

**GAVILAN JOINT COMMUNITY
COLLEGE DISTRICT**

GILROY, CALIFORNIA

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

YEAR ENDED JUNE 30, 2015

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, 2015

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, 2015, were composed of the following members:

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Walter Glines	President	2018
Laura Perry, Esq.	Vice President	2018
Mark Dover	Clerk	2016
Tom Breen, Esq.	Trustee	2016
Jonathan Brusco	Trustee	2016
Kent Child	Trustee	2018
Lois Locci, Ed.D.	Trustee	2018
Gabriel Sawyer	Student Trustee	2015

ADMINISTRATION

Dr. Steven Kinsella Superintendent/President
Dr. Kathleen Rose Executive Vice President & Chief Instructional Officer
Kathleen Moberg Vice President of Student Services
Frederick E. Harris Vice President of Administrative Services
Sherrean Carr Dean of Career Technical Education
Frances Lozano Dean of Liberal Arts and Sciences
Ron Hannon Dean of Kinesiology and Athletics
Frances Lopez Associate Dean, Disability Resource Center
Randy Brown Interim Associate Dean, Community Development and Grants Management
Anne Ratto Associate Dean, EOPS, CalWORKs, & CARE
Wade W. Ellis, CPA Director of Business Services

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, 2015, 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, 2015, 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 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. 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 Funding Progress for Other Postemployment Benefits, 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.

Supplementary 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 Supplementary Information section is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 December 22, 2015, 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.
Sacramento, California**

December 22, 2015

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015. 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, 2015. 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 2014, Gavilan College celebrated its 95th year of operation as a community college.

Gavilan College is one of 113 California Community Colleges that are organized into 72 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 and Morgan Hill 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 14/15, Gavilan College served an estimated 5,559 students for fall semester, 5,431 students for spring semester and 2,114 for summer session. Gavilan College employs 207 full time permanent employees and approximately 270 part time faculty and staff employees each semester.

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 2015, students can choose among 145 degrees and certificates, including 19 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, 2015

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 201 total service area populations are approximately 177,445 (US Census Data). 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, 2015, continued to provide the District with the opportunity to reallocate and reduce resources through employee attrition in order to reduce the structural imbalance that occurred when the state suddenly reduced funding in the prior fiscal year. The Budget and actual results from general fund operations shows a small deficit but it is anticipated that increased funding from the State in FY 14/15 and beyond will allow the District to bring the budget back into balance by FY 15/16 while still maintaining a 10% reserve.

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 2015/16 – 2019/20. 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, 2015

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.

The District has been concentrating on achieving maximum Full Time Equivalent Students (FTES) to obtain earned growth revenue funds when available. In FY 11-12, the District had a workload reduction via reduced funding for total FTES. The change occurred just a month before the end of the year and resulted in a permanent reduction of on-going revenue of \$1.8 million. This state-imposed workload reduction was caused by the economic situation of the state. In addition to the workload reduction of \$1.8 million, the District also experienced a one-time deficit coefficient of \$600,000 for a total reduction of \$2.4 million for that fiscal year. The District absorbed this \$2.4 million deficit using its reserves. At the end of the FY 11-12 the college had 200 unfunded FTES, 93 unfunded FTES in FY 12/13, 47 unfunded FTES in FY 13/14 and zero unfunded FTES in FY 14/15.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was (\$7.8 million) deficit and \$14.6 million for the fiscal years ended June 30, 2015 and June 30, 2014, respectively. Of this amount, (\$26.9 million) and (\$3.7) million were unrestricted as of June 30, 2015 and 2014, respectively. The implementation of GASB Statements No. 68 and 71 required a restatement of net pension liabilities, creating a negative unrestricted net position. 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.

Noted in the current year is a decrease in assets resulting largely due to the fact that the District held no tax revenue anticipation notes (TRAN) at June 30, 2015. In the prior year, assets included \$3 million in cash from the issuance of TRANs. The college had to use TRANs during the year in order to pay for operating costs but had repaid the proceeds by the end of the fiscal year. The State has eliminated the amount of deferrals for apportionment payments.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Table 1

**GAVILAN JOINT CCD
Net Position**

	Governmental Activities as of June 30 for the Fiscal Year		
	2015	2014, restated*	Change
Current and other assets	\$ 34,974,893	\$ 37,785,770	\$ (2,810,877)
Capital assets	92,060,984	86,605,291	5,455,693
Total Assets	127,035,877	124,391,061	2,644,816
Deferred outflows of resources	4,116,120	2,406,063	1,710,057
Total Assets and Deferred Outflows	131,151,997	126,797,124	4,354,873
Current liabilities	8,994,263	8,928,563	(65,770)
Noncurrent liabilities	123,528,281	103,307,977	20,220,304
Total Liabilities	135,522,544	112,236,540	20,286,004
Deferred inflows of resources	6,429,498		6,429,498
Total Liabilities and Deferred Inflows	138,952,042	112,236,540	26,715,502
Net position			
Net investment in capital assets	15,092,420	14,467,998	624,422
Restricted	3,991,820	3,748,322	243,498
Unrestricted	(26,884,285)	(3,655,736)	(23,228,549)
Total Net Position	\$ (7,800,045)	\$ 14,560,584	\$ (22,360,629)

*Restatements for corrections of errors were included in Table 1. The actual and pro forma effect of the change in accounting principles for the implementation of GASBs 68 and 71 were not included in Table 1. This data is not readily available as actuary studies for measurement dates prior to June 30, 2014, were not prepared in accordance with GASB 68.

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 revenues moderately increased due to a cost of living adjustment (COLA) of .85% on computational revenue and increased funding for certain State-funded categorical programs such as EOPS, CalWORKs, and SSSP.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Table 2

**GAVILAN JOINT CCD
Change in Net Position**

	Governmental Activities for the Fiscal Year		
	2015	2014, restated*	Change
Revenues			
Operating revenues:			
Tuition and fees	\$ 2,225,694	\$ 2,312,287	\$ (86,593)
Grants and contracts - Federal	10,234,018	9,898,142	335,876
Grants and contracts - State and local	6,714,191	4,589,429	2,124,762
Non-operating revenues:			
State apportionment	5,752,428	7,065,092	(1,312,664)
Education protection account	5,055,410	4,079,472	975,938
Property taxes	22,052,538	20,341,139	1,711,399
State grants and contracts, capital	4,388,880	478,826	3,910,054
State taxes and other revenue	149,113	156,512	(7,399)
Other revenues	653,784	1,503,438	(849,654)
Total Revenues	57,226,056	50,424,337	6,801,719
Expenses			
Salaries	21,799,271	21,023,008	776,263
Employee benefits	8,144,366	8,975,909	(831,543)
Supplies, materials and other operating expenses and services	8,613,750	7,557,825	1,055,925
Student aid	7,027,974	7,022,058	5,916
Depreciation	1,980,847	1,943,827	37,020
Other non-operating expenses	4,738,288	4,470,013	268,275
Total Expenses	52,304,496	50,992,640	1,311,856
Change in Net Position	\$ 4,921,560	\$ (568,303)	\$ 5,489,863

*Restatements for corrections of errors were included in Table 2. The actual and pro forma effect of the change in accounting principles for the implementation of GASBs 68 and 71 were not included in Table 2. This data is not readily available as actuary studies for measurement dates prior to June 30, 2014, were not prepared in accordance with GASB 68.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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 \$52 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$22 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.

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 2014-15 budget was adopted on September 9, 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$92 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 \$5.5 million from last year, predominately due to ongoing Measure E and State Capital Outlay projects, offset by depreciation.

Table 3

GAVILAN JOINT CCD Capital Assets at Year-end

	<u>Fixed Assets for the Fiscal Year</u>		
	<u>2015</u>	<u>2014, restated</u>	<u>Change</u>
Land	\$ 28,074,857	\$ 28,074,857	
Work in Progress	9,887,921	3,242,871	\$ 6,645,050
Land Improvements	1,352,730	921,512	431,218
Building and Improvements	70,226,464	70,280,050	(53,586)
Equipment and vehicles	<u>7,515,619</u>	<u>7,137,995</u>	<u>377,624</u>
Total	117,057,591	109,657,285	7,400,306
Less Accumulated Depreciation	<u>(24,996,607)</u>	<u>(23,051,994)</u>	<u>1,944,613</u>
Net Total	<u>\$ 92,060,984</u>	<u>\$ 86,605,291</u>	<u>\$ 5,455,693</u>

The District is in the construction phase for bond renovation projects. A few capital projects are planned to continue through the 2015-16 year and beyond.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Long-Term Liabilities

At the end of this year, the District had \$126 million in long-term obligations outstanding. The long-term obligations consisted of:

Table 4

GAVILAN JOINT CCD Long-Term Liabilities at Year-end

	Long-Term Liabilities for the Fiscal Year		
	2015	2014, restated	Change
General obligation bonds	\$ 99,220,000	\$ 100,410,000	\$ (1,190,000)
Premiums	2,945,367	3,206,784	(261,417)
Compensated absences	711,037	698,621	12,416
OPEB liability	193,213	1,093,523	(900,310)
Net pension liability	22,851,118	29,074,262	(6,223,144)
Total	\$ 125,920,735	\$ 134,483,190	\$ (8,562,455)

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 2014/15 ARE NOTED BELOW:

In fiscal year 2012-2013 the District absorbed a large reduction in unrestricted revenues that necessitated use of funds set aside for retired employee medical benefit costs. These funds were set aside for just this type of a situation and will be reconstituted as funds become available. In FY 14/15 the District was able to contribute approximately \$900,310 to the OPEB trust. Balancing the structural difference between expenditures and revenues continued as a high priority throughout the year. The structural shortage has been narrowed substantially since FY 12/13 with a structurally balanced budget expected in FY 15/16.

