GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COUNTY OF SANTA CLARA

GILROY, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2010

AND

INDEPENDENT AUDITOR'S REPORT

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2010

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FINANCIAL STATEMENTS
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For the Year Ended June 30, 2010

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PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying financial statements of the business-type activities of Gavilan Joint Community College District (the "District") as of and for the year ended June 30, 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the net assets of the business-type activities of Gavilan Joint Community College District as of June 30, 2010, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) and the Required Supplementary Information, such as the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
December 17, 2010

GAVILAN COLLEGE

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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 the Gavilan Joint Community College District (the District) as of June 30, 2010. The report consists of three basic financial statements: the Statement of Financial Position, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Gavilan Joint Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements (GASB) Codification Section (Cod. Sec.) 2200.101, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and Cod. Sec. 2200.190-.191, Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses and Change in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and non-operating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The fiscal year ending June 30, 2010, provided the District with enough resources to stabilize the Budget and to make a number of improvements in achieving the goals of the Strategic Plan and the Educational Master Plan. The Board of Trustees, faculty, managers and professional support staff of the District have outlined primary values through a strategic planning update process. The product of this process is the updated five-year Strategic Plan 2010/11 – 2014/15. The Board of Trustees approved the Strategic Plan at the June 2010 Board of Trustees meeting. The District is also in the process of integrating all planning efforts to include the Strategic Plan. Resources are allocated to the priority activities identified through the strategic planning process.

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

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

The District has been concentrating on achieving maximum Full Time Equivalent Students (FTES) to obtain and stabilize growth revenue funds. In FY 04/05 and FY 05/06 there was a moderate increase in student enrollment while in FY 06/07, FY 07/08, FY 08/09, and FY 09/10 there was more substantial growth. It appears that in this academic year (10/11), student demand continues to increase. The District, however, is "capping" the number of sections to equal state funding. This highlights the District's need to maximize growth to the level of funding and also enhance non-state sources of revenue.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $23.3 million and $25.7 million for the fiscal years ended June 30, 2010 and June 30, 2009, respectively. Of this amount, $0.9 million were unrestricted as of both June 30, 2010 and 2009. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities. The more significant changes noted in Table 1 are primarily related to activity in the 2004 Measure E Bond program. The Measure E Bond program spent an additional $3.1 million for capital assets which decreased the current and other assets and increased the capital assets which is also offset by the additional $1.5 million in depreciation.

Table 1

(Amounts in thousands)	Governmental Activities as of June 30 for the Fiscal Year		
	2010	2009	Change
Current and other assets	$ 22,616	$ 24,912	$ (2,296)
Capital assets	82,994	81,444	1,550
Total Assets	105,610	106,356	(746)
Current liabilities	8,231	6,097	2,134
Long-term obligations	74,100	74,535	(435)
Total Liabilities	82,331	80,632	1,699
Net assets			
Invested in capital assets, net of related debt	14,465	17,866	(3,401)
Restricted	7,899	6,916	983
Unrestricted	915	942	(27)
Total Net Assets	**$ 23,279**	**$ 25,724**	**$ (2,445)**

The $0.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have $0.9 million left.

Change in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Revenues, Expenses and Change in Net Assets*. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year. The more significant changes noted in Table 2 are primarily related to activity in the Federal STEM Grant which increased $1.2 million, and the Pell Grant which increased $1.8 million from the prior year. The change in Net OPEB asset caused a decrease in employee benefit costs from the prior year.

Table 2

(Amounts in thousands)	Governmental Activities for the Fiscal Year		
	2010	2009	Change
Revenues			
Operating revenues:			
Tuition and fees	$ 1,992	$ 1,419	$ 573
Non-operating revenues:			
State apportionment	11,908	11,593	315
Grants and contracts - Federal	9,024	5,533	3,491
Grants and contracts - State and local	4,772	4,199	573
Property taxes	17,782	18,233	(451)
State taxes and other revenue	278	1,725	(1,447)
Other revenues	689	2,381	(1,692)
Total Revenues	46,445	45,083	1,362
Expenses			
Salaries	21,040	21,731	(691)
Employee benefits	5,434	6,718	(1,284)
Supplies, materials and other operating expenses and services	16,730	12,664	4,066
Depreciation	1,512	1,464	48
Other non-operating expenses	4,174	3,617	557
Total Expenses	48,890	46,194	2,696
Change in Net Assets	**$ (2,445)**	**$ (1,111)**	**$ (1,334)**

Governmental Activities

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

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $11.7 million, which is a decrease of $4.8 million from last year.

The primary reasons for these changes are:

1. Our General Fund increased by $0.5 million.
2. Our Special Revenue Funds and Debt Service Fund remained stable this year.
3. The Measure E Construction Fund decreased by $5.3 million due to ongoing construction projects.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 14, 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had $83 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of $1.6 million, or 2 percent, from last year, predominately due to ongoing Measure E projects.

