

**SAN JOSE/EVERGREEN
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2005

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
San Jose/Evergreen Community College District
San Jose, California

We have audited the accompanying financial statements of the San Jose/Evergreen Community College District (the District) as of and for the years ended June 30, 2005 and 2004, and its discretely presented component unit, San Jose/Evergreen Community College District Foundation (the Foundation), 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Jose/Evergreen Community College District and its discretely presented component unit, San Jose/Evergreen Community College District Foundation, as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 13 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of or testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Additional Supplementary Information on pages 70 through 77 has been presented at the request of District management for purposes of additional analysis. We have applied certain limited procedures consisting primarily of analysis and inquiry regarding presentation; however, we did not audit the information. Accordingly, we express no opinion on them.

Haurinck, Irine, Day & Co. LLP

Rancho Cucamonga, California
October 21, 2005

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

San José City College • Evergreen Valley College

Chancellor: Rosa G. Perez



Director of Fiscal
Services/Controller
Michael J. Calegari

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In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established new reporting formats for annual statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applied the new reporting models to public colleges and universities. In its "Accounting Advisory No. 2001-01", the State Chancellor's Office opined that the California Community Colleges would best benefit from, and would "therefore implement", the business-type activities (BTA) reporting model, as outlined in GASB Statement No. 34.

The new reporting model is in some cases an extreme departure from that used in prior years and, in some cases, has limited value or may even be detrimental to casual readers attempting to understand the financial health of a governmental entity. Because of this, the District has asked its auditors to also present (in supplemental schedules) the District's financial statements using the fund statements format, which continues as the format that the District uses in reporting to the State Chancellor's Office.

As required by generally accepted accounting principles, the annual report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements are designed to emulate corporate presentation models, whereby all District activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to "bottom line" results for the District. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statements of Revenues, Expenses, and Changes in Net Assets focus on both the gross and the net costs of District activities, which are supported mainly by property taxes, State apportionment, and other State revenues. This approach is intended to summarize and simplify the analysis of cost of various District services to students and the public.

The following discussion and analysis provides an overview of the District's financial activities. The discussion and analysis will include comparisons of current to prior year activity.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector institutions. Net assets, the difference between assets and liabilities, are one way to measure the financial health of the District.

Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,315,604	\$ 1,259,185	\$ 1,955,671
Investments	113,039,775	80,764,353	123,392,018
Accounts receivable	7,622,439	5,368,073	7,148,933
Prepaid expenses	22,292	36,915	14,623
Stores inventories	300,492	394,687	338,363
Total Current Assets	<u>122,300,602</u>	<u>87,823,213</u>	<u>132,849,608</u>
NONCURRENT ASSETS			
Capital assets, net of accumulated depreciation	178,122,750	167,425,497	120,136,987
Total Noncurrent Assets	<u>178,122,750</u>	<u>167,425,497</u>	<u>120,136,987</u>
TOTAL ASSETS	<u>300,423,352</u>	<u>255,248,710</u>	<u>252,986,595</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	12,882,549	9,379,452	9,630,459
Accrued interest payable	2,390,362	104,433	2,440,142
Deferred revenue	2,763,609	3,278,769	2,745,551
Amounts held in trust on behalf of others	673,027	622,863	-
Accrued compensated absences	50,000	50,000	50,000
Bonds and notes payable	6,325,000	5,985,000	4,830,000
Total Current Liabilities	<u>25,084,547</u>	<u>19,420,517</u>	<u>19,696,152</u>
NONCURRENT LIABILITIES			
Accrued compensated absences payable	1,531,741	1,495,405	1,461,470
Bonds and notes payable	169,559,200	129,878,580	129,459,708
Total Noncurrent Liabilities	<u>171,090,941</u>	<u>131,373,985</u>	<u>130,921,178</u>
TOTAL LIABILITIES	<u>196,175,488</u>	<u>150,794,502</u>	<u>150,617,330</u>
NET ASSETS			
Invested in capital assets, net of related debt	83,226,281	82,385,253	77,379,688
Restricted for:			
Debt service	13,117,010	12,608,008	14,364,530
Capital projects	2,072,778	1,982,093	4,109,060
Unrestricted	5,831,795	7,478,854	6,515,987
Total Net Assets	<u>\$ 104,247,864</u>	<u>\$ 104,454,208</u>	<u>\$ 102,369,265</u>

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

The primary components of cash and short-term investments are the General Obligation Bond proceeds of approximately \$85.2 million, required investments for debt service of approximately \$11.8 million, debt funding for the District's retiree health benefits obligation of approximately \$3.8 million, the Board-designated five percent contingency reserve of General Fund expenditures of approximately \$3.5 million and the net cash effect of non-cash assets, receivables, and liabilities.