On March 2, 2004, the electorate within the District's geographic boundaries approved a general obligation bond known as Measure E. The value of the Bond is for \$108 million. The bond proceeds are being utilized by the District to plan, design and construct a number of projects, primarily in the areas of infrastructure development and upgrades along with modernization of existing District facilities including technology upgrades. A few projects remain with delays caused by the extraordinarily long term period that is required in order to obtain all environmental clearances.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2014-15 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 13/14 and 14/15. 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 unrestricted general fund revenue of 9.6% for the FY 14/15 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 14/15 and beyond, additional increases in revenues is expected. The State's economy is yielding revenues larger than what was anticipated when the FY 14/15 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 large increases in revenues in excess of planned amounts. The challenge now is for colleges to be allocated the surplus funds in a manner that allows action plans generated through the planning process to be implemented.

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 Director of Business Services, 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, 2015

ASSETS:

Current assets:

Cash and cash equivalents	\$ 3,200,640
Receivables, net	3,518,157
Prepaid expenses	95,530
Total current assets	<u>6,814,327</u>

Noncurrent assets:

Restricted cash and cash equivalents	27,642,496
Lease receivable	518,070
Depreciable capital assets, net	54,098,206
Nondepreciable capital assets	37,962,778
Total noncurrent assets	<u>120,221,550</u>
Total assets	<u>127,035,877</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amount on refunding	2,141,175
Deferred outflows of resources related to pensions	1,974,945
Total deferred outflows	<u>4,116,120</u>

LIABILITIES:

Current liabilities:

Accounts payable	1,726,064
Accrued payroll	339,023
Accrued interest payable	1,981,094
Unearned revenue	2,555,628
Long-term liabilities due within one year	2,392,454
Total current liabilities	<u>8,994,263</u>

Noncurrent liabilities:

Other postemployment benefits liability	193,213
Net pension liability	22,851,118
Bonds payable	100,483,950
Total noncurrent liabilities	<u>123,528,281</u>
Total liabilities	<u>132,522,544</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows of resources related to pensions	<u>6,429,498</u>
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NET POSITION (DEFICIT):

Net investment in capital assets	15,092,420
Restricted for:	
Debt service	3,935,863
Capital projects	55,891
Other special purposes	66
Unrestricted	<u>(26,884,285)</u>
Total net deficit	<u>\$ (7,800,045)</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, 2015

OPERATING REVENUES:	
Tuition and fees (gross)	\$ 5,086,365
Less: scholarship discounts and allowances	<u>(2,860,671)</u>
Net tuition and fees	2,225,694
Grants and contracts, noncapital:	
Federal	10,234,018
State	6,339,531
Local	<u>374,660</u>
TOTAL OPERATING REVENUES	<u>19,173,903</u>
OPERATING EXPENSES:	
Salaries	21,799,271
Employee benefits	8,144,366
Supplies, materials, and other operating expenses and services	8,613,750
Student financial aid and scholarships	7,027,974
Depreciation	<u>1,980,847</u>
TOTAL OPERATING EXPENSES	<u>47,566,208</u>
OPERATING LOSS	<u>(28,392,305)</u>
NON-OPERATING REVENUES:	
State apportionments, noncapital	5,690,727
Education protection account	5,055,410
Local property taxes, noncapital	15,803,259
State taxes and other revenues	149,113
Interest income, noncapital	41,551
Other non-operating revenues	<u>498,818</u>
TOTAL NON-OPERATING REVENUES	<u>27,238,878</u>
LOSS BEFORE CAPITAL ACTIVITY	<u>(1,153,427)</u>
CAPITAL REVENUES (EXPENSES):	
State apportionments, capital	61,701
State grants and contracts, capital	4,388,880
Local property taxes and revenues, capital	6,249,279
Interest income, capital	113,415
Interest expense on capital asset-related debt, net	<u>(4,738,288)</u>
TOTAL CAPITAL REVENUES (EXPENSES)	<u>6,074,987</u>
INCREASE IN NET POSITION	4,921,560
NET DEFICIT -- BEGINNING OF YEAR, AS RESTATED (Note 2)	<u>(12,721,605)</u>
NET DEFICIT -- END OF YEAR	<u>\$ (7,800,045)</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$ 2,188,650
Federal grants and contracts	10,182,589
State grants and contracts	6,247,204
Local grants and contracts	799,899
Payments to suppliers	(9,448,388)
Payments to/on behalf of employees	(30,309,291)
Payments to/on behalf of students	<u>(7,231,804)</u>
Net cash used by operating activities	<u>(27,571,141)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State apportionments, noncapital	13,058,360
Local property taxes, noncapital	15,803,259
State taxes and other revenues	149,113
Other non-operating revenues	<u>498,818</u>
Net cash provided by noncapital financing activities	<u>29,509,550</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

State apportionments, capital	105,775
State grants and contracts, capital	3,398,067
Local property taxes and revenues, capital	6,249,279
Interest income, capital	41,551
Purchases of capital assets	(7,476,933)
Sale of capital assets	40,393
Proceeds from lease receivable	22,525
Principal paid on capital debt	(1,190,000)
Interest paid on capital debt	<u>(4,736,775)</u>
Net cash used by capital and related financing activities	<u>(3,546,118)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income, noncapital	<u>113,415</u>
Net cash provided by investing activities	<u>113,415</u>

NET DECREASE IN CASH AND EQUIVALENTS (1,494,294)

CASH AND EQUIVALENTS -- BEGINNING OF YEAR 32,337,430

CASH AND EQUIVALENTS -- END OF YEAR \$ 30,843,136

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2015

Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 3,200,640
Restricted cash and cash equivalents, noncurrent	<u>27,642,496</u>
Total cash and cash equivalents	<u>\$ 30,843,136</u>

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

Operating loss	\$ (28,392,305)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,980,847
Changes in assets and liabilities:	
Receivables, net	(16,840)
Prepaid expenses	(71,395)
Deferred outflows related to pensions	(182,872)
Accounts payable	(754,237)
Accrued payroll	(272,120)
Unearned revenue	819,321
Compensated absences	12,416
Postemployment benefits	(900,310)
Net pension liability	(6,223,144)
Deferred inflows related to pensions	<u>6,429,498</u>
Net cash used by operating activities	<u>\$ (27,571,141)</u>

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Amortization of deferred amount on refunding	\$ (264,888)
Amortization of premiums on long-term debt	261,417

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

	Private- Purpose Trust Funds
ASSETS:	
Cash and cash equivalents	\$ 500,062
Receivables	<u>216</u>
TOTAL ASSETS	<u>\$ 500,278</u>
LIABILITIES:	
Accounts payable	18,372
Amounts held in trust for others	<u>18,092</u>
TOTAL LIABILITIES	<u>36,464</u>
RESTRICTED NET POSITION:	
Restricted net position held in trust	<u>\$ 463,814</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2015

	Private- Purpose Trust Funds
ADDITIONS:	
Employer contributions	\$ 104,222
ASB fees and sales	139,734
Donations and fundraising	79,162
Other local receipts	<u>8,794</u>
TOTAL ADDITIONS	<u>331,912</u>
DEDUCTIONS:	
Salaries	54,342
Employee benefits	38,062
Supplies and services	63,460
Operating expenses	107,604
Capital outlay	12,825
Scholarships	<u>4,959</u>
TOTAL DEDUCTIONS	<u>281,252</u>
CHANGE IN NET POSITION	<u>50,660</u>
NET POSITION -- BEGINNING OF YEAR	<u>413,154</u>
NET POSITION -- END OF YEAR	<u>\$ 463,814</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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.

Change in Presentation – The OPEB Irrevocable Trust Fund, presented as a fiduciary fund in the District's financial statements for the year ended June 30, 2014, was excluded from the District's financial statements for the year ended June 30, 2015, as it does not meet the definition of a fiduciary fund as defined in GASB Statement No. 34.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

The Student Center Fee Fund was presented as an agency fund in the District's statement of fiduciary net position as of June 30, 2014, as the Student Center Agency Fund. For the year ended June 30, 2015, the District has presented the Student Center Fee Fund as a trust fund in accordance with the Budget and Accounting Manual issued by the California Community Colleges Chancellor's Office.

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.

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.

Current Year GASB Implementation – For the year ended June 30, 2015, the District implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71) *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The primary objectives of GASB 68 and GASB 71 are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. They require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. GASBs 68 and 71 identify 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 current year GASB implementation.

