

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT**

GILROY, CALIFORNIA

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

YEAR ENDED JUNE 30, 2018

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2018

DESCRIPTION OF DISTRICT

The District was established on July 1, 1963. The District's operations cover 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. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Western Association of Schools and Colleges.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2018, were composed of the following members:

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jonathan Brusco	President	2020
Mark Dover	Vice President	2020
Walt Glines	Clerk	2018
Rachel Perez	Trustee	2020
Laura Perry, Esq.	Trustee	2018
Kent Child	Trustee	2018
Lois Locci, Ed.D	Trustee	2018
Adam Lopez	Student Trustee	2019

ADMINISTRATION

Dr. Kathleen A. Rose.....	Superintendent/President
Kathleen Moberg	Vice President of Student Services
Frederick E. Harris.....	Vice President of Administrative Services
Denee Pescarmona	Vice President of Academic Affairs
Wade W. Ellis, CPA	Associate Vice President, Business Services & Security
Dr. Eric Ramones.....	Associate Vice President, Human Resources & Labor Relations
Sherrean Carr	Dean of Career Technical Education
Frances Lozano	Dean of Liberal Arts and Sciences
Ron Hannon	Dean of Kinesiology and Athletics
Dr. Brooke Boeding.....	Interim Associate Dean, Accessible Education Center
Dr. Randy Brown.....	Associate Dean, Community Development & Grants Management
Carina Cisneros.....	Associate Dean, EOPS, CalWORKs, & CARE

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Gavilan Joint Community College District
Gilroy, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Gavilan Joint Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic 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 opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Gavilan Joint Community College District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2018 the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the District's Net OPEB Liability and Related Ratios, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 and Additional Information sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Supplementary Information section is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. The Supplementary Information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Additional Information section is presented at the request of District management and has not been subjected to the auditing procedures applied in the audit of the basic 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 March 4, 2019, 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 4, 2019

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities, programs and financial condition of Gavilan Joint Community College District (the District) as of June 30, 2018. The report consists of three basic financial statements: the Statement of Net Position, Statement of Revenues, Expenses and Change in Net Position, and Statement of Cash Flows, and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

DISTRICT BACKGROUND

The District was originally established in 1919 as San Benito County Junior College. It operated under this title until 1963, when a new community college district was formed that included both San Benito and southern Santa Clara Counties. Successful passage of a local bond in 1966 provided the needed funds to construct the present campus at Santa Teresa Boulevard and Castro Valley Road in Gilroy, California. In the fall of 2019, Gavilan College will celebrate its 100th year of operation as a community college.

Gavilan College is one of 115 California Community Colleges that are organized into 73 districts which are political subdivisions authorized by the Constitution of the State of California. A seven-member board of trustees governs the Gavilan Joint Community College District. The voters of the communities served by the district elect board members to office. The Board of Trustees is responsible for the overall direction and control of the district so that it best meets the needs of the community it serves.

The district operates instructional sites in Hollister, Morgan Hill, San Martin Airport and in the spring of 2017 added Coyote Valley sites to augment their course offerings at the main (Gilroy) campus. Gavilan College is a comprehensive public community college offering a wide range of services, including programs of continuing study in liberal arts, pre-professional, business, vocational and technical fields. Courses are offered in the day, evening and on weekends. In FY 17/18, Gavilan College served an estimated 6,688 students for fall semester, 5,714 students for spring semester and 2,841 for summer session. Gavilan College employs 244 full time permanent employees and approximately 411 part time faculty and staff employees during the academic year.

The main campus in Gilroy rests against the foothills that form the western boundary of the Santa Clara Valley. The district is 35 miles south of San Jose, 80 miles south of San Francisco, and 40 miles northeast of the Monterey Coast. The main campus was initially master-planned to accommodate an enrollment of 5,000 students and rests on a 150-acre site that has been carefully planned to take advantage of the beautiful, natural and tranquil setting.

Gavilan College offers a lower division college program that prepares students for transfer to a four-year college or university. The college also offers a variety of technical, occupational and pre-professional courses of study that lead to employment. As of May 2018, students can choose among 130 degrees and certificates, including 23 Associate Degrees for Transfer (ADTs) which provide a direct pathway for students to transfer with junior standing into the California State University system.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Gavilan Joint Community College District serves residents of the Gilroy Unified, Morgan Hill Unified, Aromas-San Juan Unified, and San Benito Joint Union High School Districts. The 2017 total service area populations are approximately 177,445 (California Municipal Statistics). The district is comprised of approximately 2,700 square miles in southern Santa Clara County and a large portion of San Benito County.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements (GASB) Codification Section (Cod. Sec.) 2200.101, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and Cod. Sec. 2200.190-.191, Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses and Change in Net Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and non-operating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges System's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The fiscal year ending June 30, 2018, continued to provide the District with the opportunity to build financial stability by adding \$129,815 (excess revenue over expenditures) to the unrestricted general fund balance. This increase in fund balance brought the District reserve to 13.5%. The District finished FY 16/17 with excess revenue over expenditures of \$267,189 for unrestricted general fund, maintaining a reserve at 13.7% as a result of one time funding from the state.

Over the year the college has made progress on all of its strategic initiatives with resources allocated to a number of improvements in achieving the goals of the Strategic Plan and the Educational Master Plan. The Board of Trustees, faculty, managers and professional support staff of the District have outlined primary values through a strategic planning update process. The product of this process is the updated five-year Strategic Plan 2017/18 – 2021/22. The District uses an integrated planning and funding that includes all planning campus and District-wide efforts. Individual plans feed requests into the resource process with items identified as strategic priorities receiving first dollar allocations.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Consistent allocation of financial resources to strategic plan initiatives has resulted in improved learning and working environment at the District. The schedules of classes at all sites are arranged so that students are able to further their goals by access to a wide range of courses at the sites. Satellite operations in Morgan Hill still need to be enhanced if the District is going to adequately meet the needs for educational services in the communities of San Benito County and Morgan Hill/Greater Coyote Valley.

In response to current and possible continued state budget issues, the District has repositioned itself to a smaller but adequately supported program. This matches program costs with available resources. This also offers the District the opportunity to manage program growth efficiently as additional resources are available.

In FY 15-16 Gavilan College for the first time did not meet the Chancellor's Office goal for FTES and was placed on stability. The new growth allocation formula that was put in place in FY 15-16 has worked against the District in obtaining growth dollars. In FY 15-16 the District did not receive any of the \$289,465 growth funding, because of being placed on stability. The College aggressively worked on adding back the FTES lost in the prior year to be removed from stability and had funding restored in FY16/17. The measures taken by the District were successful and the college for FY16/17 had an FTES count of 5,372 which placed the District above the Chancellor's Office goal. In FY17/18 the District reported 4,706 FTES which placed the District back on stability. It is projected that in FY18/19 that this drop in FTES will be restored.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was (\$6.1 million) deficit and (\$4.5 million) deficit for the fiscal years ended June 30, 2018 and June 30, 2017, respectively. Of this amount, (\$30 million) and (\$28 million) were unrestricted as of June 30, 2018 and 2017, respectively. The implementation of GASB Statements No. 75 required a restatement of net position. The primary objective is to improve accounting and financial reporting by state and local governments for the other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net OPEB liability for the difference between the present value of projected OPEB benefits for past services and restricted resources held in trust for the payment of benefits. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District Board's ability to use that net position for day-to-day operations. Our analysis below, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 1

**GAVILAN JOINT CCD
Net Position**

	Governmental Activities as of June 30 for the Fiscal Year		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 18,333,303	\$ 34,069,415	\$ (15,736,112)
Capital assets	127,747,516	114,492,473	13,255,043
Total Assets	<u>146,080,819</u>	<u>148,561,888</u>	<u>(2,481,069)</u>
Deferred outflows of resources	18,953,015	12,669,150	6,283,865
Total Assets and Deferred Outflows	<u>165,033,834</u>	<u>161,231,038</u>	<u>3,802,796</u>
Current liabilities	16,067,141	17,148,310	(1,081,169)
Noncurrent liabilities	153,015,563	148,616,414	4,399,149
Total Liabilities	<u>169,082,704</u>	<u>165,764,724</u>	<u>3,317,980</u>
Deferred inflows of resources	2,060,958	1,673,723	387,235
Total Liabilities and Deferred Inflows	<u>171,143,662</u>	<u>167,438,447</u>	<u>3,705,215</u>
Net position			
Net investment in capital assets	19,226,733	17,310,084	1,916,649
Restricted	4,977,525	4,466,967	510,558
Unrestricted	<u>(30,314,086)</u>	<u>(27,984,460)</u>	<u>(2,329,626)</u>
Total Net Position	<u>\$ (6,109,828)</u>	<u>\$ *(6,207,409)</u>	<u>\$ (97,581)</u>

*Restated due to cumulative effect of change in accounting principle.

Change in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Revenues, Expenses and Change in Net Position*. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.

State apportionment revenues moderately increased, while local revenue, such as property taxes had a large increase.

During the year fourteen classified positions were added at the District for various departments resulting increased salaries. Also, an additional \$2.1 million was added in instructional salaries during the year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Other Revenue increased by \$2.9 million with the largest percentage relating to the reimbursement of retiree medical health benefits from OPEB Trust of \$2.6 million.

Table 2

**GAVILAN JOINT CCD
Change in Net Position**

	Governmental Activities for the Fiscal Year		
	2018	2017	Change
Revenues			
Operating revenues:			
Tuition and fees	\$ 2,620,410	\$ 2,703,121	\$ (82,711)
Grants and contracts - Federal	9,113,080	9,241,170	(128,090)
Grants and contracts - State and local	8,641,403	8,667,660	(26,257)
Non-operating revenues:			
State apportionment	2,061,646	1,361,299	700,347
Education protection account	4,102,253	4,337,894	(235,641)
Property taxes	32,487,068	31,010,079	1,476,989
State taxes and other revenue	136,648	134,781	1,867
Other revenues	3,756,066	816,193	2,939,873
Total Revenues	62,918,574	58,272,197	4,646,377
Expenses			
Salaries	27,109,167	24,112,488	2,996,679
Employee benefits	10,857,344	9,450,061	1,407,283
Supplies, materials and other operating expenses and services	11,157,176	10,562,379	594,797
Student aid	7,341,776	7,123,550	218,226
Depreciation	2,590,120	2,116,814	473,306
Other non-operating expenses	3,765,410	4,971,909	(1,206,499)
Total Expenses	62,820,993	58,337,201	4,483,792
Change in Net Position	\$ 97,581	\$ (65,004)	\$ 162,585

Governmental Activities

As reported in the *Statement of Revenues, Expenses and Change in Net Position*, the cost of all of our governmental activities this year was \$63 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$32 million, because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with other revenues, including interest and general entitlements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the 2017-18 budget was adopted on September 12, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$128 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$13 million from last year, predominately due to ongoing Measure E and State Capital Outlay projects, and Leased Revenue Bonds, offset by depreciation.

Table 3

GAVILAN JOINT CCD Capital Assets at Year-end

	<u>Fixed Assets for the Fiscal Year</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land	\$ 28,074,857	\$ 28,074,857	
Work in Progress	18,902,798	32,630,932	\$ (13,728,134)
Land Improvements	1,369,310	1,352,730	16,580
Building and Improvements	100,953,630	72,782,670	28,170,960
Equipment and vehicles	<u>10,199,870</u>	<u>8,814,113</u>	<u>1,385,757</u>
Total	159,500,465	143,655,302	15,845,163
Less Accumulated Depreciation	<u>(31,752,949)</u>	<u>(29,162,829)</u>	<u>(2,590,120)</u>
Net Total	<u>\$ 127,747,516</u>	<u>\$ 114,492,473</u>	<u>\$ 13,255,043</u>

The District is in the construction phase for bond renovation projects. A few capital projects like San Benito County Campus are planned to continue with the passage of the Measure X Bond of \$248 million in the November 2018 election.

