

**GAVILAN JOINT COMMUNITY  
COLLEGE DISTRICT  
PROPOSITION 39 AND  
MEASURE E GENERAL  
OBLIGATION BONDS**

**GILROY, CALIFORNIA**

**PERFORMANCE AUDIT**

**YEAR ENDED JUNE 30, 2018**

**GAVILAN JOINT COMMUNITY COLLEGE DISTRICT  
PROPOSITION 39 AND MEASURE E GENERAL OBLIGATION BONDS**

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JUNE 30, 2018**

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have conducted a performance audit of the Gavilan Joint Community College District's (the District) Measure E General Obligation Bonds for the year ended June 30, 2018.

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

Our audit was limited to the objectives listed on page 2 of this report, which includes determining the compliance with the performance requirements for the Proposition 39 Measure E General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements.

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

The results of our tests indicated that, in all significant respects, the Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2018, only for the specific projects developed by the District's Board of Trustees and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

*Gilbert Associates, Inc.*

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

**February 28, 2019**

# **GAVILAN JOINT COMMUNITY COLLEGE DISTRICT PROPOSITION 39 AND MEASURE E GENERAL OBLIGATION BONDS**

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### **OBJECTIVES**

The objectives of our performance audit were to determine that the Gavilan Joint Community College District (District) expended Measure E General Obligation Bond funds for the year ended June 30, 2018, only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

### **SCOPE OF THE AUDIT**

The District provided to us a list of all Measure E General Obligation Bond project expenditures for the year ended June 30, 2018 (the "List"), totaling \$4,983,156. The expenditures included all object and project codes associated with the Bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources were not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2018, were not reviewed or included within the scope of our audit.

### **BACKGROUND INFORMATION**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community colleges, and county offices of education "for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities", upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

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

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On March 2, 2004, the electorate of the Gavilan Joint Community College District approved the \$108 million Measure E General Obligation Bonds, with greater than 55% of the votes in favor. The summarized text of the ballot language was as follows:

*"To prepare students for jobs/four-year colleges, accommodate increasing enrollment and upgrade Gavilan College campuses in Gilroy, San Benito and the Morgan Hill area by: Improving fire safety and security; Upgrading plumbing/sewer systems; Upgrading wiring for computer technology; Repairing, acquiring, constructing, equipping classrooms, buildings, libraries and sites, shall Gavilan Joint Community College District issue \$108,000,000 in bonds at legal rates with citizen oversight, guaranteed annual audits, no money for administrators' salaries?"*

Following is the Measure E Bond Projects listing:

- Planning – Main campus, Coyote Valley Education Center, and San Benito County Education Center
- Land Acquisition: Coyote Valley, San Benito
- Technology/ERP/Computer/Phone System
- Construction: Coyote Valley Educational Center
- Cosmetology and Business Buildings Renovation
- Demolition Projects
- Electrical Service Loop Upgrade
- GECA Relocation
- Humanities, Art and Music Buildings Renovations
- HVAC Controls Replacement
- Interim Swing Space
- Library/TV Studio Buildings Renovation
- Occupational Education Building (renamed Multi-Purpose) Renovation
- Parking Lots/Campus Lighting
- Physical Education Building, Sports Field & Tennis Courts Renovations
- Science Complex Renovations: Life Science, Physical Science, and Math
- Security and Maintenance Building Renovation
- Social Science Building Renovation
- South County Airport Development
- Student Center Renovation
- Water Tank & Well Replacement

In June 2004, the District issued \$29,170,000 of General Obligation Bonds, 2004 Series A, and \$830,000 of General Obligation Bonds, 2004 Series B. The Bonds were issued to finance the construction and modernization of District facilities and to refund certain lease obligations. In April 2012, the District refunded \$22,770,000 of the 2004 Series A General Obligation Bonds through the issuance of the 2012 Series A and Series B General Obligation Refunding Bonds. The Bond was fully refunded during the June 30, 2018 fiscal year resulting in the elimination of the principal, interest and bond premium for the 2004 Series A Bond. Refer to December 2017 General Obligation Refunding bonds below.

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In December 2007, the District issued \$50,000,000 of General Obligation Bonds, 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds mature through 2032 and bear interest at rates ranging from 4.000% to 5.000%. In August 2015, the District refunded \$45,485,000 of the 2004 Series C General Obligation Bonds through the issuance of the 2015 Series C General Obligation Refunding Bonds. The Refunding Bonds mature through August 2032, and bear interest at rates ranging from 3.000% to 5.000%. The remaining 2004 Series C Bonds matured on August 1, 2018.

In May 2011, the District issued \$28,000,000 of General Obligation Bonds, 2004 Series D. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds were partially refunded in the current year. Refer to December 2017 General Obligation Refunding bonds below. The Bonds mature August 2021 and bear interest at 4.00%.

In December 2017, the District issued \$27,045,000 of General Obligation Refunding Bonds to current refund the remaining portion of the District's outstanding 2004 General Obligation Bonds, Series 2004A, to advance refund a portion of the District's outstanding 2004 General Obligation Bonds, Series 2004D and to pay the costs associated with the issuance of bonds. The refunding reduced the District's debt service payments by \$9,159,746 in aggregate and provided for an economic gain (difference between the present value of the old and new debt service payments) of \$6,113,567 in aggregate. The 2017 Refunded bonds mature through August 2035 and bearing interest at rates ranging from 2.000% - 5.00%.

The financial activity related to the use of the proceeds of the Measure E General Obligation Bonds is recorded in the District's Financial Activity Report for Fund 600 (Measure E Construction Bond Fund) in the District's financial statements. The District has established a separate debt service fund to account for the collection and remittance of bond principal and interest payments. Additional information on the bonds' payment schedules can be found in the District's financial statements.

### **PROCEDURES PERFORMED**

We obtained the Measure E Construction Bond Fund general ledger and the project expenditure detail reports prepared by the District for the fiscal year ended June 30, 2018. Within the year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with Proposition 39 and Measure E General Obligation Bond funding. We performed the following procedures:

- We reviewed the list of projects being performed to verify that the list of intended projects is consistent with the District's Measure E Bond Projects Listing.
- We verified that the District created the required capital outlay fund in order to account for the bond proceeds and expenditures, and that proceeds from the sale of the bonds were deposited in this fund.

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- We selected a sample of expenditures in the fiscal year ended June 30, 2018, and reviewed supporting documentation to ensure that funds were properly expended on the specific projects outlined on the publicized list and met the requirements for bidding, if applicable.
- We verified that funds were used for the construction, acquisition, furnishing, and equipping of District facilities, and we verified that funding was not used for salaries of school administrators or other operating expenses of the District.

**CONCLUSION**

Based upon the procedures performed, we found that for the items tested, the Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2018, only for the specific projects developed by the District's Governing Board and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1 (b)(3)(C) of Article XIII A of the California Constitution. Our audit does not provide a legal determination on the District's compliance with specific requirements.

**MANAGEMENT COMMENTS AND RECOMMENDATIONS**

None.