

**GAVILAN JOINT COMMUNITY  
COLLEGE DISTRICT**

**GILROY, CALIFORNIA**

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

**YEAR ENDED JUNE 30, 2017**

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## TABLE OF CONTENTS YEAR ENDED JUNE 30, 2017

---

	<b><u>PAGE</u></b>
<b>INTRODUCTION</b>	
Organization	1
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	13
Statement of Revenues, Expenses, and Changes in Net Position	14
Statement of Cash Flows	15
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Notes to the Financial Statements	19
<b>REQUIRED SUPPLEMENTARY INFORMATION SECTION</b>	
Schedule of Funding Progress for Other Postemployment Benefits	43
Schedule of the District's Proportionate Share of the Net Pension Liability	
CalSTRS Plan	44
CalPERS Plan	45
Schedule of the District's Contributions	
CalSTRS Plan	46
CalPERS Plan	47
<b>SUPPLEMENTARY INFORMATION SECTION</b>	
Schedule of Expenditures of Federal Awards	48
Schedule of State Financial Assistance	49
Schedule of Workload Measures for State General Apportionment	
Annual (Actual) Attendance	50
Reconciliation of ECS 84362 (50 Percent Law) Calculation	51
Reconciliation of Education Protection Account Expenditures to District Accounting Records	53
Reconciliation of Governmental Funds to Net Position	54
Notes to Supplementary Information	55

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## TABLE OF CONTENTS YEAR ENDED JUNE 30, 2017

---

	<b><u>PAGE</u></b>
<b>ADDITIONAL INFORMATION SECTION</b>	
Combining Statements of Fund Balance/Net Position by Fund – Unaudited	57
Combining Statements of Revenues, Expenditures/Expenses, and Changes in Fund Balance/Net Position by Fund – Unaudited	59
<b>OTHER INDEPENDENT AUDITOR'S REPORTS</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	63
Report on Compliance with Applicable Requirements in Accordance with the Contracted District Audit Manual	65
<b>FINDINGS AND RECOMMENDATIONS SECTION</b>	
Schedule of Audit Findings and Questioned Costs	67
Status of Prior Year Findings and Recommendations	80

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## ORGANIZATION YEAR ENDED JUNE 30, 2017

---

### 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, 2017, were composed of the following members:

### BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Laura Perry, Esq.	President	2018
Jonathan Brusco	Vice President	2018
Lois Locci, Ed.D.	Clerk	2018
Rachel Perez	Trustee	2018
Mark Dover	Trustee	2018
Kent Child	Trustee	2018
Walt Glines	Trustee	2018
Iris Cureto	Student Trustee	2017

### ADMINISTRATION

Dr. Kathleen A. Rose .....	Superintendent/President
Kathleen Moberg .....	Vice President of Student Services
Frederick E. Harris.....	Vice President of Administrative Services
Dr. Michele Bresso .....	Vice President of Academic Affairs
Wade W. Ellis, CPA .....	Associate Vice President, Business Services & Security
Dr. Eric Ramones.....	Associate Vice President, Human Resources
Sherrean Carr .....	Dean of Career Technical Education
Frances Lozano .....	Dean of Liberal Arts and Sciences
Ron Hannon .....	Dean of Kinesiology and Athletics
Veronica Martinez .....	Interim Dean Student Success and Enrollment Management
Dr. Brooke Boeding.....	Interim Associate Dean, Disability Resource Center
Dr. Randy Brown.....	Associate Dean, Community Development & Non-Credit & Adult Ed
Carina Cisneros.....	Associate Dean, EOPS & CalWORKs

## **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, 2017, 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, 2017, 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.