Table 3

(Amounts in thousands)	Fixed Assets for the Fiscal Year		
	2010	2009	Change
Land	$ 27,653	$ 27,653	$ -
Work in Progress	1,280	17,082	(15,802)
Land Improvements	866	866	-
Building and Improvements	63,691	45,633	18,058
Equipment and vehicles	4,856	4,050	806
Total	98,346	95,284	3,062
Less Accumulated Depreciation	(15,352)	(13,840)	(1,512)
Net Total	**$ 82,994**	**$ 81,444**	**$ 1,550**

The District is in the construction phase for bond renovation projects. A few capital projects are planned to continue through the 2010-11 year.

Long-Term Obligations

At the end of this year, the District had $75.1 million in debt outstanding. The long-term obligations consisted of:

Table 4

(Amounts in thousands)	Debt for the Fiscal Year		
	2010	2009	Changes
General obligation bonds	$ 74,535	$ 74,835	$ (300)
Compensated absences	581	575	6
Total	**$ 75,116**	**$ 75,410**	**$ (294)**

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-10 ARE NOTED BELOW:

The most significant accomplishment of fiscal year 2009-2010 was balancing the budget and the continued collaborative process used in a number of District projects including: campus renovation, an Enterprise Resource Planning (ERP) system, and the purchase of rights to real property in Coyote Valley and San Benito County. On March 2, 2004, the electorate within the District's geographic boundaries approved a general obligation bond known as Measure E. The value of the Bond is for 108 million dollars. The bond proceeds are being utilized by the District to plan, design and construct a number of projects, primarily in the areas of infrastructure development and upgrades along with modernization of existing District facilities including technology upgrades. Other accomplishments included finalizing agreements with the Gavilan College Faculty Association (GCFA) and with the California School Employee Association (CSEA). In spite of a tight budget year, the District was able to continue to fund employee health benefit packages along with step/column increases.

In addition, as a carryover from FY 2007-2008, the Accrediting Commission for Community and Junior Colleges (of the Western Associations of Schools and Colleges) took action to reaffirm the six-year accreditation of Gavilan College. The Accrediting Commission reached its decision after a review of the institution's Self-Study Report (available at http://www.gavlan.edu/accreditation/) and the report of the evaluation team which visited Gavilan College in March, 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2010-11 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

The state budget included provisions that reduce workload (FTES) measures to the amount of state funding available. It is expected that Gavilan College's adjusted base revenue of $26,772,560 will remain the same. The FY 10/11 Final Budget is based on zero growth revenue and zero Cost of Living Allowance (COLA).

The FY 10/11 Final Budget shows a "breakeven" budget as projected expenditures equal projected revenues. This "breakeven" budget is achieved, however, by $569,000 the retiree health benefit trust fund funding the $569,000 pay-as-you-go employee benefit payments instead of the General Fund. Without this payment, the general fund would show a deficit. A deficit is a concern due to the uncertainty of the state budget and growth. Although the District has adequate reserves to deal in the short term with a deficit, it is the District's intent to eliminate the deficit.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Business Services, at Gavilan Joint Community College District, 5055 Santa Teresa Blvd, Gilroy, California, 95020, or e-mail at scheu@gavilan.edu.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	3,028,517
Accounts receivable, net (Note 3)		4,730,729
Student loans receivable, net (Note 3)		205,619
Prepaid expenses		14,583
Total current assets		7,979,448
Noncurrent assets:		
Restricted cash, cash equivalents and investments (Note 2)		9,231,746
Net OPEB asset (Note 10)		5,404,541
Capital assets, net (Notes 4 and 14)		82,993,940
Total noncurrent assets		97,630,227
Total assets	$	105,609,675
LIABILITIES		
Current liabilities:		
Accounts payable	$	1,997,076
Accrued payroll		751,819
Accrued interest payable		1,500,136
TRAN payable (Note 6)		1,420,000
Deferred revenue (Note 5)		1,263,965
Amounts held in custody on behalf of others		281,533
Compensated absences (Note 7)		580,865
Long-term liabilities - current portion (Note 7)		435,000
Total current liabilities		8,230,394
Noncurrent liabilities:		
Long-term liabilities - noncurrent portion (Note 7)		74,100,000
Total liabilities		82,330,394
Commitments and contingencies (Note 5, 11 and 14)		
NET ASSETS		
Invested in capital assets, net of related debt		14,465,483
Restricted for:		
Debt service		2,253,159
Capital projects		132,752
Educational programs		108,110
Other special purposes		5,404,541
Unrestricted		915,236
Total net assets		23,279,281
Total liabilities and net assets	$	105,609,675