Long-Term Liabilities

At the end of this year, the District had \$157 million in long-term obligations outstanding. The long-term obligations consisted of:

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 4

GAVILAN JOINT CCD Long-Term Liabilities at Year-end

	<u>Long-Term Liabilities for the Fiscal Year</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
General obligation bonds	\$ 104,820,000	\$ 106,785,000	\$ (1,965,000)
Premiums	10,834,773	8,409,130	2,425,643
Compensated absences	922,680	807,179	115,501
Net pension liability	38,674,690	33,315,484	5,359,206
OPEB Liability	<u>1,841,028</u>	<u>-</u>	<u>1,841,028</u>
Total	<u>\$ 157,093,171</u>	<u>\$ 149,316,793</u>	<u>\$ 7,776,378</u>

More detailed information regarding our long-term liabilities, including debt repayment schedules, may be found in the Notes to the Basic Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017/18 ARE NOTED BELOW:

Starting in 2018 the District negotiated a withdrawal from CalPERS health program and joined the SISC (Self-Insured Schools of California) JPA (Joint Powers Authority) for health benefits for both the faculty and classified bargaining units and the unrepresented employees.

Balancing the difference between expenditures and revenues continued as a high priority throughout the FY 17/18. The District has positioned its financial position in FY 2017/18 to allow an expected balanced budget in FY 18/19.

On May 1, 2017, the District entered into an agreement with the California Community College Finance Authority to finance the acquisition, construction and installation of solar photovoltaic systems on the District's Gilroy campus largest two parking lots. The funding is through the U.S. Department of Energy for the Clean Renewable Energy Bonds (CREB). The construction was scheduled to be completed by December 31, 2017. On October 23, 2018 the system went live.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2017-18 year, the District Board and management used the following criteria for estimating unrestricted general fund revenues:

The State's economy continued to improve in Budget Years 17/18 and 16/17. As the State releases funds that have exceeded initial projections, the colleges across the state can expect slight increases. At Gavilan College there was an overall increase in the general fund revenue of 7% for the FY 17/18 year. Additional increases in Student Success Initiative and funding for programs that provide services to students who meet certain eligibility criteria have helped reduce the pressure on the unrestricted general fund as those resources were restored as the economy improved. For FY 17/18 and beyond, additional increases in revenues are expected. The State's economy is yielding revenues larger than what was anticipated when the FY 17/18 budget was prepared. A portion of those funds will eventually work their way down to the California community colleges. In short, the economy is strong and is generating increases in revenues in excess of planned amounts.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Vice President of Business Services & Security, at Gavilan Joint Community College District, 5055 Santa Teresa Blvd, Gilroy, California, 95020, or e-mail at wellis@gavilan.edu.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS:

Current assets:

Cash and cash equivalents	\$ 5,167,801
Receivables, net	5,406,924
Prepaid expenses	58,300
Total current assets	<u>10,633,025</u>

Noncurrent assets:

Restricted cash and cash equivalents	7,233,270
Lease receivable	450,496
Depreciable capital assets, net	80,769,861
Nondepreciable capital assets	46,977,655
Security Deposits	16,512
Total noncurrent assets	<u>135,447,794</u>
Total assets	<u>146,080,819</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amount on refunding	7,133,990
Deferred outflows of resources related to pensions	11,413,367
Deferred outflows related to OPEB	405,658
Total deferred outflows	<u>18,953,015</u>

LIABILITIES:

Current liabilities:

Accounts payable	1,260,426
Apportionment payable	5,397,498
Accrued payroll	758,513
Accrued interest payable	1,724,842
Unearned revenue	2,848,254
Long-term liabilities due within one year	4,077,608
Total current liabilities	<u>16,067,141</u>

Noncurrent liabilities:

Net pension liability	38,674,690
Net OPEB liability	1,841,028
Bonds payable	112,499,845
Total noncurrent liabilities	<u>153,015,563</u>
Total liabilities	<u>169,082,704</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows of resources related to pensions	1,935,430
Deferred inflows of resources related to OPEB	125,528
Total deferred inflows	<u>2,060,958</u>

NET POSITION (DEFICIT):

Net investment in capital assets	19,226,733
Restricted for:	
Debt service	4,568,959
Other special purposes	408,566
Unrestricted	<u>(30,314,086)</u>
Total net deficit	<u>\$ (6,109,828)</u>

The accompanying notes are an integral part of these financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2018

OPERATING REVENUES:	
Tuition and fees (gross)	\$ 5,145,986
Less: scholarship discounts and allowances	<u>(2,525,576)</u>
Net tuition and fees	2,620,410
Grants and contracts, noncapital:	
Federal	9,113,080
State	8,374,393
Local	<u>267,010</u>
TOTAL OPERATING REVENUES	<u>20,374,893</u>
OPERATING EXPENSES:	
Salaries	27,109,167
Employee benefits	10,857,344
Supplies, materials, and other operating expenses and services	11,157,176
Student financial aid and scholarships	7,341,776
Depreciation	<u>2,590,120</u>
TOTAL OPERATING EXPENSES	<u>59,055,583</u>
OPERATING LOSS	<u>(38,680,690)</u>
NON-OPERATING REVENUES:	
State apportionments, noncapital	323,514
Education protection account	4,102,253
Local property taxes, noncapital	26,008,833
State taxes and other revenues	136,648
Interest income, noncapital	75,474
Other non-operating revenues	<u>3,642,823</u>
TOTAL NON-OPERATING REVENUES	<u>34,289,545</u>
LOSS BEFORE CAPITAL ACTIVITY	<u>(4,391,145)</u>
CAPITAL REVENUES (EXPENSES):	
State apportionments, capital	1,738,132
Local property taxes and revenues, capital	6,478,235
Interest income, capital	37,769
Interest expense on capital asset-related debt, net	(3,428,942)
Cost of issuance	<u>(336,468)</u>
TOTAL CAPITAL REVENUES	<u>4,488,726</u>
INCREASE IN NET POSITION	97,581
NET DEFICIT -- BEGINNING OF YEAR, AS RESTATED	<u>(6,207,409)</u>
NET DEFICIT -- END OF YEAR	<u>\$ (6,109,828)</u>

The accompanying notes are an integral part of these financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$ 2,627,740
Federal grants and contracts	6,938,350
State grants and contracts	9,081,491
Local grants and contracts	15,068
Payments to suppliers	(13,214,498)
Payments to/on behalf of employees	(36,066,731)
Payments to/on behalf of students	<u>(7,199,796)</u>
Net cash used by operating activities	<u>(37,818,376)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State apportionments, noncapital	3,964,494
Local property taxes, noncapital	26,008,833
State taxes and other revenues	136,648
Other non-operating revenues	<u>3,642,823</u>
Net cash provided by noncapital financing activities	<u>33,752,798</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from refunding bond	27,045,000
Premium received from refunding bond	3,691,587
Payment to advance refund escrow agent	(3,922,561)
Debt service costs	(336,468)
State apportionments, capital	1,460,793
State grants and contracts, capital	10,475
Local property taxes and revenues, capital	6,478,235
Interest income, capital	75,474
Purchases of capital assets	(15,845,163)
Proceeds from lease receivable	22,525
Principal paid on capital debt	(1,895,000)
Principal payment on refunding bonds	(27,115,000)
Interest paid on capital debt	<u>(3,905,805)</u>
Net cash used by capital and related financing activities	<u>(14,235,908)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income, noncapital	<u>37,769</u>
Net cash provided by investing activities	<u>37,769</u>

NET DECREASE IN CASH AND EQUIVALENTS (18,263,717)

CASH AND EQUIVALENTS -- BEGINNING OF YEAR 30,664,788

CASH AND EQUIVALENTS -- END OF YEAR \$ 12,401,071

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2018

Reconciliation to statement of net position:

Cash and cash equivalents	\$ 5,167,801
Restricted cash and cash equivalents, noncurrent	<u>7,233,270</u>
Total cash and cash equivalents	<u>\$ 12,401,071</u>

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (38,680,690)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,590,120
Changes in assets and liabilities:	
Receivables, net	(2,296,122)
Prepaid expenses	265,571
Deferred outflows related to OPEB	741,386
Deferred outflows related to pensions	(4,261,517)
Accounts payable	(189,372)
Accrued payroll	(950,810)
Unearned revenue	(84,854)
Compensated absences	115,501
Net OPEB liability	(814,030)
Net pension liability	5,359,206
Deferred inflows related to OPEB	125,528
Deferred inflows related to pensions	<u>261,707</u>
Net cash used by operating activities	<u>\$ (37,818,376)</u>

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Amortization of deferred amount on refunding	\$ (448,811)
Amortization of premiums on long-term debt	555,927

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2018

	Private- Purpose Trust Funds
ASSETS:	
Cash and cash equivalents	\$ 444,415
Receivables	<u>21,760</u>
TOTAL ASSETS	<u>466,175</u>
LIABILITIES:	
Accounts payable and accrued expenses	<u>12,089</u>
TOTAL LIABILITIES	<u>12,089</u>
RESTRICTED NET POSITION:	
Restricted net position held in trust	<u><u>\$ 454,086</u></u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2018

	Private- Purpose Trust Funds
ADDITIONS:	
District contributions	\$ 85,691
ASB fees and sales	103,492
Donations and fundraising	73,588
Other local receipts	<u>7,298</u>
TOTAL ADDITIONS	<u>270,069</u>
DEDUCTIONS:	
Salaries	7,475
Employee benefits	3,882
Supplies and services	114,359
Operating expenses	45,106
Capital outlay	109,996
Scholarships	<u>18,300</u>
TOTAL DEDUCTIONS	<u>299,118</u>
CHANGE IN NET POSITION	<u>(29,049)</u>
NET POSITION -- BEGINNING OF YEAR	<u>483,135</u>
NET POSITION -- END OF YEAR	<u><u>\$ 454,086</u></u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

1. ORGANIZATION AND REPORTING ENTITY

Gavilan Joint Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100. The District is classified as a state instrumentality under Internal Revenue Code Section 115 and is therefore exempt from federal taxes.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100. The District, based on its evaluation of these criteria, did not identify any component units.

2. 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).

Basis of Accounting – For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. All significant interfund transactions have been eliminated.

The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office of the California Community Colleges' *Budget and Accounting Manual*, which is consistent with generally accepted accounting principles in the United States of America.

In addition to the District's business-type activities, the District maintains fiduciary funds. These funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are accounted for using the economic resources measurement focus. The District reports the following fiduciary funds:

Trust Funds – These funds include the Associated Students Trust Fund and the Student Center Fee Fund. The amounts reported for these funds are reported in the aggregate in the statement of fiduciary net position and the statement of changes in fiduciary net position.

Budgets and Budgetary Accounting – By state law, the District's governing board must approve a tentative budget no later than July 1st and adopt a final budget no later than September 15th of each year. A hearing must be conducted for public comments prior to adoption.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

The budget is revised during the year to incorporate categorical funds which are awarded during the year and miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's governing board.

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 expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For the purposes 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 make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as a restricted noncurrent asset in the statement of net position.

Receivables – Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursements of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$298,097 for the year ended June 30, 2018.

Capital Assets – Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings, 20 to 50 years for building improvements, 5 to 20 years for equipment, and 5 to 10 years for vehicles. The District capitalizes interest paid on obligations related to the acquisition, construction or rehabilitation of District capital assets, if such costs exceed related interest earnings. Interest expense totaled \$3,428,942 during the year ended June 30, 2018, and \$200,325 was capitalized as interest earnings on tax-exempt debt proceeds restricted for capital projects exceeded interest costs attributable to construction.

Deferred Outflows/Deferred Inflows of Resources – In addition to assets, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

The District's deferred amount on refunding, resulting from the difference in the carrying value and reacquisition price of the refunded debt, is reported as a deferred outflow of resources and is amortized over the shorter of the life of the refunded debt or refunding bond.

Contributions made to the District's pension and OPEB plans after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources and will reduce the net pension liability and total OPEB liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension and OPEB expenses and liabilities include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 7 for further details related to these pension deferred outflows and inflows. See Note 8 for further details related to these OPEB deferred outflows and inflows.

Pensions – Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS), and certificated employees are members of the State Teachers' Retirement System (CalSTRS), collectively referred to as the Plans. For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the District's portions of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's (OPEB Plan) and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Unearned Revenues – Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year, but related to the subsequent accounting period. Unearned revenues also include amounts received from grants, contracts, and certain categorical programs that have not yet been earned.

Compensated Absences – Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District.

