

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

GILROY, CALIFORNIA

PERFORMANCE AUDIT

YEAR ENDED JUNE 30, 2017

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

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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, 2017.

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, 2017, 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

December 20, 2017

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, 2017, 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, 2017 (the "List"), totaling \$5,706,289. 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, 2017, 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 Hollister Education Center
- Land Acquisition Coyote Valley, San Benito
- Physical Education Building
- Library/TV Studio Buildings
- Administration/Student Services Building
- Water Treatment System
- GECA Relocation
- Student Center Beam Replacement
- South County Airport Development
- Electrical Service Loop
- HVAC Control Replacement
- Demolition Projects
- Interim Housing Swing Space
- Infrastructure
- Science Complex: Life Science, Physical Science, and Math
- Humanities, Art and Music Buildings
- Cosmetology and Business Buildings
- Security and Maintenance Building
- Social Science Building
- Occupational Education Building (renamed Multi-Purpose)
- Cafeteria Renovation & HVAC
- Parking Lots/Campus Lighting
- Technology/ERP
- Computer/Phone System
- Tennis Courts
- Existing 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 Refunding Bonds

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mature through August 2024 and August 2028, respectively, and bear interest at rates ranging from 2.000% to 5.000%. The remaining 2004 Series A Bonds mature through 2028 and bear interest at rates ranging from 2.000% to 5.375%. The 2004 Series B Bonds matured on August 1, 2006.

In December 2007, the District issued \$50,000,000 of General Obligation Bonds, 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds 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 mature through August 2018 and bear an interest rate of 4.000%.

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

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, 2017. 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.
- We selected a sample of expenditures in the fiscal year ended June 30, 2017, 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.

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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, 2017, 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.