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2010

Operating revenues:	
Tuition and fees	$ 4,558,673
Less: scholarship discounts and allowances	(2,566,230)
Net tuition and fees	1,992,443
Grants and contracts, non-capital:	
Federal	9,024,198
State	3,522,631
Local	1,249,137
Total operating revenues	15,788,409
Operating expenses (Note 13):	
Salaries	21,040,439
Employee benefits (Notes 9 and 10)	5,434,302
Supplies, materials, and other operating expenses and services	16,730,252
Depreciation (Note 4)	1,511,708
Total operating expenses	44,716,701
Loss from operations	(28,928,292)
Non-operating revenues (expenses):	
State apportionment, non-capital	11,907,969
Local property taxes (Note 8)	13,814,590
State taxes and other revenues	146,961
Investment income, noncapital	130,274
Interest expense on capital asset-related debt, net	(4,174,317)
Other non-operating revenues	558,956
Total non-operating revenues (expenses)	22,384,433
Loss before capital revenues	(6,543,859)
Capital revenues:	
State apportionment	131,112
Local property taxes and revenues (Note 8)	3,967,856
Total capital revenues	4,098,968
Change in net assets	(2,444,891)
Net assets, July 1, 2009	25,724,172
Net assets, June 30, 2010	$ 23,279,281

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

Cash flows from operating activities:	
Tuition and fees	$ 2,108,830
Federal grants and contracts	8,691,995
State grants and contracts	2,633,084
Local grants and contracts	1,908,224
Payments to suppliers	(10,967,994)
Payments to employees	(20,282,499)
Payments for benefits	(6,510,187)
Payments to students	(5,762,161)
Other receipts	1,459,929
Net cash used in operating activities	(26,720,779)
Cash flows from noncapital financing activities:	
State appropriations	12,704,476
Local property taxes	13,814,590
State taxes and other apportionments	146,961
Other non-operating receipts (payments)	558,956
Net cash provided by noncapital financing activities	27,224,983
Cash flows from capital and related financing activities:	
State apportionment for capital purposes	131,112
Local property taxes and other revenues for capital purposes	3,967,856
Purchase of capital assets	(3,061,726)
Principal paid on capital debt	(300,000)
Interest paid on capital debt, net	(4,178,809)
Net cash used in capital and related financing activities	(3,441,567)
Cash flows provided by investing activities:	
Interest income on investments	130,274
Net decrease in cash and cash equivalents	(2,807,089)
Cash and cash equivalents, beginning of year	15,067,352
Cash and cash equivalents, end of year	$ 12,260,263

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2010

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (28,928,292)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	1,511,708
Changes in assets and liabilities:	
Receivables, net	(562,663)
Prepaid expenses	(744,646)
Accounts payable and other accrued liabilities	1,088,858
Accrued payroll	751,819
Deferred revenue	116,387
Compensated absences	6,121
Amounts held for trust	39,929
Net cash used in operating activities	$ (26,720,779)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100.101 as amended by GASB Cod. Sec. 2100.138. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District has no component units.

Basis of Presentation - Financial Statements

GASB released Cod. Sec. 2200.101, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Cod. Sec. 2200.190-.191, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Cod. Sec. 2200.101 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Cod. Sec. 2200 and 2300. The District adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Cod. Sec. 2100.138, "Determining Whether Certain Organizations Are Component Units," which amends GASB Cod. Sec. 2100.119-.140, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by the aformentioned provisions. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's financial statements provide a comprehensive one-line look at its financial 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Restricted Cash, Cash Equivalents and Investments

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

Fair Value of Investments

The District records its investment in Santa Clara County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and change in net assets. The fair value of investments, including the Santa Clara County Treasury external investment pool, at June 30, 2010 approximated their carrying value.

Accounts Receivable

Accounts receivable 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. Accounts receivable 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Deferred Revenue

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

Net Assets

The District's net assets are classified as follows:

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Apportionments

Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to a recalculation in February 2010 will be recorded in the year computed by the state.

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 and Public Employees 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 $511,689 (4.517% of salaries subject to CalSTRS).

Classification of Revenue

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, State and local grants and contracts and Federal appropriations.

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the prior year balances to conform with the current year presentation.

Scholarship Discounts and Allowances

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2010, consisted of the following:

Pooled Fund:	
Cash in County Treasury	$ 3,308,197
Deposits:	
Cash on hand and in banks	161,379
Funds invested by Fiscal Agents	8,790,687
Total cash, cash equivalents and investments	12,260,263
Less: restricted cash, cash equivalents and investments:	
Funds invested by Fiscal Agents	8,790,687
Other restricted	441,059
Total restricted cash, cash equivalents and investments	9,231,746
Net cash, cash equivalents and investments	$ 3,028,517

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). At year end, book and bank balances differ due to deposits in transit and outstanding checks. At June 30, 2010, the carrying amount of the District's cash on hand and in banks for the primary governmental entity (including certificates of deposit) was $161,379 and the bank balance was $186,732 which was fully insured by the FDIC.