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain employees in the CalPERS and CalSTRS plans when the employee retires.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Net Position – The District's net position is classified as follows:

Net investment in capital assets: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position (deficit) represents resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District typically first applies the expense toward restricted resources, then to unrestricted resources. This practice ensures fully utilizing restricted funding each fiscal year.

Classification of Revenues and Expenses – The District has classified its revenues and expenses as either operating or nonoperating revenues according to the following criteria:

Operating revenues and expenses: Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most Federal, State and local grants and contracts and Federal appropriations. All expenses are considered operating expenses except for interest expense on capital asset-related debt.

Nonoperating revenues and expenses: Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" and GASB No. 34, such as State appropriations and investment income.

Scholarship Discounts and Allowances and Financial Aid – Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. The District offers Board of Governor's (BOG) grants to qualified students and these tuition waivers are reported as scholarship discounts and allowances. Grants, such as Federal, State, or non-governmental programs, are recorded as operating or nonoperating revenues in the District's financial statements.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The Santa Clara and San Benito Counties each bill and collect taxes for the District. Tax revenues are recognized by the District when received.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Change in Accounting Principles – For the year ended June 30, 2018, the District implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net OPEB liability for the difference between the present value of projected OPEB benefits for past service and restricted resources held in trust for the payment of benefits. GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note 8 explains the effect of the implementation of GASB 75.

Since GASB 75 requires retroactive application, the net OPEB liability offset by the related deferred outflow of resources and prior recognized OPEB liabilities as of June 30, 2017 reduces the beginning net position for the fiscal year ended June 30, 2018. As a result, for the year ended June 30, 2018, the beginning net position decreased by \$1,735,281 as the cumulative effect of a change in accounting principles.

3. CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of net position of the District:

Cash and cash equivalents	\$ 5,167,801
Restricted cash and cash equivalents - noncurrent	7,233,270

Statement of fiduciary net position:

Cash and cash equivalents	<u>444,415</u>
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Total cash and cash equivalents	<u>\$ 12,845,486</u>
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Cash and cash equivalents as of June 30, 2018, consist of the following:

	<u>District</u>	<u>Fiduciary Funds</u>
Cash and cash equivalents in Santa Clara County Treasury	\$11,974,721	\$ 29,822
Cash in banks	<u>426,350</u>	<u>414,593</u>
Total cash, cash equivalents, and investments	<u>\$ 12,401,071</u>	<u>\$ 444,415</u>

Cash in County Treasury – In accordance with Education Code Section 41001, the District maintains substantially 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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 the District's Investment Policy – The table below identifies the investment types authorized for the District by the California Government Code Section 53601 and 53602. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper (pooled and non-pooled)	270 days	25% or 40%	10%
Negotiable Certificates of Deposits	5 years	30%	10%
Non-negotiable Certificates of Deposits	5 years	None	None
Deposit Placement Services	5 years	30%	None
CD Placement Services	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds & Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-through Securities	5 years	20%	None
Joint Powers Authority Pool	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	None

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, 2018, the weighted average maturity of the investments contained in the Treasury's investment pool is approximately 479 days.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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 any one issuer. At June 30, 2018, the District had no concentrations of credit risk.

Deposits – The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. At June 30, 2018, the carrying amount of the District's cash in banks for the primary governmental entity was \$418,199. The bank balance for such accounts at June 30, 2018, was \$665,995 of which \$415,995 exceeded FDIC limits. At June 30, 2018, cash in banks for the fiduciary funds had a carrying amount of \$414,593 and a bank balance of \$415,069, of which none exceeded FDIC limits.

Restricted Cash and Cash Equivalents – The District's noncurrent restricted cash and cash equivalents balance is \$7,233,270 at June 30, 2018. Included in this restricted balance is \$2,883 of unspent Measure E bond proceeds restricted for capital projects, \$4,562,693 of assessments collected by the County Treasurer's Office on behalf of the District for the repayment of the District's general obligation bonds, \$8,151 of unspent lease revenue bond proceeds restricted for capital projects, \$192,088 restricted for the self-insurance fund, \$2,467,455 is restricted for the capital outlay and other purposes.

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

4. RECEIVABLES

The District's receivables at June 30, 2018 are summarized as follows:

Federal	\$ 3,617,418
State	1,273,021
Local and other	<u>814,582</u>
Less allowance for doubtful accounts	<u>(298,097)</u>
Receivables, net	<u>\$ 5,406,924</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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. Future payments are due as follows:

<u>Year Ending June 30,</u>	<u>Payment</u>
2019	\$ 22,525
2020	22,525
2021	22,525
2022	22,525
2023	22,525
2024-2028	112,625
2029-2033	112,625
2034-2038	<u>112,621</u>
	<u>\$ 450,496</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Transfers	Balance June 30, 2018
Capital assets, not depreciated:				
Land	\$ 28,074,857			\$ 28,074,857
Construction in progress	32,630,932	\$ 13,935,029	\$(27,663,163)	18,902,798
Total capital assets, not depreciated	60,705,789	13,935,029	(27,663,163)	46,977,655
Capital assets, depreciated:				
Land improvements	1,352,730		16,580	1,369,310
Buildings and building improvements	72,782,670	1,678,104	26,492,856	100,953,630
Furniture and equipment	8,525,368	177,204	1,153,727	9,856,299
Vehicles	288,745	54,826		343,571
Total capital assets, depreciated	82,949,513	1,910,134	27,663,163	112,522,810
Less accumulated depreciation:				
Land improvements	(807,715)	(41,134)		(848,849)
Buildings and building improvements	(21,454,258)	(1,917,794)		(23,372,052)
Furniture and equipment	(6,635,177)	(622,883)		(7,258,060)
Vehicles	(265,679)	(8,309)		(273,988)
Total accumulated depreciation	(29,162,829)	(2,590,120)		(31,752,949)
Total capital assets, depreciated, net	53,786,684			80,769,861
Capital assets, net	\$ 114,492,473	\$ 13,255,043	\$	\$ 127,747,516

6. LONG-TERM LIABILITIES

General Obligation Bonds

In June 2004, the District issued \$29,170,000 of General Obligation Bonds, 2004 Series A. The Bonds were issued to finance the construction and modernization of District facilities and 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 Bonds were fully refunded in the June 30, 2018 fiscal year resulting in the elimination of the principal, interest and bond premium for the 2004 Series A Bond. Refer to December 2017 General Obligation Refunding bonds below.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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 fiscal year 2015-16. The bond premium was removed during the refunding. Refer to 2015 General Obligation Refunding bonds below. The bonds fully matured during the fiscal year.

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 were partially refunded in the June 30, 2018 fiscal year. The bond premium was removed during the refunding. Refer to December 2017 General Obligation Refunding bonds below. The remaining Bonds mature August 2021 and bear interest at 4.00%.

The following is a schedule of the future payments for the 2004 Series D General Obligation Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 165,000	\$ 34,100	\$ 199,100
2020	210,000	26,600	236,600
2021	255,000	17,300	272,300
2022	<u>305,000</u>	<u>6,100</u>	<u>311,100</u>
	<u>\$ 935,000</u>	<u>\$ 84,100</u>	<u>\$ 1,019,100</u>

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 2004 Series A General Obligations Bonds 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 2.000% to 5.000%.

Bond premium (net of accumulated amortization) of \$1,116,814 is capitalized and will be amortized over the term of the Bonds.

The following is a schedule of the future payments for the 2012 Series A General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 935,000	\$ 461,450	\$ 1,396,450
2020	1,095,000	415,375	1,510,375
2021	1,235,000	357,125	1,592,125
2022	1,385,000	291,625	1,676,625
2023	1,550,000	218,250	1,676,625
2024-2025	<u>3,590,000</u>	<u>183,000</u>	<u>3,773,000</u>
	<u>\$ 9,790,000</u>	<u>\$ 1,926,825</u>	<u>\$ 11,716,825</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

The following is a schedule of the future payments for the 2012 Series B General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 100,000	\$ 377,850	\$ 477,850
2020	105,000	375,275	480,275
2021	110,000	372,050	482,050
2022	115,000	368,675	483,675
2023	115,000	365,225	480,225
2024-2028	7,545,000	1,427,463	8,972,463
2029	2,840,000	51,475	2,891,475
	<u>\$ 10,930,000</u>	<u>\$ 3,338,013</u>	<u>\$ 14,268,013</u>

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. The 2015 Series C Refunding Bonds mature through August 2032 and bear interest at rates ranging from 3.000% to 5.000%.

Bond premium (net of accumulated amortization) of \$5,915,710 is capitalized and will be amortized over the term of the Bonds.

The following is a schedule of the future payments for the 2015 Series C General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 745,000	\$ 2,075,975	\$ 2,820,975
2020	820,000	2,048,400	2,868,400
2021	940,000	2,008,500	2,948,500
2022	1,070,000	1,958,250	3,028,250
2023	1,210,000	1,901,250	3,111,250
2024-2028	8,580,000	8,368,000	16,948,000
2029-2033	28,840,000	4,182,500	33,022,500
	<u>\$ 42,205,000</u>	<u>\$ 22,542,875</u>	<u>\$ 64,747,875</u>

In December 2017, the District issued \$27,045,000 of General Obligation Refunding Bonds to current refund the remaining portion of the District's outstanding 2004 General Obligation Bonds, Series 2004A, to advance refund a portion of the District's outstanding 2004 General Obligation Bonds, Series 2004D and to pay the costs associated with the issuance of bonds. The refunding reduced the District's debt service payments by \$9,159,746 in aggregate and provided for an economic gain (difference between the present value of the old and new debt service payments) of \$6,113,567 in aggregate. The Series 2004A bonds were fully refunded, and the Series 2004D were considered to be partially defeased in substance and the refunded portion of the liability for the bonds is removed from the Statement of Net Position. The 2017 Refunded bonds mature through August 2035 and bear interest at rates ranging from 2.000% - 5.000%.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Bond premium (net of accumulated amortization) of \$3,691,587 is capitalized and will be amortized over the term of the bonds.

The following is a schedule of the future payments for the 2017 General Obligation Refunding Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 225,000	\$ 900,902	\$ 1,125,902
2020	435,000	1,108,200	1,543,200
2021	450,000	1,092,675	1,542,675
2022	470,000	1,074,275	1,544,275
2023	855,000	1,047,775	1,902,775
2024-2028	5,575,000	4,547,350	10,122,350
2019-2033	7,940,000	2,964,588	10,904,588
2034-2036	11,095,000	440,125	11,535,125
	<u>\$ 27,045,000</u>	<u>\$ 13,175,890</u>	<u>\$ 40,220,890</u>

Revenue Bonds

In August 2016, the California Community Colleges Financing Authority (Authority) issued Lease Revenue Bonds in the amount of \$7,415,000 for the District. The Bonds were issued to finance certain public capital improvements for the District, purchase an issuance policy for deposit into a debt service reserve fund established for the bonds, and to pay the costs associated with the issuance of the bonds. The District is obligated to make lease payments to the Authority pursuant to a Lease/Purchase Agreement. The Bonds mature through August 2036 and bear interest at rates ranging from 2.000% to 3.000%.

Bond premium (net of accumulated amortization) of \$110,662 is capitalized and will be amortized over the term of the Bond.

The following is a schedule of the future payments for the 2016 Lease Revenue Bonds:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 240,000	\$ 200,325	\$ 440,325
2020	250,000	193,125	443,125
2021	255,000	185,625	440,625
2022	265,000	177,975	442,975
2023	270,000	170,025	440,025
2024-2028	1,435,000	767,025	2,202,025
2029-2033	1,600,000	600,438	2,200,438
2034-2038	1,850,000	357,000	2,207,000
2039-2041	1,250,000	75,750	1,325,750
	<u>\$ 7,415,000</u>	<u>\$ 2,727,288</u>	<u>\$ 10,142,288</u>

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

On May 1, 2017, the District entered into an agreement with the California Community College Finance Authority (Authority) to finance the acquisition, construction and installation of solar photovoltaic systems on the District campus. The funding is through the U.S. Department of Energy for the Clean Renewable Energy Bonds (CREB). The Authority has agreed to assist the District with the financing of the Bonds by entering into a lease/leaseback arrangement. Through CREB, the District elected to treat the lease as “Specified Tax Credit Bonds” and will be eligible to receive direct payment from the federal government of a refundable credit equal to the lesser of the interest payment on the lease or 70% of the tax credit rate applicable to the lease of the lease payments. The Bonds mature through May 2037 and bear interest rate of 4.2% per annum on the basis of a 360-day year of twelve 30 day months. There is no bond premium or discount with this agreement.