*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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information and Additional Information sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Additional Information section is presented at the request of District management and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Gilbert Associates, Inc.*

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

**December 20, 2017**



# **GAVILAN JOINT COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017**

---

### **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, 2017. 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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

### **DISTRICT BACKGROUND**

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

Gavilan College is one of 114 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, Morgan Hill, and in fall of 2016 added San Martin Airport and spring of 2017 added Coyote Valley sites to augment their course offerings at the main (Gilroy) campus. Gavilan College is a comprehensive public community college offering a wide range of services, including programs of continuing study in liberal arts, pre-professional, business, vocational and technical fields. Courses are offered in the day, evening and on weekends. In FY 16/17, Gavilan College served an estimated 6,251 students for fall semester, 6,188 students for spring semester and 2,700 for summer session. Gavilan College employs 226 full time permanent employees and approximately 231 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 2017, students can choose among 149 degrees and certificates, including 22 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, 2017**

---

Gavilan Joint Community College District serves residents of the Gilroy Unified, Morgan Hill Unified, Aromas-San Juan Unified, and San Benito Joint Union High School Districts. The 2017 total service area populations are approximately 191,390 (California Municipal Statistics). The district is comprised of approximately 2,700 square miles in southern Santa Clara County and a large portion of San Benito County.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

The fiscal year ending June 30, 2017, continued to provide the District with the opportunity to build financial stability by adding \$267,189 (excess revenue over expenditures) to the unrestricted general fund balance. This increase in fund balance brought the District reserve to 13.7%. The District finished FY 15/16 with excess revenue over expenditures of \$1,564,571 for unrestricted general fund, maintaining a reserve at 13.2% as a result of one time funding from the state.

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

---

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

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

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

### **THE DISTRICT AS A WHOLE**

#### *Net Position*

The District's net position was (\$4.5 million) deficit and \$(4.4 million) deficit for the fiscal years ended June 30, 2017 and June 30, 2016, respectively. Of this amount, (\$26 million) and (\$24.7) million were unrestricted as of June 30, 2017 and 2016, 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.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

**Table 1**

**GAVILAN JOINT CCD  
Net Position**

	<b>Governmental Activities as of June 30 for the Fiscal Year</b>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 34,296,682	\$ 28,151,205	\$ 6,145,477
Capital assets	114,492,473	104,157,050	10,335,423
<b>Total Assets</b>	<u>148,789,155</u>	<u>132,308,255</u>	<u>16,480,900</u>
Deferred outflows of resources	11,522,106	7,761,561	3,760,545
<b>Total Assets and Deferred Outflows</b>	<u>160,311,261</u>	<u>140,069,816</u>	<u>20,241,445</u>
Current liabilities	17,148,310	13,170,265	3,978,045
Noncurrent liabilities	145,961,356	128,067,152	17,894,204
<b>Total Liabilities</b>	<u>163,109,666</u>	<u>141,237,417</u>	<u>21,872,249</u>
Deferred inflows of resources	1,673,723	3,239,523	(1,565,800)
<b>Total Liabilities and Deferred Inflows</b>	<u>164,783,389</u>	<u>144,476,940</u>	<u>20,306,449</u>
Net position			
Net investment in capital assets	17,310,084	15,958,803	1,351,281
Restricted	4,466,967	4,351,377	115,590
Unrestricted	<u>(26,249,179)</u>	<u>(24,717,304)</u>	<u>(1,531,875)</u>
<b>Total Net Position</b>	<u>\$ (4,472,128)</u>	<u>\$ (4,407,124)</u>	<u>\$ (65,004)</u>

Change in Net Position

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

State apportionment revenues moderately increased while State-funded categorical programs such as EOPS, CalWORKs, Student Equity and SSSP have received large additional funding.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

**Table 2**

**GAVILAN JOINT CCD  
Change in Net Position**

	<b>Governmental Activities for the Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
<b>Revenues</b>			
Operating revenues:			
Tuition and fees	\$ 2,703,121	\$ 2,049,356	\$ 653,765
Grants and contracts - Federal	9,241,170	9,532,428	(291,258)
Grants and contracts - State and local	8,667,660	12,163,694	(3,496,034)
Non-operating revenues:			
State apportionment	1,361,299	6,146,469	(4,785,170)
Education protection account	4,337,894	4,536,127	(198,233)
Property taxes	31,010,079	23,124,368	7,885,711
State taxes and other revenue	134,781	104,308	30,473
Other revenues	816,193	1,022,219	(206,026)
<b>Total Revenues</b>	58,272,197	58,678,969	(406,772)
<b>Expenses</b>			
Salaries	24,112,488	22,798,222	1,314,266
Employee benefits	9,450,061	8,691,308	758,753
Supplies, materials and other operating expenses and services	10,562,379	10,278,278	284,101
Student aid	7,123,550	7,296,552	(173,002)
Depreciation	2,116,814	2,110,803	6,011
Other non-operating expenses	4,971,909	4,110,885	861,024
<b>Total Expenses</b>	58,337,201	55,286,048	3,051,153
<b>Change in Net Position</b>	\$ (65,004)	\$ 3,392,921	\$ (3,457,925)

