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

Report on the Financial Statements

We have audited the accompanying financial statements of Gavilan Joint Community College District (the "District") Measure E General Obligation Bonds activity included in the Measure E Bond Construction Fund (the "Bond Fund") of the District as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

(Continued)
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Fund of Gavilan Joint Community College District, as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the District’s Bond Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2014, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Gavilan Joint Community College District’s Measure E General Obligation Bond Construction Fund. The Purpose of Bond Issuance on pages 8 and 9 of this report is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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

Crowe Horwath LLP
Sacramento, California
December 18, 2014
GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2014

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$26,302,303</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>26,007</td>
</tr>
<tr>
<td>Due from District</td>
<td>87,794</td>
</tr>
<tr>
<td>Prepaid expenditures</td>
<td>15,009</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$26,431,113</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND FUND BALANCE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$976,254</td>
</tr>
<tr>
<td>Fund Balance:</td>
<td></td>
</tr>
<tr>
<td>Restricted fund balance</td>
<td>25,454,859</td>
</tr>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td><strong>$26,431,113</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
### MEASURE E GENERAL OBLIGATION BONDS
### STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
### For the Year Ended June 30, 2014

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>$</th>
<th>Expenditures:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>114,449</td>
<td>Supplies and materials</td>
</tr>
<tr>
<td>Rents and leases income</td>
<td>2,307</td>
<td>Other operating expenses and services</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>116,756</strong></td>
<td>Capital outlay</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total expenditures</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Change in fund balance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restricted fund balance, July 1, 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restricted fund balance, June 30, 2014</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gavilan Joint Community College District (the “District”) account for its Measure E Bond Construction Fund (“Bond Fund”) financial transactions in accordance with policies and procedures of the State Chancellor's Office's California Community Colleges Budget and Accounting Manual. The accounting policies of the Bond Fund 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:

Financial Reporting Entity: The financial statements include only the Bond Fund 2004 General Obligation Bond Resources of the District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2004. The authorized issuance amount of the bonds is $108,000,000. Series A and B of the bonds were sold in June 2004 for $29,170,000 and $830,000, respectively. Series C of the bonds was sold in December 2007 for $50,000,000. Series D of the bonds was sold in May 2011 for the remaining $28,000,000 available for issuance. In April 2012, the Series A Bonds were partially refunded through the issuance of General Obligation Refunding Bonds Series A and Series B for $12,120,000 and $11,800,000, respectively. These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

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.

Due from District: At June 30, 2014, an interfund receivable balance of $87,794 was due from the District’s general fund to the Bond Fund.

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 Bond Fund in accordance with the project list for 2004 General Obligation Bonds.

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. 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. Actual results could differ from those estimates.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2014 consisted of $26,302,303 held in the County Treasury investment pool.

Credit Risk: In accordance with Education Code Section 41001, the Bond Fund 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.

Because the Bond Fund's deposits are maintained in a recognized pooled investment fund under the care of a third party and the Bond Fund'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, 2014, 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>

(Continued)
NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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.

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>1.02</td>
</tr>
</tbody>
</table>

Concentration of Credit Risk: The District's investment policy places limits on the amount it may invest in any one issuer. At June 30, 2014, the District had no concentration of credit risk.

NOTE 3 – GENERAL OBLIGATION BOND ISSUANCES

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%.

In May 2011, the District issued $28,000,000 of General Obligation Bonds 2004 Series D. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment and to pay the costs of issuance associated with the Bonds. The Bonds mature through 2035 and bear interest at rates ranging from 2.00% to 5.75%.

In April 2012, the District issued $12,120,000 of General Obligation Refunding Bonds 2012 Series A and $11,800,000 of General Obligation Refunding Bonds 2012 Series B. The Bonds were issued to partially refund the General Obligations Bonds 2004 Series A and to pay the costs of issuance associated with the Bonds. The 2012 Series A and Series B Refunding Bonds mature through August 2024 and August 2028, respectively, and bear interest at rates ranging from 2.00% to 5.00%.

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.
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

(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.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Gavilan Joint Community College District (the "District") Measure E Bond Construction Fund (the “Bond Fund”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gavilan Joint Community College District’s Bond Fund’s financial statements are free of material misstatement, we performed tests of the Bond Fund’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 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance for the Bond Fund. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance for the Bond Fund. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP
Sacramento, California
December 18, 2014