Since GASB 68 requires retroactive application, beginning net position is reduced by the net pension liability offset by the related deferred outflow of resources as of June 30, 2014. As a result, for the year ended June 30, 2015, the beginning net position decreased by \$27,282,189 as the cumulative effect of a change in accounting principles.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Restatement of Net Position due to Cumulative Effect of Correction of Errors – During the year ended June 30, 2015, the District made adjustments to its construction in progress balance to capitalize expenses for capital outlay, and correct the calculation of capitalized interest recorded in the year ended June 30, 2014. The District also made a correction to its calculation of the net other postemployment benefits (OPEB) asset/liability for the years ended June 30, 2009, through June 30, 2014. Additionally, the District made a correction to record a long-term lease receivable for the sale of portables that had been expensed in prior years. The effects of the adjustments are as follows:

District's net position, beginning of year, as previously reported	\$ 14,531,201
Change in accounting principles (GASBs 68 & 71)	(27,282,189)
Addition to construction in progress for capital outlay	2,126,096
Reduction of construction in progress for capitalized interest	(1,302,682)
Reduction of net OPEB asset for contribution recognition	(1,334,626)
Addition of lease receivable for sale of portables	<u>540,595</u>
District's net position, beginning of year, as restated	<u>\$ (12,721,605)</u>

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 \$163,686 for the year ended June 30, 2015.

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 \$4,738,288 during the year ended June 30, 2015, and no amounts were capitalized as interest earnings on tax-exempt debt proceeds restricted for capital projects exceeded interest costs attributable to construction.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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.

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 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 in the next fiscal year.

Additional factors involved in the calculation of the District's pension expense and net pension liability 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 8 for further details related to these pension 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.

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.

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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.

Future Accounting Pronouncements – In June of 2015, the GASB issued GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the year ended June 30, 2018. 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/expenditures. It will require employers to report a net OPEB liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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. GASB 75 is required to be implemented retroactively and will require a restatement of beginning net position.

3. CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents as of June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of net position of the District:	
Cash and cash equivalents	\$ 3,200,640
Restricted cash and cash equivalents - noncurrent	27,642,496
Statement of fiduciary net position:	
Cash and cash equivalents	500,062
Total cash and cash equivalents	\$ 31,343,198

Cash and cash equivalents as of June 30, 2015, consist of the following:

	District	Fiduciary Funds
Cash and cash equivalents in Santa Clara County Treasury	\$ 30,815,576	\$ 18,894
Cash in banks	27,560	481,168
Total cash, cash equivalents, and investments	\$ 30,843,136	\$ 500,062

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.

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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%	10%
CD Placement Services	5 years	30%	10%
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, 2015, the weighted average maturity of the investments contained in the Treasury's investment pool is approximately 469 days.

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, 2015, the District had no concentrations of credit risk.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2015, the carrying amount of the District's cash in banks for the primary governmental entity was \$27,560. The bank balance for such accounts at June 30, 2015, was \$268,841, of which \$18,781 exceeded FDIC limits. At June 30, 2015, cash in banks for the fiduciary funds had a carrying amount of \$481,168 and a bank balance of \$493,627, of which \$65,567 exceeded FDIC limits.

Restricted Cash and Cash Equivalents – The District's noncurrent restricted cash and cash equivalents balance is \$27,642,496 at June 30, 2015. Included in this restricted balance is \$23,580,499 of unspent bond proceeds restricted for capital projects, \$3,933,609 of assessments collected by the County Treasurer's Office on behalf of the District for the repayment of the District's general obligation bonds, and \$128,388 restricted for 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, 2015 are summarized as follows:

Federal	\$ 942,514
State	1,903,804
Local and other	<u>835,525</u>
	3,681,843
Less allowance for doubtful accounts	<u>(163,686)</u>
Receivables, net	<u>\$ 3,518,157</u>

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>
2016	\$ 22,525
2017	22,525
2018	22,525
2019	22,525
2020	22,525
2021-2025	112,625
2026-2030	112,625
2031-2035	112,625
2036-2038	<u>67,570</u>
	<u>\$ 518,070</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014, Restated	Additions	Transfers	Deductions	Balance June 30, 2015
Capital assets, not depreciated:					
Land	\$ 28,074,857				\$ 28,074,857
Construction in progress	<u>3,242,871</u>	\$ 7,405,284	\$ (760,234)		<u>9,887,921</u>
Total capital assets, not depreciated	<u>31,317,728</u>	<u>7,405,284</u>	<u>(760,234)</u>		<u>37,962,778</u>
Capital assets, depreciated:					
Land improvements	921,512		431,218		1,352,730
Buildings and building improvements	70,280,050	11,041		\$ (64,627)	70,226,464
Furniture and equipment	6,861,781	60,608	329,016		7,251,405
Vehicles	<u>276,214</u>			<u>(12,000)</u>	<u>264,214</u>
Total capital assets, depreciated	<u>78,339,557</u>	<u>71,649</u>	<u>760,234</u>	<u>(76,627)</u>	<u>79,094,813</u>
Less accumulated depreciation:					
Land improvements	(708,360)	(18,745)			(727,105)
Buildings and building improvements	(17,218,786)	(1,445,762)		24,234	(18,640,314)
Furniture and equipment	(4,865,167)	(504,806)			(5,369,973)
Vehicles	<u>(259,681)</u>	<u>(11,534)</u>		<u>12,000</u>	<u>(259,215)</u>
Total accumulated depreciation	<u>(23,051,994)</u>	<u>(1,980,847)</u>		<u>36,234</u>	<u>(24,996,607)</u>
Total capital assets, depreciated, net	<u>55,287,563</u>	<u>(1,909,198)</u>	<u>760,234</u>	<u>(40,393)</u>	<u>54,098,206</u>
Capital assets, net	<u>\$ 86,605,291</u>	<u>\$ 5,496,086</u>	<u>\$</u>	<u>\$ (40,393)</u>	<u>\$ 92,060,984</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

6. TAX REVENUE ANTICIPATION NOTES

Tax Revenue Anticipation Notes (TRANs) are short-term debt instruments. They are issued to eliminate cash flow deficiencies that result from fluctuations in revenue receipts and expenditure disbursements. On July 16, 2014, the District issued \$2,000,000 of TRANs maturing on June 30, 2015, with interest at 2.0%. The District made payments of principal and interest of \$1,019,111 on January 15, 2015, and April 15, 2015. A summary of the District's TRANs activity for the year ended June 30, 2015 is as follows:

	Outstanding July 1, 2014	Additions	Deletions	Outstanding June 30, 2015
2014/15 - 2.0% TRANs	\$	\$ 2,000,000	\$ (2,000,000)	\$

7. 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 remaining 2004 Series A General Obligation Bonds mature through August 2028 and bear interest at rates ranging from 2.000% to 5.375%.

The following is the schedule of future payments for the remaining 2004 Series A General Obligation Bonds:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 20,000	\$ 33,181	\$ 53,181
2017	20,000	32,319	52,319
2018	25,000	31,319	56,319
2019	30,000	29,969	59,969
2020	30,000	28,394	58,394
2021-2025	225,000	111,066	336,066
2026-2029	290,000	34,100	324,100
	\$ 640,000	\$ 300,348	\$ 940,348

In December 2007, the District issued \$50,000,000 of General Obligation Bonds, 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds mature through August 2032 and bear interest at rates ranging from 4.000% to 5.000%.

Bond premium (net of accumulated amortization) of \$529,194 is capitalized and will be amortized over the term of the Bond.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 560,000	\$ 2,216,444	\$ 2,776,444
2017	660,000	2,192,044	2,852,044
2018	765,000	2,163,544	2,928,544
2019	910,000	2,130,044	3,040,044
2020	1,000,000	2,091,344	3,091,344
2021-2025	7,185,000	9,543,844	16,728,844
2026-2030	14,920,000	7,270,559	22,190,559
2031-2033	21,470,000	1,584,600	23,054,600
	<u>\$ 47,470,000</u>	<u>\$ 29,192,423</u>	<u>\$ 76,662,423</u>

In May 2011, the District issued \$28,000,000 of General Obligation Bonds, 2004 Series D. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds mature through August 2035 and bear interest at rates ranging from 2.000% to 5.750%.

Bond premium (net of accumulated amortization) of \$791,160 is capitalized and will be amortized over the term of the Bond.

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>
2016	\$ 50,000	\$ 1,540,125	\$ 1,590,125
2017	85,000	1,537,675	1,622,675
2018	125,000	1,533,475	1,658,475
2019	165,000	1,527,675	1,692,675
2020	210,000	1,520,175	1,730,175
2021-2025	1,810,000	7,412,275	9,222,275
2026-2030	3,480,000	6,761,788	10,241,788
2031-2035	15,245,000	4,954,369	20,199,369
2036	6,565,000	188,744	6,753,744
	<u>\$ 27,735,000</u>	<u>\$ 26,976,301</u>	<u>\$ 54,711,301</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 \$1,625,013 is capitalized and will be amortized over the term of the Bonds.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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>
2016	\$ 690,000	\$ 516,650	\$ 1,206,650
2017	605,000	503,700	1,108,700
2018	875,000	488,900	1,363,900
2019	935,000	461,450	1,396,450
2020	1,095,000	415,375	1,510,375
2021-2025	<u>7,760,000</u>	<u>1,050,000</u>	<u>8,810,000</u>
	<u>\$ 11,960,000</u>	<u>\$ 3,436,075</u>	<u>\$ 15,396,075</u>

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>
2016	\$ 100,000	\$ 387,550	\$ 487,550
2017	280,000	383,750	663,750
2018	105,000	379,900	484,900
2019	100,000	377,850	477,850
2020	105,000	375,275	480,275
2021-2025	585,000	1,825,675	2,410,675
2026-2029	<u>10,140,000</u>	<u>759,213</u>	<u>10,899,213</u>
	<u>\$ 11,415,000</u>	<u>\$ 4,489,213</u>	<u>\$ 15,904,213</u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2015, is as follows:

	<u>Beginning Balance, Restated</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 100,410,000		\$ (1,190,000)	\$ 99,220,000	\$ 1,420,000
Premiums	3,206,784		(261,417)	2,945,367	261,417
Compensated absences	698,621	\$ 12,416		711,037	711,037
OPEB liability (Note 9)	1,093,523	495,697	(1,396,007)	193,213	
Net pension liability (Note 8)	<u>29,074,262</u>	<u>1,998,427</u>	<u>(8,221,571)</u>	<u>22,851,118</u>	
	<u>\$ 134,483,190</u>	<u>\$ 2,506,540</u>	<u>\$ (11,068,995)</u>	<u>\$ 125,920,735</u>	<u>\$ 2,392,454</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

8. PENSION 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 benefit for each year of service credit. To be eligible for 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 19.1% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2015, was 8.88% of annual pay. District contributions to the CalSTRS Plan were \$1,014,998 for the year ended June 30, 2015.