The following is a schedule of the future payments for the Lease Agreement with the Authority:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 189,000	\$ 68,657	\$ 257,657
2020	206,000	66,601	272,601
2021	224,000	64,361	288,361
2022	243,000	61,927	304,927
2023	263,000	59,289	322,289
2024-2028	1,668,000	248,678	1,916,678
2029-2033	1,860,000	154,599	2,014,599
2034-2037	1,847,000	45,404	1,892,404
	<u>\$ 6,500,000</u>	<u>\$ 769,516</u>	<u>\$ 7,269,516</u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation					
Bonds	\$ 106,785,000	\$ 27,045,000	\$ (29,010,000)	\$ 104,820,000	\$ 2,599,000
Premiums	8,409,130	3,691,587	(1,265,944)	10,834,773	555,928
Compensated absences	807,179	115,501		922,680	922,680
	<u>\$ 116,001,309</u>	<u>\$ 30,852,088</u>	<u>\$ (30,275,944)</u>	<u>\$ 116,577,453</u>	<u>\$ 4,077,608</u>

Operating Lease

In June 2015, the District amended its agreement with the City of Morgan Hill (City) to lease Gavilan Community College Campus at Morgan Hill and Cultural Center. Payments of \$16,642 are due monthly over a 5 year period, with the first payment due July 1, 2015. In May 2017, the District entered into an agreement with the City of Hollister to lease the Repor Briggs Building. Payments are due monthly over a 5 year period, June 21, 2017 through June 20, 2022, and range from \$9,401 to \$10,590 per month. In January 2016, the District entered into a lease agreement with the County

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

of Santa Clara to lease a hanger in an undeveloped portion of the San Martin Airport. The lease is for 20 years from January 1, 2016 through December 21, 2035 with a base rent of \$28,429 per month. The rent is subject to a 1.035% escalation annually starting July 1, 2017. In February 2017, the District entered into a lease agreement with Konica Minolta Premier Finance to lease a copier. The lease is from April 1, 2017 through March 31, 2022 with a monthly rent of \$4,560.

Future payments are due as follows:

<u>Year Ending June 30,</u>	<u>Payment</u>
2019	\$ 397,774
2020	344,598
2021	87,425
2022	74,899
2023	35,050
2024-2028	194,721
2029-2033	231,627
2034-2035	132,030
	<u>\$ 1,498,124</u>

7. RETIREMENT PLANS

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District participates in the State Teachers' Retirement Plan (the CalSTRS Plan), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. CalSTRS acts as a common investment and administrative agent for participating public entities within the State of California. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calstrs.com.

Benefits Provided

The benefits for the CalSTRS Plan are established by contract, in accordance with the provisions of the State Teachers' Retirement Law. Benefits are based on members' years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The California Public Employees' Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalSTRS creditable activities on or after January 1, 2013. As a result of PEPRA, the CalSTRS Plan has two benefit structures: 1) CalSTRS 2% at 60 – Members first hired on or before December 31, 2012, to perform CalSTRS creditable activities, and 2) CalSTRS 2% at 62 – Members first hired on or after January 1, 2013, to perform CalSTRS creditable activities. The 2 percent, also known as the age factor, refers to the percentage of final compensation received as a retirement

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

benefit for each year of service credit. To be eligible for 2% service retirement, members hired prior to January 1, 2013, must be at least age 60 with a minimum of five years of CalSTRS-credited service, while members hired after January 1, 2013, must be at least age 62 with five years of service.

Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 19.10% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2018, was 14.43% of annual pay. District contributions to the CalSTRS Plan were \$2,010,655 for the year ended June 30, 2018.

The State contributes a percentage of the annual earnings of all members of the CalSTRS Plan. AB 1469 increases the State's contribution attributable to the benefits in effect in 1990, but does not change the base rate of 2.017%. In accordance with AB 1469, the portion of the state appropriation under Education Code Sections 22955(b) that is in addition to the base rate has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution increased from 1.437% in 2014-15 to 4.811% in 2017-18. The increased contributions end as of fiscal year end June 30, 2046. The State contribution rate for the period ended June 30, 2018, was 8.828% of the District's 2014-15 creditable CalSTRS compensation.

Actuarial Assumptions

The total pension liability for the CalSTRS Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to the measurement date of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Investment Rate of Return ⁽¹⁾	7.10%
Mortality	CalSTRS' Membership Data 2% simple for DB (Annually) Maintain 85% purchasing power Level for DB
Post-Retirement Benefit Increase	Not applicable for DBS /CBB

⁽¹⁾ Net of investment expenses, but gross of administrative expenses.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Changes in Assumptions

During fiscal year end June 30, 2017, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the CalSTRS board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the CalSTRS Plan changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Consumer Price Inflation	2.75%	3.00%
Investment Rate of Return	7.10%	7.60%
Wage Growth	3.5%	3.75%

CalSTRS changed its mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by their board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Discount Rate

The discount rate used to measure the CalSTRS Plan's total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the CalSTRS Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term * Expected Real Rate of Return</u>
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return / Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	<u>100.00%</u>	

*20-year geometric average

California Public Employees' Retirement System (CalPERS)

Plan Description

The District participates in the Schools Pool (the CalPERS Plan), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

Benefits Provided

The benefits for the CalPERS Plan are established by contract, in accordance with the provisions of the California Public Employees' Retirement Law (PERL). The benefits are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. PEPRRA made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRRA, the CalPERS Plan has two benefit structures: 1) CalPERS 2% at 55 – Members first hired on or before December 31, 2012, to perform CalPERS creditable activities, and 2) CalPERS 2% at 62 – Members first hired on or after January 1, 2013, to perform CalPERS creditable activities. To be eligible for service retirement, members hired prior to January 1, 2013, must be at least age 50 with a minimum of five years of CalPERS-credited service, while members hired after January 1, 2013, must be at least age 52 with a minimum of five years of CalPERS-credited service.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Contributions

Section 20814(c) of the PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the CalPERS Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The CalPERS Plan's actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District's required contribution rate for the year ended June 30, 2018, was 15.531% of annual pay. District contributions to the CalPERS Plan were \$1,612,153 for the year ended June 30, 2018.

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases ⁽¹⁾	Varies
Investment Rate of Return ⁽²⁾	7.15%
Mortality ⁽³⁾	CalPERS' Membership Data
Post-Retirement Benefit Increase ⁽⁴⁾	Up to 2.75%

⁽¹⁾ Varies by entry age and service

⁽²⁾ Net of pension plan investment; includes inflation

⁽³⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions Report available on CalPERS webpage.

⁽⁴⁾ Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

Changes in Assumptions

In fiscal year June 30, 2017, the financial reporting discount rate for CalPERS was lowered from 7.65% to 7.15%.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the Board in 2013 were used. For the CalPERS Plan, projections of expected benefit payments and contributions at the statutorily required member and employer rates were performed to determine if the assets would run out. The tests revealed the assets would not run out for the Plan. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability for the CalPERS Plan. The crossover test results can be found on CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10^(a)</u>	<u>Real Return Years 11+^(b)</u>
Global Equity	47.00%	4.90%	5.38%
Global Debt Securities	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	<u>100.00%</u>		

^(a) An expected inflation of 2.5% was used for this period.

^(b) An expected inflation of 3.0% was used for this period.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for the State's pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability:		
CalSTRS Plan	\$	22,195,200
CalPERS Plan		16,479,490
Total District net pension liability		<u>38,674,690</u>
State's proportionate share of CalSTRS net pension liability associated with the District		<u>13,119,823</u>
Total	\$	<u>51,794,513</u>

The District's net pension liability is measured as the proportionate share of each Plan's net pension liability. The net pension liabilities of the Plans are measured as of June 30, 2017, and calculated by reducing the total pension liability of each Plan by the respective Plan's fiduciary net position. The District's proportion of each Plan's net pension liability was based on the ratio of the District's actual employer contributions in the measurement period to the total actual employer and State contributions received by the respective Plan in the measurement period. The District's proportionate share of the net pension liability as of June 30, 2017, was 0.024% and 0.069% for the CalSTRS and CalPERS Plans, respectively, which was no change and 0.0014% decrease, respectively, from its proportion measured as of June 30, 2016 for CalSTRS and CalPERS Plans, respectively.

For the measurement period ended June 30, 2018, the District recognized pension expense of \$6,305,013 and revenue of \$1,322,809 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 672,465	\$ (387,120)
Changes in assumptions	6,518,978	(194,023)
Changes in proportion		(760,848)
Change in proportionate share of contributions	29,046	(2,320)
Net differences between projected and actual investment earnings of pension plan investments	570,070	(591,120)
District contributions subsequent to measurement date	<u>3,622,808</u>	
Total	<u>\$ 11,413,367</u>	<u>\$ (1,935,430)</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

The \$3,622,808 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2019	\$ 814,307
2020	2,356,458
2021	1,643,828
2022	(323,968)
2023	662,972
Thereafter	700,949

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>Discount Rate – 1% (6.10%)</u>	<u>Current Discount Rate (7.10%)</u>	<u>Discount Rate +1% (8.10%)</u>
District's proportionate share of the CalSTRS Plan's net pension liability	\$ 32,589,600	\$ 22,195,200	\$ 13,759,440

	<u>Discount Rate – 1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
District's proportionate share of the CalPERS Plan's net pension liability	\$ 24,246,306	\$ 16,479,490	\$ 10,035,887

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

In addition to the pension benefits described in Note 7, the District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District. The Gavilan Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision and dental insurance benefits to eligible retirees and, under certain conditions, their spouses and dependents.

The District is a member of the California Community College League Retiree Health Benefit Program, which is an investment program used to set aside funds for future retiree benefits in an irrevocable trust (the Investment Trust). The Investment Trust is used for the purposes of investment

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

and disbursement of funds irrevocably designated by the District to fund future other post-employment benefits (OPEB). The Retiree Health Benefit Program issues a separate financial report that may be obtained by contacting the District.

Benefits Provided

The District's benefits provided to retirees through the Plan vary by employee group. Under the Plan, certificated employees retiring on or after age 55 with 10 years of service may continue on their active health plans until the earlier of age 65 or receipt of Medicare. Classified employees hired before July 1, 1986, retiring on or after age 55 with 10 years of service may continue on their active health plans for their lifetime. Classified employees hired after July 1, 1986, retiring on or after age 55 with 10 years of service may continue on their active health plans until the earlier of age 65 or receipt of Medicare. For employees retiring after December 31, 2003, the benefit is fixed at the date of retirement, and the retiree pays any increases in the costs of their health benefits. Management, supervisors, and other professional employees receive the same benefits as classified employees.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following Inactive and active employees were covered by the benefit terms under the OPEB Plan:

Inactive employees receiving benefits	85
Inactive employees entitled to but not receiving benefits	0
Participating active employees	<u>228</u>
Total	<u>313</u>

Contributions

The District provides benefits on a pay-as-you-go basis, and periodically makes contributions to the OPEB Trust. The contribution requirements of plan members and the District are established and may be amended by the Board and by contractual agreement with employee groups. The District's plan members are not required to contribute to the plan.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.00%
Investment Rate of Return	7.00%
Mortality Rate	CalPERS' and CalSTRS' rates
Medical Trend Rates	5.00% to 7.00%
Dental & Vision Trend Rates	4.00%

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	50.00%	2.25%
Equities	50.00%	5.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0 percent. Based on the current funding practice and the actuarial assumptions used, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The municipal bond rate used was 3.4%, which is the resulting rate using the average of 3 indices - 20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Changes in the Net OPEB Liability

