

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT
MEASURE E BOND
CONSTRUCTION FUND**

GILROY, CALIFORNIA

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS**

YEAR ENDED JUNE 30, 2016

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E BOND CONSTRUCTION FUND**

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INDEPENDENT AUDITOR'S REPORT

**Bond Citizens' Oversight Committee
and Board of Trustees
Gavilan Joint Community College District
Gilroy, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure E Bond Construction Fund (the Bond Fund) of the Gavilan Joint Community College District (the District) as of and for the year ended June 30, 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Fund of the District, as of June 30, 2016, and the changes in financial position thereof 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 Measure E Construction Bond Fund and do not purport to, and do not present fairly the financial position of the District as of June 30, 2016, or the changes in its 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, 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 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 6, 2017

FINANCIAL STATEMENTS

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E BOND FUND**

**BALANCE SHEET
JUNE 30, 2016**

ASSETS:

| | |
|--------------------------------------|--------------------------|
| Restricted cash and cash equivalents | \$ 15,403,153 |
| Accounts receivable | 56,280 |
| Security deposits | 16,512 |
| Lease receivable | <u>495,546</u> |
| Total assets | <u>\$ 15,971,491</u> |

LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE:

| | |
|---|--------------------------|
| Liabilities: | |
| Accounts payable | \$ 3,355,297 |
| Due to District | <u>1,556,264</u> |
| Total liabilities | <u>4,911,561</u> |
| Deferred inflows of resources: | |
| Unavailable revenue | <u>495,546</u> |
| Fund balance: | |
| Restricted fund balance | <u>10,564,384</u> |
| Total liabilities, deferred inflows, and fund balance | <u>\$ 15,971,491</u> |

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E BOND FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2016**

REVENUES:

| | |
|-------------------------|--------------------|
| Interest income | \$ 158,019 |
| Donations | 137,116 |
| Rents and leases income | 24,831 |
| Other local revenue | <u>57,900</u> |
| Total revenues | <u>377,866</u> |

EXPENDITURES:

| | |
|--|---------------------------------|
| Capital outlay | <u>12,869,110</u> |
| Change in fund balance | (12,491,244) |
| RESTRICTED FUND BALANCE - BEGINNING OF YEAR | <u>23,055,628</u> |
| RESTRICTED FUND BALANCE - END OF YEAR | <u><u>\$ 10,564,384</u></u> |

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E BOND CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. ORGANIZATION AND NATURE OF ACTIVITIES

The Gavilan Joint Community College District (the District) was established on July 1, 1963. The District is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area, with operations covering 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.

These financial statements present only the District's Measure E Construction Bond Fund (the Bond Fund), which was established to account for the expenditures of the proceeds of general obligation bonds issued under the General Obligation Bonds Election of 2004. These financial statements do not include financial data for the remainder of the District's funds, which accounting principles generally accepted in the United States of America require to be presented with the financial statements of the District.

The Measure E bond authorization (the Measure) is a facilities and equipment bond measure adopted by the District's Board of Trustees and passed by voters on March 2, 2004. The Measure authorized up to \$108,000,000 in bond issues, which were issued as follows:

- In June 2004, the District issued \$29,170,000 of General Obligation Bonds, 2004 Series A, and \$830,000 of 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. In April 2012, the District refunded \$22,770,000 of the 2004 Series A General Obligation Bonds through the issuance of the 2012 Series A and Series B General Obligation Refunding Bonds. The Refunding Bonds mature through August 2024 and August 2028, respectively, and bear interest at rates ranging from 2.000% to 5.000%. The remaining 2004 Series A Bonds mature through 2028 and bear interest at rates ranging from 2.000% to 5.375%. 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 were partially refunded in the current year. Refer to 2015 General Obligation Refunding bonds below. In August 2015, the District issued \$42,320,000 of General Obligation Refunding Bonds, 2015 Series C. The bonds were issued to advance partially refund \$45,485,000 of the District's outstanding 2004 Series C General Obligation Bonds, and to pay the costs associated with the issuance of the bonds. The 2015 Series C Refunding Bonds mature through August 2032 and bear interest at rates ranging from 3.000% to 5.000%. The remaining 2004 Series C Bonds will mature August 2018 and bear interest at 4.000%.
- 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 August 2035 and bear interest at rates ranging from 2.000% to 5.750%.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E BOND CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The Bonds represent an obligation of the District payable solely from ad valorem property taxes levied and collected by the County of Santa Clara and the County of San Benito on properties within the District. The Board of Supervisors of the Counties 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. The District has established a separate debt service fund to account for the collection and remittance of bond principal and interest payments. Additional information on the bonds' payment schedules can be found in the District's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA).