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%. Thus the State contribution rate, which in the period ended June 30, 2015, was 3.454% of covered payroll, will increase over the next two years to a total of 6.328%.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2013, and rolling forward the total pension liability to the measurement date of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, 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	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Investment Rate of Return	7.60% ⁽¹⁾
Mortality ⁽²⁾	CalSTRS' Membership Data
Post-Retirement Benefit Increase	2% simple

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

⁽²⁾ CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

Discount Rate

The discount rate used to measure the CalSTRS Plan's total pension liability was 7.60%. 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 (7.60%) 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. Based on the model from CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by CalSTRS' general investment consultant is based on CalSTRS' board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the CalSTRS board.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return 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%	4.50%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Inflation Sensitive	5.00%	3.20%
Fixed Income	20.00%	0.20%
Cash / Liquidity	1.00%	0.00%
Total	<u>100.00%</u>	

*10-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 a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. PEPR 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 PEPR, 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 on or after January 1, 2013, must be at least age 52 with a minimum of five years of service.

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2015, was 11.771% of annual pay. District contributions to the CalPERS Plan were \$959,947 for the year ended June 30, 2015.

Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies ⁽¹⁾
Investment Rate of Return	7.50% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data
Post-Retirement Benefit Increase	Up to 2.75% ⁽⁴⁾

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment and administrative expenses; 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 2014 experience study report.

⁽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, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the CalPERS Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2014 based on June 30, 2013 Valuations*, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended June 30, 2018. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

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.

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 (11-60 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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. These rates of return are net of administrative expenses.

<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%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
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, 2015

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

As of June 30, 2015, 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	\$ 14,609,250
CalPERS Plan	8,241,868
State's proportionate share of CalSTRS net pension liability associated with the District	8,896,441
Total	\$ 31,747,559

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, 2014, 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, 2014, was 0.025% and 0.0726% for the CalSTRS and CalPERS Plans, respectively.

For the year ended June 30, 2015, the District recognized pension expense of \$2,769,305 and revenue of \$770,878 for support provided by the State. At June 30, 2015, 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
District contributions subsequent to the measurement date	\$ 1,974,945	
Net differences between projected and actual earnings on plan investments		\$ 6,429,498
Total	\$ 1,974,945	\$ 6,429,498

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

The \$1,974,945 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, 2016. 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>	
2016	\$ (1,607,375)
2017	(1,607,375)
2018	(1,607,374)
2019	<u>(1,607,374)</u>
Total	<u>\$ (6,429,498)</u>

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:

	Discount Rate -1% (6.60%)	Current Discount Rate (7.60%)	Discount Rate +1% (8.60%)
District's proportionate share of the CalSTRS Plan's net pension liability	\$ 22,772,000	\$ 14,609,250	\$ 7,803,000
	Discount Rate -1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate +1% (8.50%)
District's proportionate share of the CalPERS Plan's net pension liability	\$ 14,145,117	\$ 8,241,868	\$ 3,047,564

Defined Contribution Plan

The District has also adopted the Accumulation Program for Part-Time and Limited Service Employees (APPLE), a defined contribution plan covered under Internal Revenue Code Section 401(a). APPLE participants include all individuals who have worked for the District on or after January 1, 1992, provided that they are not covered by the CalSTRS or CalPERS Plans through the District's employment. Participants make tax deferred contributions to APPLE equal to 7.5% of total compensation, and these contributions are allocated to accounts in the name of each participant. The District is not required to make contributions to APPLE. Participant account balances are fully vested and non-forfeitable, and are paid in a single distribution upon retirement or other termination.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

9. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, 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.

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.

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 District provides benefits on a pay-as-you-go basis, and also makes contributions to the Investment Trust. Separate financial statements for the Investment Trust can be obtained by contacting the California Community College League Retiree Health Benefit Program at 2017 O Street, Sacramento CA 95811.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB asset:

Annual required contribution	\$ 480,935
Interest on net OPEB obligation	(60,117)
Adjustment to annual required contribution	74,879
Annual OPEB expense	<u>495,697</u>
Contributions made:	
Pay-as-you-go	(458,024)
Deposits in Investment Trust	<u>(937,983)</u>
Decrease in OPEB obligation	(900,310)
Net OPEB obligation at July 1, 2014, restated	<u>1,093,523</u>
Net OPEB obligation at June 30, 2015	<u>\$ 193,213</u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimations are made about the future. Projections of benefits are based on the types of benefits provided under the substantive plan at

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and, if applicable, the disclosure that the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation. The schedule of funding progress included in the required supplementary information presents information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following table presents the actuarial methods and assumptions used in the July 1, 2014 valuation:

Actuarial cost method	Projected Unit Credit
Amortization method	30-year level dollar, closed period
Remaining amortization period at June 30, 2015	23 years
Inflation rate	2.75% annually
Asset valuation method	Market value basis
Investment return	7.00% annually
Healthcare cost trend rate	4.00% - 6.50% annually
Projected payroll increases	3.00% annually

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015, and the preceding two years, is as follows:

<u>Fiscal Year Ended</u>	<u>Restated Annual OPEB Expense</u>	<u>% of Annual OPEB Expense Contributed</u>	<u>Restated Net OPEB Obligation</u>
June 30, 2013	\$ 625,420	(242.78)%*	\$ 819,650
June 30, 2014	\$ 796,890	65.63%	\$ 1,093,523
June 30, 2015	\$ 495,697	281.63%	\$ 193,213

*The District's contributions of \$1,295,819 in the year ended June 30, 2013, were offset by a reimbursement from the Investment Trust of \$2,814,203 for pay-as-you-go contributions paid by the District between July 1, 2009, and June 30, 2013.

The District's funding status for other postemployment benefits as of the most recent valuation date, July 1, 2014, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
7/1/14	\$5,091,482	\$ 7,564,417	\$ 2,472,935	67%	\$ 15,348,578	16%

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

10. 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.

11. 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 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 Bay Area Community College Districts Joint Powers Authority (BACCDJPA) 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. BACCDJPA provides property and liability insurance for its members. NCCCP arranges for and provides workers' compensation insurance for 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:

<u>JPA</u>	<u>Address</u>
BACCDJPA	1740 Technology Dr. Suite 300; San Jose, CA 95110
NCCCP	1740 Technology Dr. Suite 300; San Jose, CA 95110

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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.

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

	BACCDJPA Property / Liability June 30, 2015	NCCCP Workers' compensation June 30, 2015
Total Assets	\$ 8,473,681	\$ 1,666,541
Total Liabilities	\$ 2,795,957	\$ 671,097
Net Position	5,677,724	995,444
Total Liabilities and Net Position	\$ 8,473,681	\$ 1,666,541
Total Revenues	\$ 4,471,587	\$ 3,693,539
Total Expenses	2,843,129	3,686,082
Net Increase in Net Position	\$ 1,628,458	\$ 7,457

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

12. SUBSEQUENT EVENT

On August 20, 2015, the District issued 2015 General Obligation Refunding Bonds in the amount of \$42,320,000, maturing through August 2032 and bearing interest at rates ranging from 3.000% to 5.000%. The bonds were issued to advance refund \$45,485,000 of the District's outstanding 2004 Series C General Obligation Bonds, and to pay the costs associated with the issuance of the bonds. The refunding reduces the District's total debt service payments by \$3,502,137 over the next 18 years, and results in an economic gain of \$2,682,001.

REQUIRED SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/08	\$ 5,299,464	\$ 8,202,275	\$ 2,902,811	65%	\$ 14,777,481	20%
7/1/11	\$ 6,669,900	\$ 8,643,029	\$ 1,973,129	77%	\$ 14,754,000	13%
7/1/14	\$ 5,091,482	\$ 7,564,417	\$ 2,472,935	67%	\$ 15,348,578	16%

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2015 LAST 10 YEARS*

CalSTRS Plan	<u>2015</u>
District's proportion of the net pension liability	0.025%
District's proportionate share of the net pension liability	\$ 14,609,250
State's proportionate share of the net pension liability associated with the District	<u>8,896,441</u>
Total	<u>\$ 23,505,691</u>
District's covered-employee payroll	\$ 7,708,655
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	190%
Plan fiduciary net position as a percentage of the total pension liability	77%

CalPERS Plan	<u>2015</u>
District's proportion of the net pension liability	0.073%
District's proportionate share of the net pension liability	\$ 8,241,868
District's covered-employee payroll	\$ 6,798,379
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	121%
Plan fiduciary net position as a percentage of the total pension liability	83%

Notes to Schedule:

Change of benefit terms – In 2015, there were no changes to the benefit terms.

