GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

GENERAL OBLIGATION BONDS

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2010

AND

INDEPENDENT AUDITOR'S REPORT
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INDEPENDENT AUDITOR'S REPORT

To the Citizens' Fiscal Oversight Committee
and Governing Board
Gavilan Joint Community College District
Gilroy, California

We have audited the accompanying basic financial statements of Gavilan Joint Community College District (the "District") General Obligation Bonds activity included in the Measure E Construction Fund of the District (the "Bonds"), as of and for the year ended June 30, 2010, as listed in the Table of Contents. These basic financial statements are the responsibility of Gavilan Joint Community College 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements of the Bonds 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 presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bonds of the District as of June 30, 2010, and the changes in financial position 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 our report dated December 17, 2010 on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, as they relate to the Bond's basic financial statements. 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.
INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Gavilan Joint Community College District General Obligation Bonds. The summary on pages 10 and 11 of this report are presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sacramento, California
December 17, 2010
## GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
### GENERAL OBLIGATION BONDS
#### BALANCE SHEET
##### June 30, 2010

### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (Note 2)</td>
<td>$6,540,380</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15,185</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>118,665</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$6,674,230</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$661,779</td>
</tr>
<tr>
<td>Due to other funds</td>
<td>5,908</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>667,687</strong></td>
</tr>
<tr>
<td>Restricted fund balance</td>
<td>6,006,543</td>
</tr>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td><strong>$6,674,230</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
</tr>
<tr>
<td>Interest income (Note 2)</td>
<td>$100,247</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>$61,828</td>
</tr>
<tr>
<td>Other operating expenses and services</td>
<td>$5,008,876</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>$279,652</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>$5,350,356</td>
</tr>
<tr>
<td>Deficiency of revenues under expenditures</td>
<td>$(5,250,109)</td>
</tr>
<tr>
<td>Restricted fund balance, June 30, 2009</td>
<td>$11,256,652</td>
</tr>
<tr>
<td>Restricted fund balance, June 30, 2010</td>
<td>$6,006,543</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gavilan Joint Community College District conform to accounting principles generally accepted in the United States of America as applicable to governments. The District accounts for its financial transactions in accordance with policies and procedures of the Chancellor’s Office’s California Community Colleges Budget and Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The basic financial statements represent the Measure E Bond Construction Fund of the District and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Cash and Cash Equivalents

For the purpose 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.

The Funds in the Santa Clara County Treasury are recorded at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenditures and change in fund balance.

Restricted Fund Balance

Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Measure E Bond Construction Fund.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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. Actual results could differ from those estimates.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

CASH AND INVESTMENTS

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

Pooled Funds:
   Cash in County Treasury $ 6,540,380

Custodial Credit Risk

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 financial institutions is entirely insured or collateralized.

Credit Risk

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Santa Clara County Treasury. The County Treasurer of Santa Clara County acts as the Measure E General Obligation Bond Fiscal Agent. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.
2. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

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

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 represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum Percentage Allowed</th>
<th>Maximum Investment in One Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Clara County Investment Pool</td>
<td>Five years</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

Disclosures Relating to 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. As of year end, the maximum average maturity of the investments contained in the County investment pool is five years.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Weighted Average Maturity (in Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Clara County Investment Pool</td>
<td>0.89</td>
</tr>
</tbody>
</table>
2. CASH AND INVESTMENTS (Continued)

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. GENERAL OBLIGATION BOND ISSUES

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 2004 Series A 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.

In December 2007, the District issued $50,000,000 of General Obligation Bonds 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, 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%.

The Bonds represent an obligation of the District payable solely from ad valorem property taxes levied and collected by the County of Santa Clara on properties within the District. The Board of Supervisors of Santa Clara County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the District without limitation of rate or amount, except as to certain personal property which is taxable at limited rates.
SUPPLEMENTARY INFORMATION
LEGISLATIVE HISTORY

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools, and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities", upon approval by 55% of the electorate.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BONDS

The Gavilan Joint Community College District, Gilroy, California Election of 2004 General Obligation Bonds, Measure E were authorized at an election of the registered voters of the Gavilan Joint Community College District held on March 2, 2004 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of $108,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities. The Bonds are general obligations of the District, payable solely from ad valorem property taxes. The summary text of the ballot language was as follows:

"To prepare students for jobs/four-year colleges, accommodate increasing enrollment and upgrade Gavilan College campuses in Gilroy, San Benito and the Morgan Hill area by: Improving fire safety and security; Upgrading plumbing/sewer systems; Upgrading wiring for computer technology; Repairing, acquiring, constructing, equipping classrooms, buildings, libraries and sites shall Gavilan Joint Community College District issue $108,000,000 in bonds at legal rates with citizen oversight, guaranteed annual audits, no money for administrators' salaries?"

The project list was created by the Board of Trustees of Gavilan Joint Community College District. This specific project list is provided below:

Funding - 100% Measure E Funds

- Land acquisition Coyote Valley, San Benito
- Infrastructure
- Science Complex: Life Science, Physical Science, and Math
- Humanities, Art and Music Buildings
- Cosmetology and Business Buildings
- Security and Maintenance Building
- Social Science Building
- Occupational Education Building (renamed Multi-Purpose)
- Cafeteria renovation
- Parking lots
- Technology/ERP
- Computer replacement/Phone system
- Tennis courts
GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

GENERAL OBLIGATION BONDS

PURPOSE OF BOND ISSUANCE
(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT GENERAL OBLIGATION BONDS
(Continued)

Funding - 50% Measure E Funds; 50% State Funds

- Physical Education Building
- Library/TV Studio Buildings
- Administration/Student Services Building

FURTHER SPECIFICATIONS

No Administrator Salaries

Proceeds from the sale of bonds authorized by this proposition shall be used only for the rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
To the Citizens' Fiscal Oversight Committee
and Governing Board
Gavilan Joint Community College District

We have audited the basic financial statements of the Gavilan Joint Community College District (the "District") General Obligation Bonds (the "Bonds"), as of 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 of 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 the District's basic financial statements are free of material misstatement, we performed tests of the District's 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 amounts shown on the basic financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
This report is intended solely for the information of the Citizens' Fiscal Oversight Committee, the Governing Board and District management, and is not intended to be and should not be used by anyone other than these specified parties.

Sacramento, California
December 17, 2010