The changes in the Net OPEB liability for the OPEB Plan are as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (TOL) (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance at June 30, 2017 (Roll back balance at June 30, 2016 measurement date)	\$ 8,983,917	\$ 6,328,859	\$ 2,655,058
Changes recognized for the measurement period:			
Service cost	321,697		321,697
Interest on TOL	629,553		629,553
Contributions—employer		1,147,044	(1,147,044)
Contributions—employee			
Actual investment income		618,236	(618,236)
Benefit payments	(624,011)	(624,011)	
Administrative expense			
Net changes	<u>327,239</u>	<u>1,141,269</u>	<u>(814,030)</u>
Balance at June 30, 2018 (Measurement date June 30, 2017)	<u>\$ 9,311,156</u>	<u>\$ 7,470,128</u>	<u>\$ 1,841,028</u>

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>Discount Rate -1% (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>Discount Rate +1% (8.00%)</u>
Net OPEB liability	\$ 2,666,218	\$ 1,841,028	\$ 1,121,128

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Sensitivity of the District's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Health Care Trend Rate – 1%	Health Care Trend Rate	Health Care Trend Rate +1%
	(5.50%HMO/ 6.00%PPO decreasing to 4.00%HMO/ 4.00%PPO)	(6.50%HMO/ 7.00%PPO decreasing to 5.00%HMO/ 5.00%PPO)	(7.50%HMO/ 8.00%PPO decreasing to 6.00%HMO/ 6.00%PPO)
Net OPEB liability	\$ 1,226,213	\$ 1,841,028	\$ 2,450,384

OPEB plan fiduciary net position

The Investment Trust issues a separate financial report that may be obtained by contacting the District at 5055 Santa Teresa Boulevard, Gilroy, CA, 95020.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net differences between projected and actual earnings on OPEB Trust investments	5 years
All other amounts	Expected average remaining service lives (EARSL) of plan participants

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

OPEB Expense and Deferred Outflows/Inflows Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$458,542. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 405,658	
Net difference between projected and actual earnings on OPEB plan investments		\$ (125,528)
Total	\$ 405,658	\$ (125,528)

The \$405,658 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as pension expense as follows:

Year Ending June 30	
2019	\$ (31,382)
2020	(31,382)
2021	(31,382)
2022	(31,382)

9. CONTINGENCIES

Litigation

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined would not be material.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

10. SELF INSURANCE AND JOINT VENTURES (Joint Powers Agreements)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and students; and natural disasters. The District is partially self-insured for the first ten thousand dollars (\$10,000) of its general liability and property coverage.

The District participates in two joint ventures under joint powers agreements (JPAs), the Statewide Associate of Community Colleges Joint Powers Authority (SWACCJPA) and the Northern California Community College Pool (NCCCP). The relationship between the District and each JPA is such that no JPA is a component unit of the District for financial reporting purposes.

Each JPA is governed by a board consisting of a representative from each member organization. The boards control the operations of the JPAs, including selection of management and approval of operating budgets independent of any influence by the members beyond their representation on the governing boards. SWACCJPA provides programs and resources to specifically address its community college members exposure to loss through broad and unique coverages, specialized loss control services, trainings, fiscally responsible self-funding, and risk transfer to its members. The members of each JPA pay premiums commensurate with the level of coverage requested, and they share surpluses and deficits proportionate to their participation in the JPAs.

The JPAs are independently accountable for their fiscal matters. The insurance groups maintain their own accounting records. Budgets are not subject to any approval other than that of the JPAs' governing boards. Complete separate financial statements for the JPAs may be obtained from:

JPA	Address
SWACCJPA	4500 Indian Wells Lane, Indian Wells, CA 92210
NCCCP	1740 Technology Dr. Suite 300; San Jose, CA 95110

Self-insurance and other limits are as follows:

Type of Coverage	Self-Insurance	BACCDJPA	NCCCP
General Liability	Up to \$10,000	\$10,001 - \$25,000,000	N/A
Property	Up to \$10,000	\$10,001 - \$250,000,000	N/A
Workers' Compensation	N/A	N/A	To Statutory Limits

All property is insured at full replacement value. For the past three years, there have been no significant reductions in any of the District's insurance coverage types and no settlement amounts have exceeded commercial or authority insurance coverage.

Annual premiums are charged by each JPA using various allocation methods that include actual costs, trends in claims experience, and number of participants.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Condensed financial information reported by each JPA for the years indicated are as follows (not covered by independent auditor's report):

	SWACCJPA Property / Liability June 30, 2018	NCCCP Workers' compensation June 30, 2018
Total Assets	\$ 52,332,118	\$ 1,102,404
Total Liabilities	\$ 34,316,883	\$ 141,038
Net Position	18,015,235	961,366
Total Liabilities and Net Position	\$ 52,332,118	\$ 1,102,404
Total Revenues	\$ 22,350,363	\$ 3,766,859
Total Expenses	29,435,155	3,804,697
Net Increase (Decrease) in Net Position	\$ (7,084,792)	\$ (37,838)

11. SUBSEQUENT EVENT

On September 15, 2018, the District financed \$7,200,000 of tax-exempt tax revenue anticipation notes (TRANS) to mature on July 15, 2019 at 2.98% fixed interest rate.

On September 11, 2018, the Board of Trustees approved the District to draw down \$2,600,000 from the California Community College League Retiree Health Benefit Program Investment Trust (Investment Trust) to pay for OPEB retiree medical expenditures. The funds are considered a reimbursement of current and past retiree health benefits. The Investment Trust approved the \$2,600,000 reimbursement on September 12, 2018.

On November 13, 2018, the Board of Trustees approved the District's Sunshine Proposal for Faculty Supplemental Early Retirement Plan (SERP). The effective date of retirement under SERP will be June 30, 2019 and any participating employee must be at least 60 years of age, work full time for at least 10 years, and will be based on a one-time payment of 65% of the last annual salary.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY
AND RELATED RATIOS
FOR THE MEASUREMENT PERIODS ENDED JUNE 30,
LAST 10 YEARS***

	<u>2017</u>
TOTAL OPEB LIABILITY	
Service cost	\$ 321,697
Interest	629,553
Benefit payments	<u>(624,011)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	327,239
TOTAL OPEB LIABILITY, Beginning	<u>8,983,917</u>
TOTAL OPEB LIABILITY, Ending (a)	<u>9,311,156</u>
PLAN FIDUCIARY NET POSITION	
Contributions—employer	1,147,044
Contributions—employee	
Net investment income	618,236
Benefit payments	(624,011)
Administrative expense	<u> </u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1,141,269
PLAN FIDUCIARY NET POSITION, Beginning	<u>6,328,859</u>
PLAN FIDUCIARY NET POSITION, Ending (b)	<u>7,470,128</u>
DISTRICT'S NET OPEB LIABILITY, Ending (a) - (b)	<u>\$ 1,841,028</u>
Plan fiduciary net position as a percentage of the total OPEB liability	80.2%
Covered-employee payroll	\$ 16,532,000
District's net OPEB liability as a percentage of covered-employee payroll	11.1%

Notes to Schedule:

There were no changes to benefit terms or assumptions during the measurement period ending June 30, 2017.

* Fiscal year 2018 was the 1st year of implementation, therefore only one year is presented.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2018 LAST 10 YEARS*

	CalSTRS Plan			
	Measurement Date			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.024%	0.024%	0.024%	0.025%
District's proportionate share of the net pension liability	\$ 22,195,200	\$ 19,411,440	\$ 16,157,760	\$ 14,609,250
State's proportionate share of the net pension liability associated with the District	<u>13,119,823</u>	<u>10,881,561</u>	<u>8,702,245</u>	<u>8,896,441</u>
Total	<u>\$ 35,315,023</u>	<u>\$ 30,293,001</u>	<u>\$ 24,860,005</u>	<u>\$ 23,505,691</u>
District's covered-employee payroll	\$ 13,218,981	\$ 12,053,939	\$ 8,461,631	\$ 7,708,655
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168%	161%	191%	190%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%

Notes to Schedule:

Change of benefit terms – There were no changes to the benefit terms.

Changes in assumptions – For the measurement dates ended June 30, 2014, 2015 and 2016, there were no changes. For the measurement date ended June 30, 2017, the consumer price inflation changed from 3.00% to 2.75%, investment rate of return changed from 7.60% to 7.10%, and wage growth changed from 3.75% to 3.5%.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2018
LAST 10 YEARS***

	CalPERS Plan			
	Measurement Date			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0690%	0.0704%	0.0729%	0.0726%
District's proportionate share of the net pension liability	\$ 16,479,490	\$ 13,904,044	\$ 10,745,532	\$ 8,241,868
District's covered-employee payroll	\$ 8,800,859	\$ 8,536,247	\$ 6,886,947	\$ 6,798,379
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	187%	163%	156%	121%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Change of benefit terms – There were no changes to the benefit terms.

Changes in assumptions – For the measurement date ended June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct an adjustment which previously reduced the discount rate for administrative expenses. For the measurement dates ended June 30, 2016 and 2014, there were no changes in assumptions. For the measurement date ended June 30, 2017, the discount rate changed from 7.65% to 7.15%.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS

AS OF JUNE 30, 2018

LAST 10 YEARS*

	CalSTRS Plan			
	Fiscal Year			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 2,010,655	\$ 1,611,746	\$ 1,288,845	\$ 1,014,998
Contributions in relation to the contractually required contributions	<u>(2,010,655)</u>	<u>(1,611,746)</u>	<u>(1,288,845)</u>	<u>(1,014,998)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 14,594,168	\$ 13,218,981	\$ 12,053,939	\$ 8,461,631
Contributions as a percentage of covered-employee payroll	13.78%	12.19%	10.69%	12.00%

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS AS OF JUNE 30, 2018 LAST 10 YEARS*

	CalPERS Plan			
	Fiscal Year			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 1,612,153	\$ 1,216,038	\$ 1,005,496	\$ 959,947
Contributions in relation to the contractually required contributions	<u>(1,612,153)</u>	<u>(1,216,038)</u>	<u>(1,005,496)</u>	<u>(959,947)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 10,485,698	\$ 8,800,859	\$ 8,536,247	\$ 6,886,947
Contributions as a percentage of covered-employee payroll	15.37%	13.82%	11.78%	13.94%

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Passed Through to Subrecipients	Program Expenditures
U.S. Department of Education				
Student Financial Assistance Programs Cluster:				
Pell Grant Program	84.063	N/A		\$ 5,943,319
Federal Work Study	84.033	N/A		79,782
Supplemental Educational Opportunity Grant Program	84.007	N/A		86,125
Direct Student Loan Program	84.268	N/A		117,281
Subtotal Student Financial Assistance Programs Cluster				6,226,507
Higher Education - Institutional Aid Program:				
Higher Education - STEM	84.031C	P031C160097		1,311,245
Title V - Higher Education	84.031S	P031S100004		127,922
Title V - Higher Education	84.031S	P031S120075	\$ 134,175	228,975
Title V - Higher Education	84.031S	P031S150003		360,343
Subtotal Title V Higher Education				2,028,485
Higher Education - TRIO Cluster	84.042A	N/A		262,498
Subtotal Higher Education - Institutional Aid Program			134,175	2,290,983
Passed through California Department of Education:				
Vocational and Applied Technology - Title IC	84.011	03578		128,288
Vocational and Applied Technology - CTE Transitions	84.048	03578		41,592
State Vocational Rehabilitation Services	84.126A	03578		230,950
Total U.S. Department of Education			134,175	8,918,320
U.S. Department of Agriculture				
State Administrative Matching Grant for SNAP (Fresh Success) - Cluster	10.561	N/A		227,918
U.S. Department of Health and Human Services				
477 Cluster:				
GAIN Program	93.558	N/A		154,535
TANF Program	93.558	N/A		50,133
Total U.S. Department of Health and Human Services/477 Cluster				204,668
Total Expenditures of Federal Awards			\$ 134,175	\$ 9,350,906