Changes in assumptions– In 2015, there were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AS OF JUNE 30, 2015 LAST 10 YEARS*

CalSTRS Plan	
	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 1,014,998
Contributions in relation to the contractually required contributions	<u>(1,014,998)</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 8,461,631
Contributions as a percentage of covered-employee payroll	12.00%
 CalPERS Plan	
	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 959,947
Contributions in relation to the contractually required contributions	<u>(959,947)</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 6,886,947
Contributions as a percentage of covered-employee payroll	13.94%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

SUPPLEMENTARY INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Program Expenditures</u>
U.S. Department of Education:			
Student Financial Assistance Programs Cluster:			
Pell Grant Program	84.063	N/A	\$ 6,236,339
College Work Study Program	84.033	N/A	99,825
Supplemental Educational Opportunity Grant Program	84.007	N/A	66,391
Direct Student Loan Program	84.268	N/A	<u>146,933</u>
Subtotal Student Financial Assistance Programs Cluster			<u>6,549,488</u>
Higher Education - Institutional Aid Program:			
Higher Education - STEM	84.031C	P031C110070	1,186,905
Title V - Higher Education	84.031S	P031S100002	602,792
Title V - Higher Education	84.031S	P031S120075	<u>954,494</u>
Subtotal Higher Education - Institutional Aid Program			<u>2,744,191</u>
TRIO Staff Training Program	84.042A	N/A	231,723
Adult Education	84.002A	N/A	106,220
21st Century Afterschool Program	84.287C	N/A	120,008
Passed through California Department of Education:			
Vocational and Applied Technology - Title IC	84.011	03578	142,600
Vocational and Applied Technology - CTE Transitions	84.048	03578	43,269
State Vocational Rehabilitation Services	84.126A	03578	<u>112,231</u>
Total U.S. Department of Education			<u>10,049,730</u>
U.S. Department of Agriculture:			
Passed through California Department of Education:			
Child and Adult Care Food Program	10.558	5320	<u>11,033</u>
U.S. Department of Health and Human Services:			
GAIN Program	93.558	N/A	<u>173,255</u>
Total Expenditures of Federal Awards			<u>\$10,234,018</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2015

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	
TANF		\$ 76,217	\$ 76,217	\$ 76,217			\$ 76,217	\$ 76,217
Financial Aid - BFAP	\$ 1,573	241,509	243,082	243,082			243,082	243,082
EOPS		440,453	440,453	440,453			440,453	440,453
CARE		115,314	115,314	115,314			115,314	115,314
DSPS		686,516	686,516	686,516			686,516	686,516
Cal WORKs		375,817	375,817	370,436	\$ 5,381		375,817	375,817
SSSP (Credit)		976,651	976,651	976,651		\$ 185,150	791,501	791,501
SSSP (Non-Credit)		51,920	51,920	51,920		22,638	29,282	29,282
Child Development Consortium	12,427	6,475	18,902	18,201	700		18,901	18,901
Staff Diversity		4,369	4,369	4,369			4,369	4,369
Staff Development	12,771		12,771	12,771		12,771		
Student Equity		263,549	263,549	263,549		135,412	128,137	128,137
Basic Skills 13/14	61,583		61,583	61,583			61,583	61,583
Basic Skills 14/15		99,352	99,352	99,352			99,352	99,352
Region 4		9,327	9,327	10,000		673	9,327	9,327
Cal Grant B & C	1,600	404,246	405,846	356,640	52,042	2,836	405,846	405,846
MESA		54,736	54,736	34,536	20,200	8,617	46,119	46,119
CTC Apprenticeship	75,012	146,047	221,059	221,059		40,790	180,269	180,269
Capacity RN Grant		78,287	78,287	78,287			78,287	78,287
CTE Comm. Collaborative Project		3,640	3,640	3,640			3,640	3,640
Lifeline	17,659	5,954	23,613	23,613		21,825	1,788	1,788
Adult Ed AB 86	111,956	95,542	207,498	201,520	5,978		207,498	207,498
Instructional Equipment		100,000	100,000	100,000		57,201	42,799	42,799
Scheduled Maintenance	109,710	(85,043)	24,667	717,465		692,798	24,667	24,667
Proposition 39	143,632	74,652	218,284	345,287		76,441	268,846	268,846
Water System Replacement		4,388,880	4,388,880	3,057,768	1,331,112		4,388,880	4,388,880
Child Development - Preschool		118,719	118,719	113,369	13,683	8,333	118,719	118,719
Total	<u>\$ 547,923</u>	<u>\$ 8,733,129</u>	<u>\$ 9,281,052</u>	<u>\$ 8,683,598</u>	<u>\$ 1,429,096</u>	<u>\$ 1,265,485</u>	<u>\$ 8,847,209</u>	<u>\$ 8,847,209</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, 2015

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2014 Only)			
1. Noncredit	65.22		65.22
2. Credit	248.14		248.14
B. Summer Intersession (Summer 2015, Prior to July 1, 2015)			
1. Noncredit	0.00		0.00
2. Credit	296.43		296.43
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	3,089.87		3,089.87
(b) Daily Census Contact Hours	78.60	(4.32)	74.28
2. Actual Hours of Attendance Courses:			
(a) Noncredit	474.58		474.58
(b) Credit	582.39	(10.82)	571.57
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	401.30		401.30
(b) Daily Census Procedure Courses	27.67		27.67
(c) Noncredit Independent Study	0.00		0.00
D. Total Full-Time Equivalent Students	5,264.20	(15.14)	5,249.06
<u>Supplemental Information</u>			
E. In-service Training Courses (FTES)	113.11		113.11
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	146.43		146.43
(b) Credit	495.09		495.09
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	21.09		21.09
<u>Centers FTES</u>			
(a) Noncredit	0.00		0.00
(b) Credit	0.00		0.00

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2015

	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	\$ 4,864,414		\$ 4,864,414	\$ 4,958,268		\$ 4,958,268
Other	1300	5,430,089		5,430,089	5,751,205		5,751,205
Total Instructional Salaries		<u>10,294,503</u>		<u>10,294,503</u>	<u>10,709,473</u>		<u>10,709,473</u>
Non-Instructional Salaries:							
Contract or Regular	1200				2,156,243		2,156,243
Other	1400						
Total Non-Instructional Salaries					<u>2,156,243</u>		<u>2,156,243</u>
Total Academic Salaries		<u>10,294,503</u>		<u>10,294,503</u>	<u>12,865,716</u>		<u>12,865,716</u>
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				4,604,309		4,604,309
Other	2300				209,044		209,044
Total Non-Instructional Salaries					<u>4,813,353</u>		<u>4,813,353</u>
Instructional Aides:							
Regular Status	2200	530,425		530,425	338,297		338,297
Other	2400	130,675		130,675	144,293		144,293
Total Instructional Aides		<u>661,100</u>		<u>661,100</u>	<u>482,590</u>		<u>482,590</u>
Total Classified Salaries		<u>661,100</u>		<u>661,100</u>	<u>5,295,943</u>		<u>5,295,943</u>
Employee Benefits	3000	2,672,892		2,672,892	5,457,919		5,457,919
Supplies and Materials	4000				463,435		463,435
Other Operating Expenses	5000				3,551,815		3,551,815
Equipment Replacement	6420						
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		<u>13,628,495</u>		<u>13,628,495</u>	<u>27,634,828</u>		<u>27,634,828</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, 2015

	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						
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740						
Objects to Exclude:							
Rents and Leases	5060				373,007		373,007
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:	4000						
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300				251,995		251,995
Noninstructional Supplies & Materials	4400						
Total Supplies and Materials					251,995		251,995
Other Operating Expenses and Services	5000				703,365		703,365
Capital Outlay:	6000						
Library Books	6300						
Equipment:	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
TOTAL EXCLUSIONS					<u>1,328,367</u>		<u>1,328,367</u>
Total for ECS 84362, 50% Law		<u>\$ 13,628,495</u>		<u>\$ 13,628,495</u>	<u>\$ 26,306,461</u>		<u>\$ 26,306,461</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		51.81%		51.81%	100%		100%
50% of Current Expense of Education					\$ 13,153,231		\$ 13,153,231

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, 2015

Prop 30 EPA Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 5,055,410
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 5,055,410	_____	_____	5,055,410
Total Expenditures for EPA*		<u>\$ 5,055,410</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>5,055,410</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 ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

	Other Debt Service Fund
June 30, 2015 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$ 5,447,176
Adjustments and Reclassifications decreasing fund balance:	
Adjustment to exclude the OPEB Irrevocable Trust Fund assets as they do not meet the definition of fiduciary fund assets in accordance with GAAP	(6,158,213)
Adjustment to add back liabilities for compensated absences as such liabilities represent a long-term liability that should not be recorded in the District's governmental fund financial statements	711,037
June 30, 2015 Adjusted Fund Balance	\$
	Unrestricted General Fund
June 30, 2015 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$ 2,833,710
Adjustments and Reclassifications decreasing fund balance:	
Adjustment to transfer payments received for the sale of portables purchased with Measure E funds to the Measure E Bond Construction Fund	(45,050)
June 30, 2015 Adjusted Fund Balance	\$ 2,788,660
	Measure E Bond Construction Fund*
June 30, 2015 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$ 23,010,578
Adjustments and Reclassifications increasing fund balance:	
Adjustment to transfer payments received for the sale of portables purchased with Measure E funds from the Unrestricted General Fund	45,050
June 30, 2015 Adjusted Fund Balance	\$ 23,055,628

*Listed as the Revenue Bond Construction Fund in the CCFS-311.

