GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
COUNTIES OF SANTA CLARA AND SAN BENITO
GILROY, CALIFORNIA

MEASURE E GENERAL OBLIGATION BOND
PERFORMANCE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010
AND
INDEPENDENT AUDITOR'S REPORT
GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MEASURE E GENERAL OBLIGATION BOND
PERFORMANCE AUDIT

For the Year Ended June 30, 2010

**TABLE OF CONTENTS**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor's Report</td>
<td>1</td>
</tr>
<tr>
<td>Background:</td>
<td></td>
</tr>
<tr>
<td>Legislative History</td>
<td>2</td>
</tr>
<tr>
<td>Gavilan Joint Community College District Measure E General Obligation Bond</td>
<td>2-3</td>
</tr>
<tr>
<td>Performance Audit:</td>
<td></td>
</tr>
<tr>
<td>Objectives</td>
<td>4</td>
</tr>
<tr>
<td>Scope</td>
<td>4</td>
</tr>
<tr>
<td>Methodology</td>
<td>4</td>
</tr>
<tr>
<td>Conclusions</td>
<td>4</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gavilan Joint Community College District
Gilroy, California

We have conducted a performance audit of the Gavilan Joint Community College District (the "District") Measure E General Obligation Bond funds for the year ended June 30, 2010.

We conducted our performance audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objective of our performance audit was to determine if Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2010 in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution:

"A requirement that the school district board, community college board, or county office of education conduct an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed."

Solely to assist us in planning and performing our performance audit, we made a study and evaluation of the internal controls of Gavilan Joint Community College District to determine if internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution. Accordingly, we do not express any assurance on the internal controls.

In our opinion, Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2010 in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

December 17, 2010

Perry-Smith LLP
GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BOND
BACKGROUND 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, "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.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)(C) of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)(D) of Article XIII A of the California Constitution.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E GENERAL OBLIGATION BOND

On March 2, 2004, the electorate of Gavilan Joint Community College District approved the $108 million Measure E General Obligation Bond, with greater than 55% of the votes in favor. The summarized 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?"
Following is the Measure E Bond Projects listing:

**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

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

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

On June 10, 2004, the District issued Measure E General Obligation Bonds, Series 2004 A in the amount of $29,170,000 to construct and modernize college facilities and refund certain lease obligations of the District. The Current Interest Serial Bonds accrue interest up to a maximum of 5.5% per annum from the date of issuance and are payable on February 1 and August 1 of each year. The 2004 Series B Bonds matured on August 1, 2006.

On December 12, 2007 the District issued Measure E General Obligation Bonds, Series 2004 C in the amount of $50,000,000 to construct and modernize certain District facilities, the acquisition of equipment and to pay the cost of issuance associated with the bonds. The Current Interest Serial Bonds accrue interest up to a maximum of 5.0% per annum from the date of issuance and are payable on February 1 and August 1 of each year.

The financial activity related to the Series 2004 Measure E General Obligation Bond is recorded in the District's Financial Activity Report for Fund 60 (Measure E Construction Fund).
OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure E General Obligation Bond funds for the year ended June 30, 2010 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure E General Obligation Bond project expenditures for the year ended June 30, 2010 (the "List"). An approximate total of 773 transactions were identified, representing $5,350,356 in expenditures from July 1, 2009 through June 30, 2010.

METHODOLOGY

We performed the following procedures to the List of Measure E General Obligation Bond project expenditures for the year ended June 30, 2010:

- Verified the mathematical accuracy of the List.
- Agreed the List to total bond expenditures as reported by the District in the District's audited financial statements for the year ended June 30, 2010, presented as the Measure E Construction Fund.
- Selected a sample of 40 expenditures totaling $1,294,994. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented 5.2% of the number of expenditures and 24.2% of the total expenditure value. Verified that the expenditures were for the approved projects and were to construct, upgrade, and improve classrooms and school facilities, renovate restrooms and plumbing, upgrade electrical systems, improve student access to computers and technology, replace heating and air conditioning systems or to make health and safety improvements.

CONCLUSIONS

Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2010 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.