Credit Risk

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

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2010, 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 amount held by a third party custodian in the District's name for future capital projects.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
Registered State Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money-Market Mutual Funds	N/A	20%	10%
Mortgage Pass through Securities	5 years	20%	None
Joint Power Authority Pools	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2010, 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, 2010, the District had no concentration of credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 are summarized as follows:

Federal	$ 898,112
State	3,229,023
Local and other	603,594
	$ 4,730,729
Student receivables, net	$ 205,619

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2009	Additions	Deductions	Transfers	Balance June 30, 2010
Non-depreciable:					
Land	$ 27,653,002				$ 27,653,002
Construction in progress	17,081,974	$ 2,179,139		$ (17,980,933)	1,280,180
Depreciable:					
Land improvements	865,502				865,502
Buildings and building improvements	45,632,980	77,114		17,980,933	63,691,027
Furniture and equipment	3,784,967	805,473			4,590,440
Vehicles	265,431				265,431
Total	95,283,856	3,061,726			98,345,582
Less accumulated depreciation:					
Land improvements	(623,080)	(15,944)			(639,024)
Buildings and building improvements	(10,462,184)	(1,061,962)			(11,524,146)
Furniture and equipment	(2,550,204)	(420,822)			(2,971,026)
Vehicles	(204,466)	(12,980)			(217,446)
Total	(13,839,934)	(1,511,708)			(15,351,642)
Capital assets, net	$ 81,443,922	$ 1,550,018	$ -	$ -	$ 82,993,940

5. DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

Deferred Federal and State revenue	$ 546,829
Deferred local revenue	463,902
Deferred tuition and other student fees	253,234
Total deferred revenue	$ 1,263,965

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. A summary of the District's TRANs activity for the year ended June 30, 2010 is as follows:

	Outstanding July 1, 2009	Additions	Deletions	Outstanding June 30, 2010
Series 2010B - 2.25% Tax Revenue Anticipation Note	$ -	$ 1,420,000	$ -	$ 1,420,000

Subsequent to June 30, 2010, the District entered into a new TRANs agreement for $2,000,000 payable on June 30, 2011.

7. LONG-TERM LIABILITIES

General Obligation Bonds

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

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

Net bond premium of $149,188 (net of accumulated amortization) were capitalized and are amortized over the term of the Bond.

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

Year Ending June 30,	Principal	Interest	Total
2011	$ 265,000	$ 1,306,210	$ 1,571,210
2012	335,000	1,295,457	1,630,457
2013	415,000	1,280,876	1,695,876
2014	500,000	1,262,575	1,762,575
2015	590,000	1,240,776	1,830,776
2016-2020	4,565,000	5,679,342	10,244,342
2021-2025	8,315,000	4,046,941	12,361,941
2026-2030	10,530,000	1,228,425	11,758,425
	$ 25,515,000	$ 17,340,602	$ 42,855,602

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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

Net bond premium of $79,843 (net of accumulated amortization) were 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
2011	$ 170,000	$ 2,289,644	$ 2,459,644
2012	225,000	2,282,843	2,507,843
2013	300,000	2,273,844	2,573,844
2014	385,000	2,261,844	2,646,844
2015	470,000	2,246,444	2,716,444
2016-2020	3,895,000	10,871,820	14,766,820
2021-2025	7,185,000	9,718,970	16,903,970
2026-2030	14,920,000	7,620,945	22,540,945
2031-2035	21,470,000	2,094,513	23,564,513
	$ 49,020,000	$ 41,660,867	$ 90,680,867

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
General Obligation Bonds	$ 74,835,000		$ 300,000	$ 74,535,000	$ 435,000
Compensated absences	574,744	$ 6,121		580,865	580,865
	$ 75,409,744	$ 6,121	$ 300,000	$ 75,115,865	$ 1,015,865

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.

The voters of the District passed a General Obligation Bond in 2004 for the acquisition, construction, and remodeling of District capital assets. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected. The property tax revenue received for the repayment of the bonds for the year ended June 30, 2010, was $0.0163 per $100 of assessed property valuation.

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.

<u>State Teachers' Retirement System (STRS)</u>

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.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Plan Description (Continued)

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

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were $931,744, $945,705 and $885,423, respectively, and equals 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2008, the independent actuaries for STRS determined that, at June 30, 2008, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by $22.5 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of $22.5 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Plan as of June 30, 2008, the independent actuaries for STRS determined that, at June 30, 2008, the actuarial value of the CB program's actuarial value of assets exceeded the program's accrued liabilities by $861,000. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Descriptions

Full-time classified employees participate in CalPERS, a multiple employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

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 District's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ended in July 2003. The required employer contribution rate for fiscal year 2009-2010 was 9.428% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, 2008 were $754,958, $751,025 and $669,155, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use a Tax Deferred Annuity (TDA) as its alternative plan. An employee is required to contribution 7.5% of his or her gross earnings to the pension plan.

10. OTHER POSTEMPLOYMENT BENEFITS

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

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

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 obligation:

Annual required contribution	$ 529,198
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	529,198
Contributions made	(790,628)
Change in net OPEB asset	(261,430)
Net OPEB asset - beginning of year	(5,143,111)
Net OPEB asset - end of year	$ (5,404,541)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the preceding year were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
June 30, 2009	$ 509,881	99.1%	$ (5,143,111)
June 30, 2010	$ 529,198	91.1%	$ (5,404,541)

As of July 1, 2008, the most recent actuarial valuation date, the plan was 65 percent funded. The actuarial accrued liability for benefits was $8,202,275, and the actuarial value of assets was $5,299,464, resulting in an unfunded actuarial accrued liability (UAAL) of $2,902,811. The covered payroll (annual payroll of active employees covered by the Plan) was $15,450,194, and the ratio of the UAAL to the covered payroll was 18 percent.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, shown above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 9 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 28 years.

11. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

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

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 on the District's financial position.

12. JOINT POWERS AGREEMENTS

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

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

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

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

	BACCDJPA June 30, 2010	NCCCP June 30, 2010
Total assets	$ 7,163,229	$ 2,533,248
Total liabilities	$ 2,751,849	$ 766,908
Net assets	$ 4,411,380	$ 1,766,340
Total revenues	$ 3,591,909	$ 4,257,345
Total expenses	$ 4,221,030	$ 4,202,536
Change in net asset	$ (629,121)	$ 54,809

13. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2010.

Functional Classifications	Salaries	Employee Benefits	Supplies Materials and Other Operating Expenses and Services	Depreciation	Total
Instruction	$ 8,893,553	$ 839,793	$ 837,469		$ 10,570,815
Academic Support	3,412,823	1,171,887	1,002,225		5,586,935
Student Services	3,804,719	1,183,267	382,142		5,370,128
Operations and Maintenance of Plant	686,652	343,826	6,014,862		7,045,340
Institution Support	2,345,501	1,423,067	1,365,637		5,134,205
Community Services & Economic Development	1,545,055	379,098	1,530,137		3,454,290
Auxiliary Operations	352,136	93,364	70,666		516,166
Student Aid			5,306,420		5,306,420
Physical Property and Related Acquisitions			220,694	$ 1,511,708	1,732,402
	$ 21,040,439	$ 5,434,302	$ 16,730,252	$ 1,511,708	$ 44,716,701

14. CONSTRUCTION COMMITMENTS

As of June 30, 2010, the District has approximately $5.7 million in outstanding commitments on construction contracts.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2010

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/09	July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	64.6%	$ 14,777,481	35.12%
6/30/10	July 1, 2008	$ 5,299,464	$ 8,202,275	$ 2,902,811	64.6%	$ 15,450,194	33.59%

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

SUPPLEMENTAL INFORMATION

PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the basic financial statements of Gavilan Joint Community College District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the *California Community Colleges Contracted District Audit Manual*, presented by the Chancellor's office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial and statistical information including the Schedule of Expenditures of Federal Awards and the reports listed below, is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Gavilan Joint Community College District and includes the following schedules:

- Schedule of Expenditures of Federal Awards
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Basic Financial Statements
- Notes to Supplemental Information

The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION
(Continued)

The supplemental combining statement of net assets by fund and combining statement of revenues, expenditures and change in net assets by fund on pages 35 through 38 have been presented for the purpose of additional analysis and are not a required part of the basic financial statements. Accordingly, they have not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them.

Perry-Smith LLP

Sacramento, California
December 17, 2010

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2010

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 Junior Colleges.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2010, were composed of the following members:

BOARD OF TRUSTEES

Members	Office	Term Expires
Debra Smith	President	2010
Kent Child	Vice President	2010
Tom Breen, Esq.	Clerk	2012
Mike Davenport	Trustee	2012
Mark Dover	Trustee	2012
Laura Perry, Esq.	Trustee	2010
Elvira Zaragoza Robinson, Esq.	Trustee	2010
Vacant	Student Trustee	