There were no other adjustments necessary to reconcile the annual CCFS-311 report with the District's Fund balances for fiscal year 2014-15.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2015

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2015, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB Circular A-133, 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.
- **Subrecipients** – Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Title V – Higher Education	84.031S	\$ 332,328
Higher Education – STEM	84.031C	196,669
Total Amount Provided to Subrecipients		\$ 528,997

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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2015

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.

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

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited basic financial statements.

ADDITIONAL INFORMATION SECTION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF FUND BALANCE/NET POSITION BY FUND JUNE 30, 2015 (UNAUDITED)

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Child Development Fund	Bond Interest and Redemption Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 3,373,486	\$ 128,930	\$ 180	\$ (1,980)	\$ 3,056	\$ 3,933,609
Receivables, net	608,129	1,168,595		5,379	27,313	2,254
Due from other funds	718,783	15,410			15,298	
Prepaid expenses/expenditures	25,536	12,907	57,087			
Total current assets	4,725,934	1,325,842	57,267	3,399	45,667	3,935,863
Noncurrent assets:						
Restricted cash and cash equivalents						
Lease receivable						
Depreciable capital assets, net						
Nondepreciable capital assets						
Total noncurrent assets						
Total assets	4,725,934	1,325,842	57,267	3,399	45,667	3,935,863
Deferred outflows of resources:						
Deferred amount on refunding						
Deferred outflows of resources related to pensions						
Total deferred outflows of resources						
Liabilities:						
Current liabilities:						
Accounts payable	555,087	550,398		3,399	1,188	
Accrued payroll	337,026	1,997				
Accrued interest payable						
Unearned revenue	999,541	729,648	57,201			
Due to other funds	45,620	43,799			44,479	
Compensated absences						
Bonds payable, current portion						
Total current liabilities	1,937,274	1,325,842	57,201	3,399	45,667	
Noncurrent liabilities:						
Other postemployment benefits liability						
Net pension liability						
Bonds payable, noncurrent portion						
Total noncurrent liabilities						
Total liabilities	1,937,274	1,325,842	57,201	3,399	45,667	
Deferred inflows of resources:						
Deferred inflows of resources related to pensions						
Net position:						
Net investment in capital assets						
Restricted for:						
Debt service						3,935,863
Capital projects						
Other special purposes			66			
Unrestricted	2,788,660					
Total net position	\$ 2,788,660	\$	\$ 66	\$	\$	\$ 3,935,863

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF FUND BALANCE/NET POSITION BY FUND (Continued) JUNE 30, 2015 (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	\$ 1,258	\$ 23,580,499	\$ (175,902)	\$ 30,843,136	\$ (27,642,496)	\$ 3,200,640
Receivables, net	1,337,040	57,741	89,200	3,295,651	222,506	3,518,157
Due from other funds	78,984	74,121		902,596	(902,596)	
Prepaid expenses/expenditures				95,530		95,530
Total current assets	<u>1,417,282</u>	<u>23,712,361</u>	<u>(86,702)</u>	<u>35,136,913</u>	<u>(28,322,586)</u>	<u>6,814,327</u>
Noncurrent assets:						
Restricted cash and cash equivalents					27,642,496	27,642,496
Lease receivable					518,070	518,070
Depreciable capital assets, net					54,098,206	54,098,206
Nondepreciable capital assets					37,962,778	37,962,778
Total noncurrent assets					<u>120,221,550</u>	<u>120,221,550</u>
Total assets	<u>1,417,282</u>	<u>23,712,361</u>	<u>(86,702)</u>	<u>35,136,913</u>	<u>91,898,964</u>	<u>127,035,877</u>
Deferred outflows of resources:						
Deferred amount on refunding					2,141,175	2,141,175
Deferred outflows of resources related to pensions					1,974,945	1,974,945
Total deferred outflows of resources					<u>4,116,120</u>	<u>4,116,120</u>
Liabilities:						
Current liabilities:						
Accounts payable	315,657	182,623	117,712	1,726,064		1,726,064
Accrued payroll				339,023		339,023
Accrued interest payable					1,981,094	1,981,094
Unearned revenue	769,238		(204,414)	2,351,214	204,414	2,555,628
Due to other funds	276,496	474,110		884,504	(884,504)	
Compensated absences					711,037	711,037
Bonds payable, current portion					1,681,417	1,681,417
Total current liabilities	<u>1,361,391</u>	<u>656,733</u>	<u>(86,702)</u>	<u>5,300,805</u>	<u>3,693,458</u>	<u>8,994,263</u>
Noncurrent liabilities:						
Other postemployment benefits liability					193,213	193,213
Net pension liability					22,851,118	22,851,118
Bonds payable, noncurrent portion					100,483,950	100,483,950
Total noncurrent liabilities					<u>123,528,281</u>	<u>123,528,281</u>
Total liabilities	<u>1,361,391</u>	<u>656,733</u>	<u>(86,702)</u>	<u>5,300,805</u>	<u>127,221,739</u>	<u>132,522,544</u>
Deferred inflows of resources:						
Deferred inflows of resources related to pensions					6,429,498	6,429,498
Net position:						
Net investment in capital assets					15,092,420	15,092,420
Restricted for:						
Debt service				3,935,863		3,935,863
Capital projects	55,891	23,055,628		23,111,519	(23,055,628)	55,891
Other special purposes				66		66
Unrestricted				2,788,660	(29,672,945)	(26,884,285)
Total net position	<u>\$ 55,891</u>	<u>\$ 23,055,628</u>	<u>\$ (86,702)</u>	<u>\$ 29,836,108</u>	<u>\$ (37,636,153)</u>	<u>\$ (7,800,045)</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENTS OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN FUND BALANCE/NET POSITION BY FUND

JUNE 30, 2015

(UNAUDITED)

	<u>Unrestricted General Fund</u>	<u>Restricted General Fund</u>	<u>Restricted Instructional Equipment Fund</u>	<u>Restricted Parking Fund</u>	<u>Child Development Fund</u>	<u>Bond Interest and Redemption Fund</u>
Operating revenues:						
Tuition and fees	\$ 1,938,385	\$ 287,309				
Less: Scholarship discounts and allowance						
Net tuition and fees	1,938,385	287,309				
Grants and contracts, noncapital:						
Federal	12,605	3,773,322			\$ 11,033	
State	1,186,100	4,020,883			118,719	
Local	235,141	126,273			13,246	
Total operating revenues	<u>3,372,231</u>	<u>8,207,787</u>			<u>142,998</u>	
Operating expenditures/expenses:						
Salaries	16,612,353	4,862,769		\$ 90,733	221,000	
Employee benefits	6,575,134	1,517,082		49,726	108,374	
Supplies, materials, and other						
operating expenses and services	5,665,149	3,000,873	\$ 45,407	23,531	13,874	\$ 5,400
Student aid		590,916				
Depreciation						
Total operating expenditures/expenses	<u>28,852,636</u>	<u>9,971,640</u>	<u>45,407</u>	<u>163,990</u>	<u>343,248</u>	<u>5,400</u>
Loss from operations	<u>(25,480,405)</u>	<u>(1,763,853)</u>	<u>(45,407)</u>	<u>(163,990)</u>	<u>(200,250)</u>	<u>(5,400)</u>
Non-operating revenues (expenditures/ expenses):						
State apportionment, noncapital	5,529,792	160,935				
Education protection account	5,055,410					
Local property taxes, noncapital	15,800,956					2,303
State taxes and other revenues	101,786					47,327
Interest income, noncapital	35,979				64	4,629
Other non-operating revenues						
(expenditures/expenses)	256,371	91,847		148,003	290	
Interfund transfers out	(1,812,274)	(44,299)				
Interfund transfers in		1,536,468		15,987	199,896	
Total non-operating revenues (expenditures/expenses)	<u>24,968,020</u>	<u>1,744,951</u>		<u>163,990</u>	<u>200,250</u>	<u>54,259</u>
Gain (loss) before capital activity	<u>(512,385)</u>	<u>(18,902)</u>	<u>(45,407)</u>			<u>48,859</u>
Capital activity:						
State apportionment, capital		18,902	42,799			
State grants and contracts, capital						
Local property taxes and other						6,249,279
revenues, capital						
Interest income, capital						
Debt reduction						(1,190,000)
Interest expense on capital asset						
related debt						(4,736,775)
Total capital activity		<u>18,902</u>	<u>42,799</u>			<u>322,504</u>
Change in fund balance/net position	<u>(512,385)</u>		<u>(2,608)</u>			<u>371,363</u>
Fund balance/net position, beginning of year, as previously reported	2,705,860		2,674			3,564,500
Cumulative effect of change in accounting principles						
Cumulative effect of correction of errors	595,185					
Fund balance/net position (deficit), beginning of year, as restated	<u>3,301,045</u>		<u>2,674</u>			<u>3,564,500</u>
Fund balance/net position (deficit), end of year	<u>\$ 2,788,660</u>	<u>\$</u>	<u>\$ 66</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,935,863</u>

