these matters. Gavilan Joint Community College District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Gavilan Joint Community College District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and the results of that testing based on requirements of the *Contracted District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 18, 2014

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the business-type activities and fiduciary activities of Gavilan Joint Community College District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gavilan Joint Community College District's basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gavilan Joint Community College District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of Gavilan Joint Community College District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Gavilan Joint Community College District's Response to Finding

Gavilan Joint Community College District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Gavilan Joint Community College District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 18, 2014

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

Report on Compliance for Each Major Federal Program

We have audited Gavilan Joint Community College District's compliance with the types of compliance requirements described in the *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, 2014. Gavilan Joint Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Gavilan Joint Community College District's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Gavilan Joint Community College District's compliance.

Opinion on Each Major Federal Program

In our opinion, Gavilan Joint Community College District complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of Gavilan Joint Community College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gavilan Joint Community College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. Accordingly, we do not express an opinion on the effectiveness of Gavilan Joint Community College District's 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 18, 2014

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

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

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

STATE AWARDS

Type of auditors' report issued on compliance for state programs:	Unmodified

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001 SIGNIFICANT DEFICIENCY - CAPITALIZED CONSTRUCTION COSTS

Criteria

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

Condition

The District did not consider approximately $2,063,000 of construction costs for capitalization that were in expense codes other than capital outlay for capitalization.

Effect

Costs incurred for construction projects were not assessed for treatment as capitalizable.

Cause

The District did not establish the requisite internal control procedures that all costs subject to capitalization under generally accepted accounting principles were identified and subjected to capitalization.

Fiscal Impact

Potential understatement of net position as of June 30, 2014 up to $2,063,000.

Recommendation

We recommend the District implement controls to ensure all capitalizable costs are allocated to construction projects.

Corrective Action Plan

The District will develop and implement a procedure for capturing all expenses, including those in object codes 4000 and 5000, related to construction projects for purposes of developing capitalization schedules for the consolidated financial statements.

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2014-002 STATE COMPLIANCE - SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW)

Criteria

Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the District's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors".

Condition

The District improperly included four individuals as instructional aides in the 50 Percent Law calculation.

Effect

The District did not comply with State requirements. Payroll charges included in the instructional aide classification were $175,113. After removing the improperly classified transactions the District was still in compliance with expending Instructional Salary Costs in excess of 50 percent.

Cause

The District incorrectly included salary and benefits for positions which were not instructional aides in the 50 Percent Law calculation.

Fiscal Impact

No impact.

Recommendation

The District should review procedures used in determining the proper classification of salary costs to ensure job descriptions for instructional costs charged as instructional aides are properly classified for the 50 Percent Law calculation.

Corrective Action Plan

The District will review and revise job descriptions and examine general ledger codes for instructional aides and similar classified positions that provide classroom instruction to ensure that assignments are consistent with State requirements for the purpose of compliance with the 50% Law.

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, 2014

Finding/Recommendation	Current Status	District Explanation If Not Fully Implemented
No matters were reported.		