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2018

Program Title	Entitlements			Program Revenues				Program Expenditures
	Prior Year Carryforward	Current Entitlement	Total Entitlement	Unearned Revenue and Cash Received	Accounts Receivable	Unearned Revenue and Payables	Total	
Financial Aid - BFAP		\$ 208,365	\$ 208,365	\$ 208,365			\$ 208,365	\$ 208,365
EOPS		636,723	636,723	636,723			636,723	636,723
CARE		176,791	176,791	176,791		\$ 1	176,790	176,790
DSPS		762,059	762,059	762,059			762,059	762,059
Cal WORKs		383,813	383,813	345,867	\$ 10,000	4,798	351,069	351,069
SSSP (Credit)		1,145,801	1,145,801	1,145,801			1,145,801	1,145,801
SSSP (Non-Credit)	\$ 10,036	98,301	108,337	108,337			108,337	108,337
Child Development Consortium		191,000	191,000	28,550	154,000	20,376	162,174	162,174
Full-time Student Success	31,196	182,930	214,126	214,126	874		215,000	215,000
Student Equity	25,018	548,968	573,986	573,986		78,698	495,288	495,288
California Completion Grant		126,750	126,750	124,932	1,818		126,750	126,750
Lottery		438,607	438,607	331,152	107,455		438,607	438,607
Staff Diversity		50,000	50,000	50,000			50,000	50,000
Basic Skills	1,182,896	141,964	1,324,860	426,300	383,577	66,643	743,234	743,234
MAA				31,909		17,835	14,074	14,074
Hunger Free Campus		10,284	10,284	10,284		3,697	6,587	6,587
Guided Pathways		166,832	166,832	166,832		166,832		
Cal Grant B & C		499,466	499,466	494,537	4,929		499,466	499,466
MESA	26,750	74,515	101,265	61,134	4,446		65,580	65,580
CTC Apprenticeship	8,683		8,683	8,683		2,562	6,121	6,121
CTE Enhancement	50,000		50,000	50,000		50,000		
Lifeline				34,290		29,554	4,736	4,736
Strong Workforce	545,478	1,074,128	1,619,606	1,543,873	75,733	869,864	749,742	749,742
Adult Ed AB 86	38,890		38,890	38,890			38,890	38,890
Adult Ed AB 104	208,253	500,129	708,382	708,382		44,189	664,193	664,193
Adult Ed Data Accountability	78,110		78,110	78,110		5,659	72,451	72,451
Instructional Equipment		326,402	326,402	326,402		297,427	28,975	28,975
Scheduled Maintenance	818,685		818,685	818,685		740,371	78,314	78,314
Proposition 39		189,000	189,000	277,339		(587)	277,926	277,926
Campus Safety/Sexual Assault		16,234	16,234	16,234			16,234	16,234
Total	<u>\$ 3,023,995</u>	<u>\$ 7,949,062</u>	<u>\$ 10,973,057</u>	<u>\$ 9,798,573</u>	<u>\$ 742,832</u>	<u>\$ 2,397,919</u>	<u>\$ 8,143,486</u>	<u>\$ 8,143,486</u>

See the accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2018

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data*</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2017 Only)			
1. Noncredit	80.69		80.69
2. Credit	371.18		371.18
B. Summer Intersession (Summer 2018, Prior to July 1, 2018)			
1. Noncredit	0.00		0.00
2. Credit	3.27		3.27
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	2,417.88		2,417.88
(b) Daily Census Contact Hours	85.46		85.46
2. Actual Hours of Attendance Courses:			
(a) Noncredit	518.47		518.47
(b) Credit	617.92		617.92
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	506.50	(0.20)	506.30
(b) Daily Census Procedure Courses	104.83		104.83
(c) Noncredit Independent Study	0.00		0.00
D. Total Full-Time Equivalent Students	<u>4,706.20</u>	<u>(0.20)</u>	<u>4,706.00</u>
<u>Supplemental Information</u>			
E. In-service Training Courses (FTES)	72.86		72.86
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	213.99		213.99
(b) Credit	345.17		345.17
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	117.69		117.69
Centers FTES			
(a) Noncredit	0.00		0.00
(b) Credit	0.00		0.00

* FTES reported in the in the Recal Apportionment Attendance Report (CCFS-320) by the District on November 1, 2018.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2018

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	\$ 4,636,267		\$ 4,636,267	\$ 4,636,267		\$ 4,636,267
Other	1300	7,626,196		7,626,196	7,626,196		7,626,196
Total Instructional Salaries		<u>12,262,463</u>		<u>12,262,463</u>	<u>12,262,463</u>		<u>12,262,463</u>
Non-Instructional Salaries:							
Contract or Regular	1200				2,989,863		2,989,863
Other	1400				447,599		447,599
Total Non-Instructional Salaries					<u>3,437,462</u>		<u>3,437,462</u>
Total Academic Salaries		<u>12,262,463</u>		<u>12,262,463</u>	<u>15,699,925</u>		<u>15,699,925</u>
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				6,382,701		6,382,701
Other	2300				255,348		255,348
Total Non-Instructional Salaries					<u>6,638,049</u>		<u>6,638,049</u>
Instructional Aides:							
Regular Status	2200	318,453		318,453	318,453		318,453
Other	2400	127,746		127,746	127,746		127,746
Total Instructional Aides		<u>446,199</u>		<u>446,199</u>	<u>446,199</u>		<u>446,199</u>
Total Classified Salaries		<u>446,199</u>		<u>446,199</u>	<u>7,084,248</u>		<u>7,084,248</u>
Employee Benefits	3000	2,184,111		2,184,111	5,148,218		5,148,218
Supplies and Materials	4000				564,616		564,616
Other Operating Expenses	5000	1,621,706		1,621,706	3,472,221		3,472,221
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		<u>16,514,479</u>		<u>16,514,479</u>	<u>31,969,228</u>		<u>31,969,228</u>

See the accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2018

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	391,613		391,613	391,613		391,613
Student Health Services Above Amount Collected	6441						
Student Transportation	6491				4,753		4,753
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740						
Objects to Exclude:							
Rents and Leases	5060				584,558		584,558
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:							
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300				248,605		248,605
Noninstructional Supplies & Materials	4400						
Total Supplies and Materials					248,605		248,605
Other Operating Expenses and Services	5000				719,369		719,369
Capital Outlay:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
TOTAL EXCLUSIONS		<u>391,613</u>		<u>391,613</u>	<u>1,948,898</u>		<u>1,948,898</u>
Total for ECS 84362, 50% Law		<u>\$ 16,122,866</u>		<u>\$ 16,122,866</u>	<u>\$ 30,020,330</u>		<u>\$ 30,020,330</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		53.71%		53.71%	100%		100%
50% of Current Expense of Education					\$ 15,010,165		\$ 15,010,165

See the accompanying notes to supplementary information.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES
TO DISTRICT ACCOUNTING RECORDS
YEAR ENDED JUNE 30, 2018**

Prop 30 EPA Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 4,102,253
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 4,102,253			4,102,253
Total Expenditures for EPA*		<u>\$ 4,102,253</u>	<u>\$</u>	<u>\$</u>	<u>4,102,253</u>
Revenues less Expenditures					<u>\$</u>

*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO NET POSITION YEAR ENDED JUNE 30, 2018

Fund Balance per 311:	
Unrestricted General Fund	\$ 4,750,462
Restricted General Fund	417,554
Child Development Fund	
Bond Interest and Redemption Fund	4,568,959
Other Debt Service Fund	7,274,881
Capital Projects Fund	(2,240,242)
Measure E Bond Construction Fund	
Self Insurance Fund	121,610
Associated Students Trust Fund	404,393
Student Body Center Fee	29,027
Student Financial Aid Fund	
Total Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	<u>15,326,644</u>
Net audit adjustments:	
No adjustments were made to the District's Funds	
Total Fund Balance	<u>15,326,644</u>
Reconciliation to Net Position:	
Capital assets, net	127,747,516
Deferred amount on refunding	7,133,990
Deferred outflows of resources related to pensions & OPEB	11,819,025
Lease Receivable	450,496
Net pension liability	(38,674,690)
Net OPEB Liability	(1,841,028)
Accrued Interest	(1,724,842)
Long-term debt	(116,577,453)
Deferred inflows of resources related to pensions & OPEB	(2,060,958)
Rounding difference	(227)
Remove Fiduciary Fund Balances	(433,420)
Remove OPEB Irrevocable Trust Fund	<u>(7,274,881)</u>
Total Net Position	<u>\$ (6,109,828)</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

AUDITOR COMMENTS

No adjustments were made to the District's Fund Financial Statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2018, was conducted in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which requires disclosure of the financial activities of all federally funded programs. To comply with Uniform Guidance, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.
- Indirect Cost Rate – The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Schedule of State Financial Awards

The California Community Colleges Chancellor's Office requires disclosure of the financial activities of all state funded programs. To comply with this requirement, the Schedule of State Financial Assistance is presented.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

Full-time equivalent students (FTES) is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

Reconciliation of ECS 84362 (50 Percent Law) Calculation

The Reconciliation of ECS 84362 (50 Percent Law) Calculation form shows the annual reported data from the CCFS-311 and any audit adjustments.

Reconciliation of Education Protection Account Expenditures to District Accounting Records

This reconciliation of Education Protection Account expenditures shows the annual general apportionment and the expenditures the District applied toward the apportionment.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

Reconciliation of Governmental Funds to Statement of Net Position

This schedule provides the reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entry-wide full accrual basis financial statements required under GASB Statement No. 34 and No. 35 business type activities reporting model.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule reports any adjustments made to the fund balances of all funds as reported on the Annual Financial and Budget Report (Form CCFS-311).

ADDITIONAL INFORMATION SECTION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF FUND BALANCE/NET POSITION BY FUND

JUNE 30, 2018

(UNAUDITED)

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Risk Management	Bond Interest and Redemption Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 5,345,124					
Receivables, net	3,922,820	\$ 1,315,010		\$ 366	\$ (33,984)	\$ 6,266
Due from other funds	2,603,064					
Prepaid expenses/expenditures	56,153	2,147				
Total current assets	11,927,161	1,317,157		366	(33,984)	6,266
Noncurrent assets:						
Restricted cash and cash equivalents		866,439	\$ 297,426	166,718	192,088	4,562,693
Lease receivable						
Security deposit						
Depreciable capital assets, net						
Nondepreciable capital assets						
Total noncurrent assets		866,439	297,426	166,718	192,088	4,562,693
Total assets	11,927,161	2,183,596	297,426	167,084	158,104	4,568,959
Deferred outflows of resources:						
Deferred amount on refunding						
Deferred outflows of resources related to pensions						
Deferred outflows of resources related to OPEB						
Total deferred outflows of resources						
Liabilities:						
Current liabilities:						
Accounts payable	2,882,702	365,903		81	49,356	
Apportionment payable	3,279,690					
Accrued payroll	717,847	38,403		2,263		
Accrued interest payable						
Unearned revenue	297,031	1,668,150		155,751	(12,861)	
Due to other funds	(342)					
Compensated absences						
Bonds payable, current portion						
Total current liabilities	7,176,928	2,072,456		158,095	36,495	
Noncurrent liabilities:						
Net pension liability						
OPEB liability						
Bonds payable, noncurrent portion						
Total noncurrent liabilities						
Total liabilities	7,176,928	2,072,456		158,095	36,495	
Deferred inflows of resources:						
Deferred inflows of resources related to pensions						
Deferred inflows of resources related to OPEB						
Total deferred inflows of resources						
Fund balance/net position:						
Net investment in capital assets						
Restricted for:						
Debt service						4,568,959
Capital projects						
Other special purposes		111,140	297,426	8,989	121,609	
Unrestricted	4,750,233					
Total fund balance/net position (deficit)	\$ 4,750,233	\$ 111,140	\$ 297,426	\$ 8,989	\$ 121,609	\$ 4,568,959

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF FUND BALANCE/NET POSITION BY FUND (Continued) JUNE 30, 2018 (UNAUDITED)

	Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Position
Assets:						
Current assets:						
Cash and cash equivalents			\$ (177,323)	\$ 5,167,801		\$ 5,167,801
Receivables, net	\$ 19,123		177,323	5,406,924		5,406,924
Due from other funds				2,603,064	\$ (2,603,064)	
Prepaid expenses/expenditures	16,512			74,812		58,300
Total current assets	<u>35,635</u>			<u>13,252,601</u>	<u>(2,603,064)</u>	<u>10,633,025</u>
Noncurrent assets:						
Restricted cash and cash equivalents	1,145,022	\$ 2,883		7,233,269	1	7,233,270
Lease receivable		450,496		450,496		450,496
Security deposit						16,512
Depreciable capital assets, net					80,769,861	80,769,861
Nondepreciable capital assets					46,977,655	46,977,655
Total noncurrent assets	<u>1,145,022</u>	<u>453,379</u>		<u>7,683,765</u>	<u>127,747,517</u>	<u>135,447,794</u>
Total assets	<u>1,180,657</u>	<u>453,379</u>		<u>20,936,366</u>	<u>125,144,453</u>	<u>146,080,819</u>
Deferred outflows of resources:						
Deferred amount on refunding					7,133,990	7,133,990
Deferred outflows of resources related to pensions					11,413,367	11,413,367
Deferred outflows of resources related to OPEB					405,658	405,658
Total deferred outflows of resources					<u>18,953,015</u>	<u>18,953,015</u>
Liabilities:						
Current liabilities:						
Accounts payable	77,651	2,883		3,378,576	(342)	1,260,426
Apportionment payable				3,279,690		5,397,498
Accrued payroll				758,513		758,513
Accrued interest payable					1,724,842	1,724,842
Unearned revenue	740,183	450,496		3,298,750	(450,496)	2,848,254
Due to other funds	2,603,064			2,602,722	(2,602,722)	
Compensated absences					922,680	922,680
Bonds payable, current portion					3,154,928	3,154,928
Total current liabilities	<u>3,420,898</u>	<u>453,379</u>		<u>13,318,251</u>	<u>2,748,890</u>	<u>16,067,141</u>
Noncurrent liabilities:						
Net pension liability					38,674,690	38,674,690
OPEB liability					1,841,028	1,841,028
Bonds payable, noncurrent portion					112,499,845	112,499,845
Total noncurrent liabilities					<u>153,015,563</u>	<u>153,015,563</u>
Total liabilities	<u>3,420,898</u>	<u>453,379</u>		<u>13,318,251</u>	<u>155,764,453</u>	<u>169,082,704</u>
Deferred inflows of resources:						
Deferred inflows of resources related to pensions					1,935,430	1,935,430
Deferred inflows of resources related to OPEB					125,528	125,528
Total deferred inflows of resources					<u>2,060,958</u>	<u>2,060,958</u>
Fund balance/net position:						
Net investment in capital assets					19,226,733	19,226,733
Restricted for:						
Debt service				4,568,959		4,568,959
Capital projects	(2,240,241)			(2,240,241)	2,240,241	
Other special purposes				539,164	(130,598)	408,566
Unrestricted				4,750,233	(35,064,319)	(30,314,086)
Total fund balance/net position (deficit)	<u>\$ (2,240,241)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,618,115</u>	<u>\$ (13,727,943)</u>	<u>\$ (6,109,828)</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN FUND BALANCE/NET POSITION BY FUND JUNE 30, 2018 (UNAUDITED)

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Risk Management	Bond Interest and Redemption Fund
Operating revenues:						
Tuition and fees	\$ 4,654,250	\$ 491,736				
Less: Scholarship discounts and allowance	(2,525,576)					
Net tuition and fees	2,128,674	491,736				
Grants and contracts, noncapital:						
Federal	24,477	3,204,183				
State	1,666,226	6,346,080				
Local	141,034	125,976				
Total operating revenues	3,960,411	10,167,975				
Operating expenditures/expenses:						
Salaries	20,788,613	6,079,729		\$ 125,324		
Employee benefits	7,276,234	2,127,870		40,700		
Supplies, materials, and other operating expenses and services	8,090,543	3,192,323	\$ 28,975	(45,335)	\$ 206,085	
Student aid		1,457,356				
Depreciation						
Total operating expenditures/expenses	36,155,390	12,857,278	28,975	120,689	206,085	
Loss from operations	(32,194,979)	(2,689,303)	(28,975)	(120,689)	(206,085)	
Non-operating revenues (expenditures/expenses):						
State apportionment, noncapital	323,514					
Education protection account	4,102,253					
Local property taxes, noncapital	26,008,833					
State taxes and other revenues	96,630					\$ 40,018
Interest income, noncapital	38,164				535	21,985
Other non-operating revenues (expenditures/expenses)	3,348,505	88,064		129,678	127,159	
Interfund transfers out	(1,593,105)	(129,513)				
Interfund transfers in		1,430,162			200,000	
Total non-operating revenues (expenditures/expenses)	32,324,794	1,388,713		129,678	327,694	62,003
Gain (loss) before capital activity	129,815	(1,300,590)	(28,975)	8,989	121,609	62,003
Capital activity:						
State apportionment, capital		1,411,730	326,401			
Local property taxes and other revenues, capital						6,478,235
Other financing sources - Bond Proceeds						27,045,000
Other financing sources - Premium on Refunding Bonds						3,691,587
Other financing uses - Payment to Refunded Bond Escrow						(31,037,561)
Cost of Issuance						(336,468)
Interest income, capital						
Debt reduction						(1,895,000)
Interest expense on capital asset related debt						(3,905,805)
Total capital activity		1,411,730	326,401			39,988
Change in fund balance/net position	129,815	111,140	297,426	8,989	121,609	101,991
Fund balance/net position (deficit), beginning of year, as restated	4,620,418					4,466,968
Fund balance/net position (deficit), end of year	\$ 4,750,233	\$ 111,140	\$ 297,426	\$ 8,989	\$ 121,609	\$ 4,568,959

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN FUND BALANCE/NET POSITION BY FUND (Continued) JUNE 30, 2018 (UNAUDITED)

	Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Position
Operating revenues:						
Tuition and fees				\$ 5,145,986		\$ 5,145,986
Less: Scholarship discounts and allowance				(2,525,576)		(2,525,576)
Net tuition and fees				2,620,410		2,620,410
Grants and contracts, noncapital:						
Federal			\$ 5,884,420	9,113,080		9,113,080
State	\$ 362,087			8,374,393		8,374,393
Local				267,010		267,010
Total operating revenues	<u>362,087</u>		<u>5,884,420</u>	<u>20,374,893</u>		<u>20,374,893</u>
Operating expenditures/expenses:						
Salaries				26,993,666	\$ 115,501	27,109,167
Employee benefits				9,444,804	1,412,540	10,857,344
Supplies, materials, and other operating expenses and services	10,346,523	\$ 4,983,156		26,802,270	(15,645,094)	11,157,176
Student aid			5,884,420	7,341,776		7,341,776
Depreciation					2,590,120	2,590,120
Total operating expenditures/expenses	<u>10,346,523</u>	<u>4,983,156</u>	<u>5,884,420</u>	<u>70,582,516</u>	<u>(11,526,933)</u>	<u>59,055,583</u>
Loss from operations	<u>(9,984,436)</u>	<u>(4,983,156)</u>		<u>(50,207,623)</u>	<u>11,526,933</u>	<u>(38,680,690)</u>
Non-operating revenues (expenditures/expenses):						
State apportionment, noncapital				323,514		323,514
Education protection account				4,102,253		4,102,253
Local property taxes, noncapital				26,008,833		26,008,833
State taxes and other revenues				136,648		136,648
Interest income, noncapital	14,790			75,474		75,474
Other non-operating revenues (expenditures/expenses)	38,707	25,691		3,757,804	(114,981)	3,642,823
Interfund transfers out				(1,722,618)	1,722,618	
Interfund transfers in				1,630,162	(1,630,162)	
Total non-operating revenues (expenditures/expenses)	<u>53,497</u>	<u>25,691</u>		<u>34,312,070</u>	<u>(22,525)</u>	<u>34,289,545</u>
Gain (loss) before capital activity	<u>(9,930,939)</u>	<u>(4,957,465)</u>		<u>(15,895,553)</u>	<u>11,504,408</u>	<u>(4,391,145)</u>
Capital activity:						
State apportionment, capital				1,738,131	1	1,738,132
Local property taxes and other revenues, capital				6,478,235		6,478,235
Other financing sources - Bond Proceeds				27,045,000	(27,045,000)	
Other financing sources - Premium on Refunding Bonds				3,691,587	(3,691,587)	
Other financing uses - Payment to Refunded Bond Escrow				(31,037,561)	31,037,561	
Cost of Issuance				(336,468)		(336,468)
Interest income, capital		37,769		37,769		37,769
Debt reduction				(1,895,000)	1,895,000	
Interest expense on capital asset related debt	(200,326)			(4,106,131)	677,189	(3,428,942)
Total capital activity	<u>(200,326)</u>	<u>37,769</u>		<u>1,615,562</u>	<u>2,873,164</u>	<u>4,488,726</u>
Change in fund balance/net position	<u>(10,131,265)</u>	<u>(4,919,696)</u>		<u>(14,279,991)</u>	<u>14,377,572</u>	<u>97,581</u>
Fund balance/net position (deficit), beginning of year, as restated	<u>7,891,024</u>	<u>4,919,696</u>		<u>21,898,106</u>	<u>(28,105,515)</u>	<u>(6,207,409)</u>
Fund balance/net position (deficit), end of year	<u>\$ (2,240,241)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,618,115</u>	<u>\$ (13,727,943)</u>	<u>\$ (6,109,828)</u>

OTHER INDEPENDENT AUDITOR'S REPORTS

**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

**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 business-type activities and the aggregate remaining fund information of the Gavilan Joint Community College District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated March 4, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

The District's Responses to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 4, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

**Board of Trustees
Gavilan Joint Community College District
Gilroy, California**

Report on Compliance for Each Major Federal Program

We have audited the Gavilan Joint Community College District's (the District) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying Schedule of Audit Findings and Questioned Costs as item 2018-002. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

March 4, 2019

REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS IN ACCORDANCE WITH THE CONTRACTED DISTRICT AUDIT MANUAL

Independent Auditor's Report

**Board of Trustees
Gavilan Joint Community College District
Gilroy, California**

Report on Compliance with Applicable Requirements

We have audited Gavilan Joint Community College District's (the District) compliance with the types of compliance requirements described in Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office identified in the schedule below for the year ended June 30, 2018.

Management's Responsibilities

Management is responsible for compliance with the state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards and the *Contracted District Audit Manual* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination on the District's compliance with those requirements.

In connection with the requirements referred to above, we have selected and tested transactions and records to determine the District's compliance with the applicable programs identified below:

- Salaries of Classroom Instructors (50% Law)
- Apportionment for Instructional Service Agreements/Contracts

- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Dual Enrollment (CCAP and Non-CCAP)
- Student Equity
- Student Success and Support Program (SSSP) Funds
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Proposition 39 Clean Energy Fund
- Intersession Extension Programs
- Apprenticeship Related and Supplemental Instruction (RSI) Funds
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D and 51 State Bond Funded Projects
- Education Protection Account Funds

Other Matter

The results of our auditing procedures disclosed instances of noncompliance, which is required to be reported in accordance with State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office and which are described in the accompanying schedule of findings and questioned costs as items 2018-003, 2018-004 and 2018-005. Our opinion on the types of compliance requirements referred to above is not modified with respect to this matter.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. These responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2018.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

March 4, 2019

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.031, 84.031C, 84.031S	Title V Higher Education

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

State Awards

Internal control over state programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

Any audit findings disclosed that are required to be disclosed in accordance with Contracted District Audit Manual? X Yes No

Type of auditor's report issued on compliance for state programs: Unmodified

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 – FINANCIAL CLOSE PROCESS

Criteria:

An essential aspect of any organization's internal control over its financial reporting process is the ability to produce accurate and timely financial data in accordance with Generally Accepted Accounting Principles (GAAP). Accurate and timely financial reporting enables management and the Board to have a sound financial basis for decision making and meet required reporting requirements.

Condition:

The District's accounting closing process was not adequate to prepare financial statement in an efficient and timely manner to meet the reporting requirements outlined in the education code. The District's audit was originally scheduled in October 2018 however, completion of the audit was delayed as the District was unable to provide adequate support and reconciliations for the financial statement balances. Final account reconciliations, supporting documentation, trial balances, and the required Annual Financial and Budget Report (311), were not available until February 2019. Additionally, adjustments, revised reconciliations, and updated analyses for numerous financial statement accounts were necessary based on inquiries throughout the audit process.

Questioned Costs:

None.

Cause:

The District did not incorporate a sufficient closing process to produce timely and accurate financial statements in accordance with GAAP.