DISTRICT ADMINISTRATION

Dr. Steven Kinsella
Superintendent/President

Dr. Kathleen Rose
Vice President of Instructional Services

John Pruitt
Vice President of Student Services

Joseph Keeler
Vice President of Administrative Services

Sherrean Carr
Dean of Technical and Public Services

Fran Lozano
Dean of Liberal Arts and Sciences

Ron Hannon
Dean of Physical Education and Athletics

Fran Lopez
Associate Dean, Disabled Student Programs and Services

Rachel Perez
Associate Dean, Community Outreach and Grants Management

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

Susan Cheu
Director, Business Services

James Bowers
Director, Human Resources

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET ASSETS BY FUND

June 30, 2010

	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	$ 3,041,193	$ 31,032	$ 19,743	$ 108,751	$ 10,738	$ 2,250,307	$ 32,677
Accounts receivable, net	3,045,989	1,011,684		1,218	45,981	2,852	302,834
Student loans receivable, net	205,619						
Due from other funds	353,505				96,438		
Prepaid expenses	14,583						
Total current assets	6,660,889	1,042,716	19,743	109,969	153,157	2,253,159	335,511
Noncurrent assets:							
Restricted cash, cash equivalents and investments							
Net OPEB asset							
Capital assets, net							
Total noncurrent assets							
Total assets	$ 6,660,889	$ 1,042,716	$ 19,743	$ 109,969	$ 153,157	$ 2,253,159	$ 335,511
Liabilities							
Current liabilities:							
Accounts payable	$ 694,454	$ 362,728	$ 327	$ 2,686	$ 2,686		$ 14,690
Accrued payroll	549,351	199,694		1,549	1,225		
Accrued interest payable							
TRAN payable	1,420,000						
Deferred revenue	537,960	480,294		17,040			
Amounts held in custody on behalf of others							
Due to other funds	234,216				149,246		188,069
Compensated absences							
Long-term liabilities - current portion							
Total current liabilities	3,435,981	1,042,716	327	21,275	153,157		202,759
Noncurrent liabilities:							
Long-term liabilities - noncurrent portion							
Total liabilities	3,435,981	1,042,716	327	21,275	153,157		202,759
Net Assets							
Invested in capital assets, net of related debt							
Restricted for:							
Debt service							
Capital projects							
Educational programs							
Other special purposes							
Unrestricted	3,224,908		19,416	88,694		$ 2,253,159	$ 132,752
Total net assets	3,224,908		19,416	88,694		2,253,159	132,752
Total liabilities and net assets	$ 6,660,889	$ 1,042,716	$ 19,743	$ 109,969	$ 153,157	$ 2,253,159	$ 335,511

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF NET ASSETS BY FUND
(Continued)
June 30, 2010

	Property Development Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Assets
Assets						
Current assets:						
Cash and cash equivalents	$ 1,047	$ 6,540,380	$ (57,138)	$ 11,978,730	$ (8,950,213)	$ 3,028,517
Accounts receivable, net	2	15,185	304,984	4,730,729		4,730,729
Students receivable, net				205,619		205,619
Due from other funds		118,665		568,608	(568,608)	
Prepaid expenses				14,583		14,583
Total current assets	1,049	6,674,230	247,846	17,498,269	(9,518,821)	7,979,448
Noncurrent assets:						
Restricted cash, cash equivalents and investments					9,231,746	9,231,746
Net OPEB asset					5,404,541	5,404,541
Capital assets, net					82,993,940	82,993,940
Total noncurrent assets					97,630,227	97,630,227
Total assets	$ 1,049	$ 6,674,230	$ 247,846	$ 17,498,269	$ 88,111,406	$ 105,609,675
Liabilities						
Current liabilities:						
Accounts payable		$ 661,779	$ 247,846	$ 1,987,196	$ 9,880	$ 1,997,076
Accrued payroll				751,819		751,819
Accrued interest payable					1,500,136	1,500,136
TRAN payable				1,420,000		1,420,000
Deferred revenue				1,035,294	228,671	1,263,965
Amounts held in custody on behalf of others					281,533	281,533
Due to other funds	$ 1,049	5,908		578,488	(578,488)	
Compensated absences					580,865	580,865
Long-term liabilities - current portion					435,000	435,000
Total current liabilities	1,049	667,687	247,846	5,772,797	2,457,597	8,230,394
Noncurrent liabilities:						
Long-term liabilities - noncurrent portion					74,100,000	74,100,000
Total liabilities	1,049	667,687	247,846	5,772,797	76,557,597	82,330,394
Net Assets						
Invested in capital assets, net of related debt					14,465,483	14,465,483
Restricted for:						
Debt service					2,253,159	2,253,159
Capital projects					132,752	132,752
Educational programs					108,110	108,110
Other special purposes					5,404,541	5,404,541
Unrestricted		6,006,543		11,725,472	(10,810,236)	915,236
Total net assets		6,006,543		11,725,472	11,553,809	23,279,281
Total liabilities and net assets	$ 1,049	$ 6,674,230	$ 247,846	$ 17,498,269	$ 88,111,406	$ 105,609,675

See accompanying notes to supplemental information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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

Year Ended June 30, 2010

	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	$ 1,632,049	$ 360,394					
Less: Scholarship discounts and allowance							
Net tuition and fees	1,632,049	360,394					
Grants and contracts, non-capital:							
Federal	202,780	3,471,635			$ 35,418		
State	843,267	2,431,968			247,396		
Local	286,254	711,235			251,648		
Total operating revenues	2,964,350	6,975,232			534,462		
Operating expenses:							
Salaries	15,553,327	4,816,309		$ 86,142	535,816		
Employee benefits	4,878,865	1,339,198		38,718	234,302		
Supplies, materials and other operating expenses and services	6,100,120	2,618,148	$ 122,461	12,114	33,433	$ 551	$ 192,444
Depreciation							
Total operating expenses	26,532,312	8,773,655	122,461	136,974	803,551	551	192,444
Operating (loss) income	(23,567,962)	(1,798,423)	(122,461)	(136,974)	(269,089)	(551)	(192,444)
Non-operating revenues (expenses):							
State apportionment, non-capital	11,907,969						
Local property taxes	13,814,590						
State taxes and other revenues	116,557					30,404	
Investment income - non-capital	27,045				345	3,005	(168)
Interest expense on capital asset related debt						(3,605,716)	
Other non-operating revenues (expenses)	311,354	112,302		153,015	3,351		
Debt reduction						(300,000)	
Interfund transfers out	(2,061,528)	(5,141)					
Interfund transfers in		1,691,262			265,393		
Total non-operating revenues (expenses)	24,115,987	1,798,423		153,015	269,089	(3,872,307)	(168)
Income (loss) before capital revenues	548,025		(122,461)	16,041		(3,872,858)	(192,612)
Capital revenues:							
State apportionment							131,112
Local property taxes and other revenues, capital						3,967,856	
Total capital revenues						3,967,856	131,112
Change in net assets	548,025		(122,461)	16,041		94,998	(61,500)
Net assets, July 1, 2009	2,676,883		141,877	72,653		2,158,161	194,252
Net assets, June 30, 2010	$ 3,224,908	$ -	$ 19,416	$ 88,694	$ -	$ 2,253,159	$ 132,752