Measurement focus and basis of accounting – Measurement focus indicates the type of resources being measured, while the basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The Bond Fund is a governmental fund, and has been presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, and are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded 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.

Restricted cash and cash equivalents – Cash that is externally restricted to purchase or construct capital or other assets is classified as a restricted asset in the balance sheet.

Due to District – At June 30, 2016, an interfund payable balance of \$1,556,264 was due to the District's general fund from 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 the 2004 General Obligation Bonds.

Estimates used in financial reporting – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E BOND CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Donations – The District entered into a Donation Agreement and Joint Escrow Instructions with Campus Park Associates for Coyote Valley Campus. This agreement requires for a donation to the District for mitigation impact fees paid. During the year ended June 30, 2016, the District received \$137,116 in donations under the Donation Agreement and Joint Escrow Instructions related to mitigation fees paid.

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, 2016.

3. RESTRICTED CASH AND EQUIVALENTS

The Bond Fund's cash and equivalents at June 30, 2016 consisted of \$15,403,153 held in the County Treasury investment pool. All cash held in the Bond Fund is considered restricted, as it is restricted for specific purposes in accordance with Measure E and the bond issuances.

Cash in County Treasury – In accordance with Education Code Section 41001, the Bond Fund maintains all of its cash in the Santa Clara County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. and is restricted by Government Code Section 53635, pursuant to Section 53601. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

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 debt agreements specify that bond proceeds are to be invested in the Treasury's investment pool.

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 June 30, 2016, the weighted average maturity of the investments contained in the Treasury's investment pool is approximately 439 days.

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E BOND CONSTRUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of credit risk – The District's investment policy places limits on the amount it may invest in anyone issuer. At June 30, 2016, the Bond Fund had no concentrations of credit risk.

Derivative investments – The Bond Fund did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the County Treasury was not available.

4. LEASE RECEIVABLE

In November 2013, the District sold portables purchased with Measure E funds to the Gilroy Unified School District at fair value under a lease purchase agreement. Payments of \$22,525 are due annually over a 25 year period, with the first payment due in the year ended June 30, 2014. Payments are due on November 15 of each year, and therefore all future payments have been recorded as unavailable revenue in the Bond Fund's balance sheet. Revenue will be recorded as payments are received, as follows:

| <u>Year Ending June 30,</u> | <u>Payment</u> |
|---------------------------------|-------------------|
| 2017 | \$ 22,525 |
| 2018 | 22,525 |
| 2019 | 22,525 |
| 2020 | 22,525 |
| 2021 | 22,525 |
| 2022-2026 | 112,625 |
| 2027-2031 | 112,625 |
| 2032-2036 | 112,625 |
| 2037-2038 | 45,046 |
| | <u>\$ 495,546</u> |

OTHER REPORT

**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***

Independent Auditor's Report

**Bond Citizens' Oversight Committee
and Board of Trustees
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 the Measure E Bond Construction Fund (the Bond Fund) of the Gavilan Joint Community College District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2017.

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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 Bond Fund's financial statements are free from 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*.

Purpose of this Report

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



GILBERT ASSOCIATES, INC.
Sacramento, California

March 6, 2017