Accounts receivable primarily represents funding owed to the District by the State for capital and noncapital apportionment and grants. The total owed to the District by the Federal and State sources is approximately \$6.5 million. Interest income from the County represents approximately \$535 thousand. The remaining accounts receivable are made up of miscellaneous items such as book vendor credits.

Inventories and prepaid items primarily represent bookstore merchandise inventory.

Net capital assets represent the District's original investment in land, site improvements, buildings, building improvements, construction in progress, and equipment, less the cost of accumulated depreciation. Capital assets increased by approximately \$58 million over the past three years due to the projects funded by the general obligation bonds.

Accounts payable and accrued liabilities primarily represent year-end accruals for services and goods received by the District, during fiscal 2004-2005, for which payment would not be made until 2005-2006. The accounts payable amount primarily represents debt on vendor invoices, but does include the following other notable accruals: approximately \$2.5 million for the anticipated retirees fund health benefit premiums for 2005-2006, approximately \$678 thousand for faculty banked overload, and approximately \$975 thousand in payroll and benefits earned in June and paid on the following July 10.

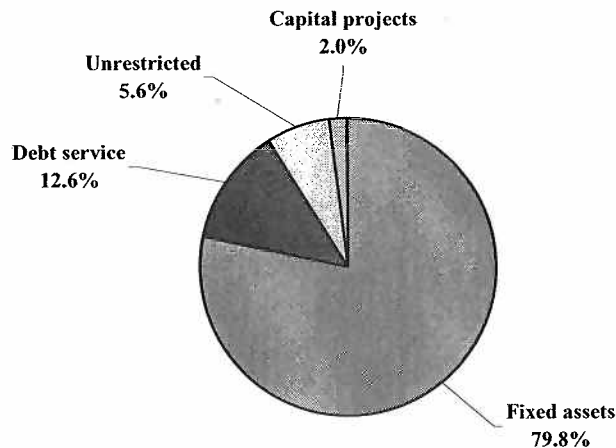
Deferred revenues represent prepayments made to the District for which services have yet to be rendered. Approximately \$1.6 million of this amount represents student tuition and registration fees, received during 2004-2005, for the 2005-2006 summer and fall terms. Approximately \$842 thousand represents funding for grants and contracts whose terms and conditions extend beyond the 2004-2005 fiscal year.

The District's long-term liabilities consist of the accumulated liability for compensated absence of approximately \$1.5 million, approximately \$175.9 million in General Obligation Bonds.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

NET ASSETS



The largest component of the District's "Net Assets" is the investment in capital assets (net of related debt) approximately \$83.2 million. This represents the District's initial cost for property, plant, and equipment, less accumulated depreciation and less any remaining debt used for the initial purchase.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the financial results of the District's "operations", as well as its "nonoperating activities". The distinction between these two activities involves the concepts of "exchange" and "nonexchange". An operating activity is one in which a "direct payment"/exchange is made (by one party to another) for the receipt of specified goods or services, i.e., the payer is the one receiving benefit. As an example, tuition fees, paid by a student, is an "exchange" for instructional services. Likewise, grant and contract funding received (on the condition that the District provides specific/contracted services) is also an "exchange". Both are therefore recorded as "operating revenue". The receipt of State apportionments and property taxes, however, do not include this "exchange" relationship between "payment" and the "receipt of benefit". Such revenues are deemed "nonexchange" transactions and are therefore treated as "nonoperating" activities.

Because the primary sources of funding that support the District's instructional activities comes from State apportionment and local property taxes, which are considered nonoperating, the financial results of the District's "operations" will result in a net operating loss.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

The primary components of "tuition and fees" are the \$26 per unit enrollment fee that is charged to all students registering for classes and the additional \$169 per unit fee that is charged to all nonresident students. The difference between these fees is due to the fact that resident student instruction is largely subsidized by local property taxes and State apportionment; nonresident students must pay the full cost of instruction. Respectively, these two revenue-streams account for approximately \$11.5 million. Approximately \$3.7 million of the "gross total" is due to Board of Governor's (fee) Waivers, which is offset by an equal amount in "scholarship discounts".

The largest component of the District's operating revenues is noncapital grants and contracts. Approximately \$12.6 million, results from funding received from the State for categorical programs, such as DSP&S, EOP&S, Matriculation, etc., while Federal grants, approximately \$13.8 million, include funding for student financial aid and higher education programs.

The revenue, for auxiliary enterprises, consists primarily of revenue from the District's bookstore in the amount of approximately \$4.4 million.