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS BY FUND
(Continued)
Year Ended June 30, 2010

	Property Development Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Assets
Operating revenues:						
Tuition and fees				$ 1,992,443	$ 2,566,230	$ 4,558,673
Less: Scholarship discounts and allowance					(2,566,230)	(2,566,230)
Net tuition and fees				1,992,443		1,992,443
Grants and contracts, non-capital:						
Federal			$ 5,314,365	9,024,198		9,024,198
State				3,522,631		3,522,631
Local				1,249,137		1,249,137
Total operating revenues			5,314,365	15,788,409		15,788,409
Operating expenses:						
Salaries		$ 42,724		21,034,318	6,121	21,040,439
Employee benefits		19,104		6,510,187	(1,075,885)	5,434,302
Supplies, materials and other operating expenses and services	$ 28,249	5,288,528	5,314,365	19,710,413	(2,980,161)	16,730,252
Depreciation					1,511,708	1,511,708
Total operating expenses	28,249	5,350,356	5,314,365	47,254,918	(2,538,217)	44,716,701
Operating (loss) income	(28,249)	(5,350,356)		(31,466,509)	2,538,217	(28,928,292)
Non-operating revenues (expenses):						
State apportionment, non-capital				11,907,969		11,907,969
Local property taxes				13,814,590		13,814,590
State taxes and other revenues				146,961		146,961
Investment income - non-capital	(200)	100,247		130,274		130,274
Interest expense on capital asset related debt				(3,605,716)	(568,601)	(4,174,317)
Other non-operating revenues (expenses)				580,022	(21,066)	558,956
Debt reduction				(300,000)	300,000	
Interfund transfers out				(2,066,669)	2,066,669	
Interfund transfers in	28,449			1,985,104	(1,985,104)	
Total non-operating revenues (expenses)	28,249	100,247		22,592,535	(208,102)	22,384,433
Income (loss) before capital revenues		(5,250,109)		(8,873,974)	2,330,115	(6,543,859)
Capital revenues:						
State apportionment				131,112		131,112
Local property taxes and other revenues, capital				3,967,856		3,967,856
Total capital revenues				4,098,968		4,098,968
Change in net assets		(5,250,109)		(4,775,006)	2,330,115	(2,444,891)
Net assets, July 1, 2009		11,256,652		16,500,478	9,223,694	25,724,172
Net assets, June 30, 2010	$ -	$ 6,006,543	$	$ 11,725,472	$ 11,553,809	$ 23,279,281

See accompanying notes to supplemental information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2010

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	$ 264,735
Student Financial Aid Cluster:		
College Work Study Program	84.033	70,854
Pell Grant Program	84.063	5,234,000
SEOG	84.007	45,932
Academic Competitiveness Grant	84.375	34,433
Passed through California Department of Education:		
Vocational and Applied Technology - Title IC	84.011	169,980
Vocational and Applied Technology - Tech Prep	84.048	67,750
State Vocational Rehabilitation Services	84.126A	206,229
Higher Education - STEM	84.031C	1,919,284
ARRA: SFSF	84.397	202,227
Passed through Hartnell Community College:		
Title V - Higher Education	84.031S	318,838
Subtotal U.S. Department of Education		8,534,262
U.S. Department of Agriculture		
Direct Programs:		
Veterans Reserve Funds	10.665	553
Passed through California Department of Education		
Child and Adult Care Food Program	10.558	35,418
Subtotal U.S. Department of Agriculture		35,971
U.S. Department of Health and Human Services Direct Programs		
Passed through Department of Education:		
GAIN	93.558	143,020
Temporary Assistance for Needy Families	93.558	61,399
Passed through County of Santa Clara:		
CalWorks: Stimulus	93.558	249,546
Subtotal U.S. Department of Health and Human Services		453,965
Total Federal Programs		$ 9,024,198

See accompanying notes to supplemental information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2010