Effect:

Accurate financial reporting enables management and the Board to have a sound financial basis for decision making. Conversely, the absence of accurate and timely financial data may undermine the plans and initiatives of management and the Board and not allow for meeting required reporting deadlines.

Furthermore, the year-end close and reconciliation of the District's financial data represents a significant internal control process of its financial reporting and should not rely on the additional level of control supplied by an external financial audit.

Recommendation:

Reconciliations, review and account analysis should occur on a regular basis to ensure accurate and timely financial reporting. We recommend the District formally document the year-end closing process to include procedures, responsible parties, reviewers, and timelines to improve the efficiency and accuracy of the process.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

District's Corrective Action Plan:

The District will perform reconciliations, review and do account analysis on a regular basis to ensure accurate and timely financial reporting. For example, the District is currently up to date with fixed asset reconciliations through January 2019. The District will formally document the year-end closing process to include procedures, responsible parties, reviewers, and timelines to improve the efficiency and accuracy of the process. The District for 2018-19 has started a year-end calendar, listing individual's responsibilities and timelines for completion before year end close.

SECTION III – FEDERAL COMPLIANCE

2018-002 – ALLOWABLE COSTS

Federal Program: Higher Education - Institutional Aid Program

Federal Agency: U.S. Department of Education

CFDA Number: 84.031

Grant Number: PC31C160097, P031S100004, P031S120075, PO31S150003

Criteria:

In accordance with Uniform Guidance, Subpart E Cost Principles, the method for charging payroll to federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached.

Condition:

Payroll costs were allocated to the program based on budgeted costs and not actual costs. The District did not have a process to perform an after-the-fact determination of actual program costs related to payroll.

Cause:

The District's process was to informally compare budgeted versus actual hours, however there was no formal process to ensure that adjustments were made at year-end if budgeted costs did not equal actual costs.

Effect:

Expenditures charged to the program could be overstated when payroll costs charged to the program are based on budgeted amounts rather than actual costs.

Questioned Costs:

Of the twenty-five selections tested, ten selections had a different percentage of actual time worked on the program compared to the expected (budgeted) percentage of time the respective employee would work on the program. Of these ten exceptions, two employees had actual hours exceeding budgeted hours, resulting in possible additional program costs of \$642 for the pay periods tested. Eight employees had actual hours below the budgeted hours, resulting in an overstatement of \$6,991 for the pay periods tested.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

Recommendation:

We recommend the District implement a procedure to compare budgeted to actual payroll costs, and record adjustments as necessary for any differences.

Management's Response:

The District has already met with those individuals who are responsible for time and effort reporting and trained staff and implemented a procedure to compare budget to actual payroll costs, and record adjustments as necessary for any differences at the end of the year. This process will reside in the payroll department as time sheets are reviewed for payment. Time and effort will be reviewed against time sheets for payment and adjustments will be requested by appropriate department.

SECTION IV – STATE COMPLIANCE

2018-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ALTERNATIVE ATTENDANCE

Criteria:

According to California Code of Regulations, Title V, Section 58003.1 (f), all distance education and hybrid courses that do not qualify for other attendance accounting procedures such as weekly or daily census will follow the alternative attendance procedures. The weekly student contact hours reported for each class should be the product of the number of students actively enrolled at weekly census times the number of units of academic credit associated with the class.

Condition:

We noted one weekly alternative attendance courses were not reported at the correct amount of Contact Hours.

Context:

Out of 25 independent study classes tested, one course was identified that was not reported at the correct amount of contact hours. Contact hours were incorrectly calculated due to human error. It appears there was a lack of proper review prior to reporting.

Effect:

The difference between the reported and recalculated FTES for courses noted:

Gilroy Campus:

- Credit courses, residents – 0.200 FTES (overreported)
- Credit courses, nonresidents – 0.000 FTES

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

Questioned Costs:

The total overreported weekly alternative attendance census FTES for residents in credit courses identified above is 0.200 FTES, which based on the District's funding per credit FTES, is equal to \$1,030.19. The total FTES sample is 294.02 FTES; therefore, 0.07% of the sample was calculated to have an actual overreporting misstatement. With the total population of alternative attendance FTES of 611.33 and the \$5,150.93 total credit per FTES, the extrapolation of the error in the audit results in projection of approximately 0.42 overstated FTES which is equal to \$2,141.95.

The Recal Apportionment Attendance Report (CCFS-320) does not include an adjustment for the effect of this finding.

Recommendation:

We recommend that the District remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Additionally, we recommend that an internal review be performed of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

The District will remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Additionally, the District will perform an internal review of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

2018-004 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE

Criteria:

According to California Code of Regulations, Title V, Section 58003.1 (e), the Actual Hours of Attendance procedure is based on an actual count of students present at each class meeting, and applies to certain types of courses, including open entry/open exit courses. Attendance for open entry/open exit courses is to be tracked based on actual minutes attended by individual students in the courses, dividing by 50 minutes to obtain contact hours, and then dividing by 525 hours to obtain the FTES for such courses.

Condition:

We noted four actual hours of attendance courses were not reported at the correct amount of contact hours due to human error.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

Context:

Out of 25 actual hours of attendance courses tested, four courses were identified that were not reported at the correct amount of contact hours. Two courses were incorrectly reported a result of human error and a lack of proper review prior to reporting; one course was overreported and one course was underreported. Two instructors inappropriately capped FTES for two courses at less hours than the maximum allowed which resulted in the courses being underreported.

Effect:

The difference between the reported and recalculated FTES for courses noted:

Gilroy Campus:

- Credit courses, residents – 0.020 FTES (underreported), 0.008 FTES (overreported)
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.000 FTES
- Noncredit courses, nonresidents – 0.000 FTES

Questioned Costs:

The total underreported actual hours of attendance census FTES for residents in credit courses identified above is 0.020 FTES, which based on the District's funding per credit FTES, is equal to \$103. The total FTES sample is 25.75 FTES; therefore, 0.08% of the sample was calculated to have an actual underreporting misstatement. With the total population of actual hours of attendance FTES of 617.94 and the \$5,150.93 total credit per FTES, the extrapolation of the error in the audit results in a projection of approximately 0.480 understated of FTES which is equal to \$2,471.84.

The total overreported daily census FTES for residents in credit courses identified above is 0.008 FTES, which based on the District's funding per credit FTES, is equal to \$52. The total FTES sample is 25.75 FTES; therefore, 0.04% of the sample was calculated to have an actual overreporting misstatement. With the total population of actual hours of attendance FTES of 617.94 and the \$5,150.93 total credit per FTES, the extrapolation of the error in the audit results in projects approximately 0.240 overstated FTES which is equal to \$1,235.92.

The Recal Apportionment Attendance Report (CCFS-320) does include an adjustment for the effect of this finding.

Recommendation:

We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, we recommend that an internal review be performed of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

District's Corrective Action Plan:

The District will remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, the District will perform an internal review of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

2018-005 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES

Criteria:

According to California Code of Regulations, Title V, Section 58003.1 (c), for credit courses scheduled to meet for five or more days and scheduled regularly with respect to the number of hours each scheduled day, but not scheduled concurrently with the college's primary term established pursuant to subdivision (b), or scheduled during the summer or other intersession, the units of full time equivalent student (FTES), exclusive of independent study and cooperative work-experience education courses, shall be computed by multiplying the daily student contact hours of active enrollment as of the census days nearest to one-fifth of the length of the course by the number of days the course is scheduled to meet, and dividing by 525.

Condition:

We noted two daily courses were not reported at the correct amount of contact hours due to human error.

Context:

Out of 25 daily attendance courses tested, two courses were identified that were not reported at the correct amount of contact hours. This incorrect reporting was a result of human error and a lack of proper review prior to reporting.

Effect:

The difference between the reported and recalculated FTES for courses noted:

Gilroy Campus:

- Credit courses, residents – 0.150 FTES (overreported)
- Credit courses, nonresidents – 0.000 FTES

Questioned Costs:

The total overreported daily census FTES for residents in credit courses identified above is 0.150 FTES, which based on the District's funding per credit FTES, is equal to \$772.64. The total FTES sample is 37.61 FTES; therefore, 0.40% of the sample was calculated to have an actual overreporting misstatement. With the total population of daily attendance FTES of 85.49 and the \$5,150.93 total credit per FTES, the extrapolation of the error in the audit results in a projection of approximately 0.340 overstated FTES which is equal to \$1,756.24.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

The Recal Apportionment Attendance Report (CCFS-320) does include an adjustment for the effect of this finding.

Recommendation:

We recommend that the District remind instructors about the required methods to calculate contact hours for courses using daily attendance procedures. Additionally, we recommend that an internal review be performed of daily classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

The District will remind instructors about the required methods to calculate contact hours for courses using daily attendance procedures. Additionally, the District will perform an internal review be of daily classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

Condition and Recommendation	Current Status	District Explanation If Not Implemented
STATE COMPLIANCE FINDINGS		
2017-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ALTERNATIVE ATTENDANCE		
<p>Condition: We noted three weekly alternative attendance courses were not reported at the correct amount of Contact Hours.</p> <p>Recommendation: We recommend that the District remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Additionally, we recommend that an internal review be performed of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>	See finding 2018-003	See District’s corrective action plan for finding at 2018-003
2017-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE		
<p>Condition: We noted seven actual hours of attendance courses were not reported at the correct amount of contact hours due to human error.</p> <p>Recommendation: We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, we recommend that an internal review be performed of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>	See finding 2018-004	See District’s corrective action plan for finding at 2018-004
2017-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE		
<p>Condition: Six courses offered by the District were calculated based on a 60 minute contact hour instead of a 50 minute contact hour. Three courses offered by the District were calculated based on a 50 minute hour; however, these courses had excess time over the 50 minute hour that were converted using a 60 minute hour resulting in over calculation of these three courses.</p> <p>Recommendation: We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, we recommend that an</p>	Implemented. No items of noncompliance were noted in 2018 audit	

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

<u>Condition and Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>internal review be performed of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p> <p>2017-004 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – CENSUS REPORTING</p> <p>Condition: The District was unable to produce the first census report for three courses tested and therefore did not follow its internal control procedures to ensure that each instructor had turned in the census reports supporting the FTES for the course as required per criteria described above.</p> <p>Recommendation: We recommend that the District has a process in place to ensure that all first census reports are turned in by the first census date.</p>	<p>Implemented.</p> <p>No items of noncompliance were noted in 2018 audit</p>	
<p>2017-005 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – CENSUS REPORTING</p> <p>Condition: The District did not properly apply the criteria for census reporting to three courses tested.</p> <p>Recommendation: We recommend that the District has a process in place to ensure that all first census reports are checked for accuracy.</p>	<p>Implemented.</p> <p>No items of noncompliance were noted in 2018 audit</p>	
<p>2017-006 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES</p> <p>Condition: We noted three daily courses were not reported at the correct amount of contact hours due to human error.</p> <p>Recommendation: We recommend that the District remind instructors about the required methods to calculate contact hours for courses using daily attendance procedures. Additionally, we recommend that an internal review be performed of daily classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>	<p>See finding 2018-005.</p>	<p>See District’s corrective action plan for finding at 2018-005.</p>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

<u>Condition and Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2017-007 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – HYBRID COURSES</p> <p>Condition: We noted two daily course identified as hybrid courses that were not regularly scheduled for both the in person lecture and online portion of the courses. Therefore, the two hybrid courses should have been calculated using an alternative attendance accounting method.</p> <p>Recommendation: We recommend that the District remind instructors about the required methods to calculate contact hours for hybrid courses using the appropriate procedures. Additionally, we recommend that an internal review be performed of hybrid courses to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>	<p>Implemented.</p>	<p>No items of noncompliance were noted in 2018 audit.</p>
<p>2017-008 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – COURSE OUTLINE OF RECORD</p> <p>Condition: Two weekly course offered by the District were listed in the course outline of record incorrectly as 18 week semester instead of the actual 16.7 week semester.</p> <p>Recommendation: We recommend that the District compare the actual contact hours of courses with the course outline of record to identify and correct differences between the approved course description and the actual scheduling of the course.</p>	<p>Implemented.</p>	<p>No items of noncompliance were noted in 2018 audit.</p>