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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

JUNE 30, 2015

(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				\$ 2,225,694	\$ 2,860,671	\$ 5,086,365
Less: Scholarship discounts and allowance					(2,860,671)	(2,860,671)
Net tuition and fees				2,225,694		2,225,694
Grants and contracts, noncapital:						
Federal			\$ 6,437,058	10,234,018		10,234,018
State	\$ 4,631,831			9,957,533	(3,618,002)	6,339,531
Local				374,660		374,660
Total operating revenues	<u>4,631,831</u>		<u>6,437,058</u>	<u>22,791,905</u>	<u>(3,618,002)</u>	<u>19,173,903</u>
Operating expenditures/expenses:						
Salaries				21,786,855	12,416	21,799,271
Employee benefits				8,250,316	(105,950)	8,144,366
Supplies, materials, and other operating expenses and services	4,631,831	\$ 2,600,396		15,986,461	(7,372,711)	8,613,750
Student aid			6,437,058	7,027,974		7,027,974
Depreciation					1,980,847	1,980,847
Total operating expenditures/expenses	<u>4,631,831</u>	<u>2,600,396</u>	<u>6,437,058</u>	<u>53,051,606</u>	<u>(5,485,398)</u>	<u>47,566,208</u>
Loss from operations		<u>(2,600,396)</u>		<u>(30,259,701)</u>	<u>1,867,396</u>	<u>(28,392,305)</u>
Non-operating revenues (expenditures/ expenses):						
State apportionment, noncapital				5,690,727		5,690,727
Education protection account				5,055,410		5,055,410
Local property taxes, noncapital				15,803,259		15,803,259
State taxes and other revenues				149,113		149,113
Interest income, noncapital	879	113,415		154,966	(113,415)	41,551
Other non-operating revenues (expenditures/expenses)		65,225		561,736	(62,918)	498,818
Interfund transfers out				(1,856,573)	1,856,573	
Interfund transfers in				1,752,351	(1,752,351)	
Total non-operating revenues (expenditures/expenses)	<u>879</u>	<u>178,640</u>		<u>27,310,989</u>	<u>(72,111)</u>	<u>27,238,878</u>
Gain (loss) before capital activity	<u>879</u>	<u>(2,421,756)</u>		<u>(2,948,712)</u>	<u>1,795,285</u>	<u>(1,153,427)</u>
Capital activity:						
State apportionment, capital				61,701		61,701
State grants and contracts, capital					4,388,880	4,388,880
Local property taxes and other revenues, capital				6,249,279		6,249,279
Interest income, capital					113,415	113,415
Debt reduction				(1,190,000)	1,190,000	
Interest expense on capital asset related debt				(4,736,775)	(1,513)	(4,738,288)
Total capital activity				<u>384,205</u>	<u>5,690,782</u>	<u>6,074,987</u>
Change in fund balance/net position	<u>879</u>	<u>(2,421,756)</u>		<u>(2,564,507)</u>	<u>7,486,067</u>	<u>4,921,560</u>
Fund balance/net position, beginning of year, as previously reported	55,012	25,454,859		31,782,905	(17,251,704)	14,531,201
Cumulative effect of change in accounting principles					(27,282,189)	(27,282,189)
Cumulative effect of correction of errors		22,525		617,710	(588,327)	29,383
Fund balance/net position (deficit), beginning of year, as restated	<u>55,012</u>	<u>25,477,384</u>		<u>32,400,615</u>	<u>(45,122,220)</u>	<u>(12,721,605)</u>
Fund balance/net position (deficit), end of year	<u>\$ 55,891</u>	<u>\$ 23,055,628</u>	<u>\$</u>	<u>\$ 29,836,108</u>	<u>\$ (37,636,153)</u>	<u>\$ (7,800,045)</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, 2015, 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 December 22, 2015.

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 Audit Findings and Questioned Costs as item 2015-001, 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.
Sacramento, California**

December 22, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 *U.S. Office of Management and Budget (OMB) Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Audit Findings and Questioned Costs as items 2015-004 and 2015-005. Our opinion on each major federal program is not modified with respect to these matters.

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

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 of compliance, we considered the District's internal control over compliance with the types of 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-004 and 2015-005, that we consider to be significant deficiencies.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

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

December 22, 2015

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, 2015.

Management's Responsibilities

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Student Fees – Health Fees and Use of Health Fee Funds
- Proposition 39 Clean Energy
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D State Bond Funded Projects
- Proposition 30 Education Protection Account Funds

Basis for Modified Opinion on State Compliance

As described in the accompanying Schedule of Audit Findings and Questioned Costs as items 2015-002 and 2015-003, the District did not comply with certain requirements regarding Actual Hours of Attendance and the State General Apportionment Funding System. Compliance with such requirements is necessary, in our opinion, for the District to comply with the state laws and regulations applicable to that program.

Modified Opinion on State Compliance

In our opinion, except for the noncompliance described in the “Basis for Modified Opinion” paragraph, the District complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2015.

Other 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. This response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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

December 22, 2015

FINDINGS AND RECOMMENDATIONS

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: 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> X </u> Yes	<u> </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 OMB Circular A-133, Section .510(a)? X Yes No

Identification of major programs

<u>CFDA Numbers</u> 84.007, 84.033, 84.063, 84.268 84.031	<u>Name of Federal Programs or Cluster</u> Student Financial Assistance Programs Cluster Higher Education – Institutional Aid Program
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Dollar threshold used to distinguish between Type A and Type B programs: \$307,021

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> X </u> Yes	<u> </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: Modified

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

2015-001 – MATERIAL WEAKNESS OVER FINANCIAL STATEMENT CLOSE PROCESS

Criteria:

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities, and therefore presents District activities as a full accrual-enterprise fund. An essential aspect of any organization's internal control over its financial reporting process is the ability to produce accurate financial data in accordance with generally accepted accounting principles (GAAP). Accurate financial reporting enables management and the Board of Trustees to have a sound financial basis for decision making. Conversely, the absence of accurate financial data may undermine the plans and initiatives of management and the Board of Trustees.

Condition:

Various errors in the conversion from the District's fund financial statements to its full-accrual enterprise fund financial statements affecting balances at June 30, 2015, and June 30, 2014, were detected during the audit, resulting in significant adjustments in the following areas:

- Capital asset balances, additions, and disposals
- Net OPEB asset/liability
- Lease receivable
- Amortization of the deferred amount on refunding

Cause:

The District uses an independent contractor (contractor) to prepare the conversion entries required to develop full-accrual accounting statements in accordance with GAAP. The contractor did not properly record transactions related to capital asset additions and disposals, contributions to the District's OPEB trust fund, long-term receivables related to the sale of portables, and amortization of the deferred amount on refunding. Additionally, an audit adjustment recorded to capitalize interest for the June 30, 2014 financial statements was not prepared in accordance with GAAP.

District management is ultimately responsible for preparing financial statements in accordance with GAAP. The District did not identify the errors in the financial statements prepared by the contractor, nor the errors in the audit adjustment recorded in the June 30, 2014 financial statements.

Effect:

Significant adjustments were required to properly reflect capital assets, the net OPEB asset/liability, the lease receivable, and the deferred amount on refunding. These adjustments impacted the change in net position for the year ended June 30, 2015, as well as the beginning net position as of July 1, 2014.

Recommendation:

We recommend that District management develop a process to ensure conversion entries are prepared in accordance with GAAP, and the full-accrual financial statements are complete and accurate.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

District's Corrective Action Plan:

The District will prepare all conversion entries needed to be in accordance with GAAP in the future and not use an independent contractor. Because of shortage of staff in the past, an outside contractor was needed to help with the year-end close, however being fully staffed will allow the District to prepare these entries internally in consultation with the independent auditors with more accuracy.

In addition, the District will install the fixed asset Banner module, which has been purchased and licensed for use. This will allow the Business Office to maintain the fixed asset inventory throughout the year in conjunction with the newly installed Banner electronic procurement module. Once completed, the District will maintain assets more accurately on a month to month basis.

SECTION III – STATE COMPLIANCE

2015-002 – ACTUAL HOURS OF ATTENDANCE

Criteria:

According to California Code of Regulations, Title V, Section 58006, 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 full-time equivalent students (FTES) for such courses.

Condition:

Various errors were noted during testing of actual hours of attendance compliance, including the following:

- Contact hours for open entry/open exit courses offered by the Kinesiology department were not being calculated properly. The District uses a time-tracking system for these classes, but rather than summing the actual minutes attended and dividing by 50 minutes to obtain contact hours, the instructors calculated contact hours using the following method:
 - 0 – 60 minutes = 1 contact hour
 - 61 – 120 minutes = 2 contact hours
 - 121 minutes or more = 3 contact hours
- For one open entry/open exit keyboarding class, the instructor allocated estimated minutes for assignments completed by students, and summed these amounts to be used to calculate the FTES for the course, rather than tracking actual minutes attended by each student.