	Program Entitlements			Program Revenues				
	Prior Year Carry-forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue/ Accounts Payable	Total	Program Expend-itures
TANF	$	62,573	$ 62,573	$ 39,795	$ 23,223	$ 445	$ 62,573	$ 62,573
Financial Aid - BFAP	10,974	$ 209,609	220,583	220,583			220,583	220,583
EOPS	8,760	328,623	337,383	352,565		15,182	337,383	337,383
CARE		114,816	114,816	116,152		1,336	114,816	114,816
DSPS	(43,925)	440,555	396,630	440,555		43,925	396,630	396,630
Cal WORKs		173,439	173,439	173,439			173,439	173,439
Matriculation - Credit		230,871	230,871	230,871			230,871	230,871
Matriculation - Noncredit	7,587	9,673	17,260	26,717		9,457	17,260	17,260
DRC Carryover	51,036		51,036	51,036			51,036	51,036
Staff Diversity		4,785	4,785	4,785			4,785	4,785
HRDAC	12,771		12,771	12,771		12,771		
Basic Skills	(85,847)	144,247	58,400	144,598		86,198	58,400	58,400
Region 4		10,000	10,000	10,000			10,000	10,000
Articulation	1,148		1,148	1,148			1,148	1,148
Cal Grant B & C		279,522	279,522	279,522			279,522	279,522
MESA	17,090	52,802	69,892	65,016	12,642	7,766	69,892	69,892
MTBE Removal from Water		131,112	131,112		131,112		131,112	131,112
BIG Mini Grant		4,946	4,946	4,946			4,946	4,946
Economic Work Force Dev - Charles River		41,376	41,376	34,756	6,620		41,376	41,376
CTC Apprenticeship	(4,640)	182,359	177,719	164,432	13,287		177,719	177,719
General Child Care	(11,268)	204,087	192,819	191,698	1,121		192,819	192,819
CDC Preschool Grant		54,577	54,577	39,033	15,544		54,577	54,577
Capacity RN Grant	42,313	85,187	127,500	113,870	13,630		127,500	127,500
Equipment for Nursing	24,906		24,906	24,906			24,906	24,906
CTE Comm. Collaborative Project		27,184	27,184	27,184			27,184	27,184
Total State Programs	$ 30,905	$ 2,792,343	$ 2,823,248	$ 2,770,378	$ 217,179	$ 177,080	$ 2,810,477	$ 2,810,477

See accompanying notes to supplemental information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

Annual Attendance as of June 30, 2010

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2009 only)			
1. Noncredit	121		121
2. Credit	322		322
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
1. Noncredit	-		-
2. Credit	-		-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	3,666		3,666
b. Daily Census Contact Hours	64		64
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	563		563
b. Credit	790		790
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	255		255
b. Daily Census Contact Hours	26		26
c. Noncredit Independent Study/ Distance Education Courses	-		-
D. Total FTES	5,807	-	5,807
Supplemental Information:			
E. In-Service Training Courses (FTES)	488		488
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	184		184
b. Credit	788		788
CCFS 320 Addendum			
CDCP	-		-
Centers FTES			
a. Noncredit	-		-
b. Credit	-		-

See accompanying notes to supplemental 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, 2010

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

See accompanying notes to
supplemental information.

NOTES TO SUPPLEMENTAL INFORMATION

1. PURPOSE OF SCHEDULES

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

These statements report the financial position and operational results of the individual funds of the District, the reconciling adjusting entries under GASB Cod. Sec. 2200 and 2300.

B - Schedule of Expenditures of Federal Awards

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

C - Schedule of State Financial Awards

The accompanying Schedule of State Financial Awards includes State grant activity of the District and is presented on the modified 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 System'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 apportionments 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.

PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have audited the basic financial statements of Gavilan Joint Community College District for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

General Directives

Management Information System Implementation – State General Apportionment Required Data Elements

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination for Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses
Apportionments – Enrollment Fee
Apportionments – Students Actively Enrolled
Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
Fiscal Operations – Gann Limit Calculation
Open Enrollment
Student Fee – Instructional Materials and Health Fees

Student Services

Uses of Matriculation Funds
CalWORKs – Use of State and Federal TANF Funding

Facilities

Scheduled Maintenance Program

INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS
(Continued)

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the Gavilan Joint Community College District complied, in all material respects with the aforementioned requirements for the year ended June 30, 2010.

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

Perry-Smith LLP

Sacramento, California
December 17, 2010

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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 the basic financial statements of Gavilan Joint Community College District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Compliance and Other Matters (Continued)

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

Perry-Smith LLP

Sacramento, California
December 17, 2010

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

Compliance

We have audited the compliance of Gavilan Joint Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2010. Gavilan Joint Community College District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Gavilan Joint Community College District's management. Our responsibility is to express an opinion on Gavilan Joint Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits obtained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, 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. Our audit does not provide a legal determination on Gavilan Joint Community College District's compliance with those requirements.

In our opinion, Gavilan Joint Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

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

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

Perry-Smith LLP

Sacramento, California
December 17, 2010

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.375, 84.007	Student Financial Aid Cluster
93.558	Temporary Assistance for Needy Families, GAIN, CalWorks Stimulus

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

STATE AWARDS

Internal control over state programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weaknesses?	______ Yes	X None reported
Type of auditor's report issued on compliance for state programs:	Unqualified	

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2010

No findings were noted in the current year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

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