Context:

Out of 25 actual hours of attendance classes tested, 16 were open entry/open exit courses, and four of these courses had errors. Three were Kinesiology classes using the improper contact hours method described above, and the fourth was the keyboarding class that used estimated minutes as described above. No errors were detected in actual hours of attendance courses that were not open entry/open exit courses.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

Effect:

FTES was misstated for open entry/open exit courses offered by the Kinesiology department. The District claimed the following FTES for open entry/open exit courses offered by the Kinesiology department in the CCFS 320 (P-Annual):

- Credit courses, residents – 39.36 FTES
- Credit courses, nonresidents – 0.35 FTES

Because it appeared the error in methodology described above was used for all open entry/open exit courses offered by the Kinesiology department, the District recalculated FTES for all of the department's open entry/open exit courses and calculated corrected FTES as follows:

- Credit courses, residents – 36.48 FTES
- Credit courses, nonresidents – 0.28 FTES

The difference between the reported and recalculated FTES for Kinesiology department open entry/open exit courses is:

- Credit courses, residents – Overreported 2.89 FTES
- Credit courses, nonresidents – Overreported 0.07 FTES

FTES was misstated for open entry/open exit courses offered by one instructor in the Computer Science and Information Systems (CSIS) department. The District claimed the following FTES for the eight open entry/open exit courses offered by the CSIS instructor in the CCFS 320 (P-Annual):

- Credit courses, residents – 18.50 FTES
- Credit courses, nonresidents – 0.26 FTES

The District recalculated FTES for the instructor's eight open entry/open exit courses and calculated corrected FTES as follows:

- Credit courses, residents – 10.57 FTES
- Credit courses, nonresidents – 0.20 FTES

The difference between the reported and recalculated FTES for CSIS instructor's open entry/open exit courses is:

- Credit courses, residents – Overreported 7.93 FTES
- Credit courses, nonresidents – Overreported 0.06 FTES

Questioned Costs:

The total misstatement of the Kinesiology department actual hours of attendance errors for residents in credit courses identified above is 2.89 FTES, which based on the District's funding per FTES, is equal to \$13,513.

The total misstatement of the CSIS instructor's actual hours of attendance errors for residents in credit courses identified above is 7.93 FTES, which based on the District's funding per credit FTES, is equal to \$37,080.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

Recommendation:

We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures.

We recommend that the District perform an internal audit of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.

District's Corrective Action Plan:

The District has already taken immediate action to correct these calculations with the open entry/open exit courses offered by the Kinesiology department and open entry/open exit courses offered by the CSIS department. All instructors that have open entry/open exit courses have met several times and have been trained on how time must be accounted for and on the attendance procedures. In addition, the District has licensed and purchased updated attendance software that the instructors will be trained to use correctly going forward each semester as there are faculty changes made. It is understood that the past lack of training has resulted in the inappropriate calculation of contact hours for these courses resulting in inaccurate FTES reporting, so the District will maintain training going forward.

The District will also perform internal audits of actual hours on attendance classes periodically to ensure that contact hours are properly calculated, and therefore FTES amounts reported are accurate.

2015-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM

Criteria:

According to California Code of Regulations, Title V, Section 58003.1, for credit courses scheduled to meet for five or more days and scheduled regularly with respect to the number of hours each scheduled day (daily census courses), the units of FTES 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.

According to California Code of Regulations, Title V, Section 58003.1, for credit courses scheduled coterminously with a community college's primary term and scheduled to meet the same number of hours and same days each week throughout the term, FTES shall be computed by multiplying the student contact hours of active enrollment on the census date by the term length multiplier and dividing by 525.

Condition:

The District's attendance system has a control to check that total contact hours reported for a weekly or daily census class reconcile to the contact hours calculated based on the parameters of the class by type, scheduled meeting days and times, and active enrollment on the census date. Differences detected by the system are flagged for review.

FTES claimed for five classes claimed under daily attendance accounting procedures was not calculated properly due to errors that occurred when course information was entered into the District's attendance system. FTES claimed for one class was not calculated properly, as the class was entered into the system as a daily census course but did not meet the same number of hours each day.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

Context:

Out of 25 daily census classes and 25 weekly census classes tested in the original samples, one was not scheduled to meet the same number of hours each day and therefore was not eligible to be tracked as a daily census course. The attendance system had identified the class with a warning, as the contact hours per meeting entered into the system multiplied by the number of meetings did not agree to total contact hours for the class.

In response to the error identified, the sample was expanded. Based on review of the detail from the attendance system, five other classes had been flagged with a warning, and all such classes were daily census courses. These five classes, plus five haphazardly selected classes, were selected for testing. Of the total sample of 35 daily census classes, and the sample of 25 weekly census courses, only the six flagged by the attendance system were improperly calculated, therefore the error has been isolated to the six flagged courses.

Effect:

The first class identified as improperly calculated is not eligible for weekly or daily census attendance reporting based on the irregular meeting times, and therefore should have been tracked using the actual hours of attendance procedures. As documentation was not maintained to track actual hours of attendance for the course, all FTES reported for the course is considered ineligible as follows:

- Credit courses, residents – 0.87 FTES
- Credit courses, nonresidents – 0.00 FTES

The five additional courses flagged by the attendance system were eligible for daily census attendance reporting, but were overreported due to errors in entering course information into the District's attendance system. The errors resulted in overreported FTES as follows:

- Credit courses, residents – 3.45 FTES
- Credit courses, nonresidents – 0.91 FTES

Questioned Costs:

The total overreported daily census FTES for residents in credit courses identified above is 4.32 FTES, which based on the District's funding per credit FTES, is equal to \$20,200.

Recommendation:

We recommend that the District review the detailed attendance data produced by the attendance system for flags indicating contact hours are not calculated properly, and make corrections as needed to ensure contact hours and FTES are properly calculated and reported. We recommend such a review be performed prior to each attendance reporting period.

Additionally, we recommend the District review weekly and daily census courses to ensure the scheduling of such courses meets the requirements for weekly and daily census attendance procedures.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

District's Corrective Action Plan:

The District will review the detailed attendance data produced by the attendance system for flags indicating contact hours are not calculated properly, and make corrections as needed to ensure contact hours and FTES are properly calculated and reported. This review will be performed prior to each attendance reporting period.

Additionally, the District will review weekly and daily census courses to ensure the scheduling of such courses meets the requirements for weekly and daily census attendance procedures.

SECTION IV - FEDERAL COMPLIANCE

2015-004 – SUBRECIPIENT MONITORING

Federal Program: Higher Education - Institutional Aid Program:

Federal Agency: U.S. Department of Education

CFDA Number: 84.031

Grant Award Number and Year: P031S120075-13, 10/1/13 – 9/30/14

Criteria:

31 USC 7502(f)(2)(c) specifies the following:

Each pass-through entity shall review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director [of the Office of Management and Budget], pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Condition:

The District did not adequately monitor its subrecipients' audit reports to ensure that subrecipient audits reports are completed timely, that the reports were reviewed for audit findings and if applicable, management decisions were issued for subrecipient findings and appropriate correction action was taken.

Cause:

The District program staff was not aware of the requirement for to monitor subrecipient audit reports for the Higher Education - Institutional Aid program.

Effect:

Noncompliance at the subrecipient level may occur and not be detected by the District. Of the District's three subrecipients who received pass-through awards in the year ended June 30, 2015, only one was the District's subrecipient in the year ended June 30, 2014, and therefore only one audit report was required to be reviewed during the year under audit. Based on review of the subrecipient's June 30, 2014 audit report, there were no audit findings that pertained to the Higher Education – Institutional Aid program.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

Recommendation:

We recommend that the District implement procedures to ensure that audit reports for subrecipients are reviewed to ensure compliance with single audit requirements, and to determine whether prompt and appropriate corrective action has been taken for any audit findings related to the Higher Education – Institutional Aid program.

District's Corrective Action Plan:

The District has already implemented procedures to ensure that audit reports for subrecipients are reviewed to ensure compliance with single audit requirements, and to determine whether prompt and appropriate corrective action has been taken for any audit findings related to the Higher Education – Institutional Aid program.

In addition, the District will provide training to those individuals responsible to ensure compliance with single audit requirements for new grants received that have subrecipients.

2015-005 – ALLOWABLE COSTS

Federal Program: Higher Education - Institutional Aid Program:

Federal Agency: U.S. Department of Education

CFDA Number: 84.031

Grant Award Number and Year:

P031C110070-13, 10/1/13 – 9/30/14;

P031C110070-14, 10/1/14 – 9/30/15;

P031S100002-14, 10/1/14 – 9/30/15;

P031S120075-13, 10/1/13 – 9/30/14;

P031S120075-14, 10/1/14 – 9/30/15;

Criteria:

In accordance with OMB Circular A-21, Cost Principles for Educational Institutions, 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.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

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, six employees had actual hours exceeding budgeted hours, resulting in possible additional program costs of \$5,511 for the pay periods tested. The other four employees had actual hours below the budgeted hours, resulting in an overstatement of \$4,604 for the pay periods tested.

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 have trained staff and implemented a procedure to compare budgeted to actual payroll costs, and record adjustments as necessary for any differences at the end of the year.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2015

<u>Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2014-001 CAPITALIZED CONSTRUCTION COSTS The previous auditor recommended that the District implement controls to ensure all capitalizable costs are allocated to construction projects.	Partially implemented. See finding 2015-001.	See District's corrective action plan for finding 2015-001.
2014-002 SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW) The previous auditor recommended that the District review procedures used in determining the proper classification of salary costs to ensure job descriptions for instructional costs charged as instructional aides are properly classified for the 50 Percent Law calculation.	Implemented.	N/A