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 \$58 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$24 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 2016-17 budget was adopted on September 13, 2016.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2017, the District had \$115 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 \$10 million from last year, predominately due to ongoing Measure E and State Capital Outlay projects, and Leased Revenue Bonds, offset by depreciation.

**Table 3**

#### **GAVILAN JOINT CCD Capital Assets at Year-end**

	<b>Fixed Assets for the Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Land	\$ 28,074,857	\$ 28,074,857	
Work in Progress	32,630,932	23,061,053	\$ 9,569,879
Land Improvements	1,352,730	1,352,730	
Building and Improvements	72,782,670	70,097,210	2,685,460
Equipment and vehicles	8,814,113	8,617,215	196,898
<b>Total</b>	143,655,302	131,203,065	12,452,237
Less Accumulated Depreciation	(29,162,829)	(27,046,015)	2,116,814
<b>Net Total</b>	<u>\$ 114,492,473</u>	<u>\$ 104,157,050</u>	<u>\$ 10,335,423</u>

The District is in the construction phase for bond renovation projects. A few capital projects like Coyote Valley Site and Hollister Site are planned to continue through the 2017-18 year and beyond.

#### Long-Term Liabilities

At the end of this year, the District had \$149 million in long-term obligations outstanding. The long-term obligations consisted of:

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

**Table 4**

### GAVILAN JOINT CCD Long-Term Liabilities at Year-end

	<b>Long-Term Liabilities for the Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
General obligation bonds	\$ 106,785,000	\$ 94,635,000	\$ 12,150,000
Premiums	8,409,130	8,946,698	(537,568)
Compensated absences	807,179	691,685	115,494
Net pension liability	33,315,484	26,903,292	6,412,192
<b>Total</b>	<b>\$ 149,316,793</b>	<b>\$ 131,176,675</b>	<b>\$ 18,140,118</b>

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 2016/17 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. The District was able to contribute \$523,032 in FY 16/17 to the OBEP trust narrowing the gap in unfunded liability. In FY 15/16 the District was able to contribute approximately \$896,018 to the OPEB trust. Starting in 2017 the District negotiated a cap on what would be spent on health benefits for both the faculty and classified bargaining units and the unrepresented employees.

Balancing the difference between expenditures and revenues continued as a high priority throughout the FY 16/17. The District has positioned its financial position FY 2016/17 to allow an expected balanced budget in FY 17/18.

In August 2016, the California Community Colleges Financing Authority issued Lease Revenue Bonds in the amount of \$7,415,000 for the District. The Bonds were issued to finance certain public capital improvements including swimming pool and other athletic facilities/playing field renovations and upgrades.

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

# **GAVILAN JOINT COMMUNITY COLLEGE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017**

---

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. However, the Coyote Valley and San Martin sites opened for full operation in FY2016/17. The District also completed the seismic upgrade to the student center facilities.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In considering the District Budget for the 2016-17 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 15/16 and 16/17. As the State releases funds that have exceeded initial projections, the colleges across the state can expect slight increases. At Gavilan College there was an overall decrease in unrestricted general fund revenue of 1.8% for the FY 16/17 year. Additional increases in Student Success Initiative and funding for programs that provide services to students who meet certain eligibility criteria have helped reduce the pressure on the unrestricted general fund as those resources were restored as the economy improved. For FY 17/18 and beyond, additional increases in revenues are expected. The State's economy is yielding revenues larger than what was anticipated when the FY 16/17 budget was prepared. A portion of those funds will eventually work their way down to the California community colleges. In short, the economy is strong and is generating increases in revenues in excess of planned amounts. 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](mailto:wellis@gavilan.edu).



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2017

---

### ASSETS:

#### Current assets:

Cash and cash equivalents	\$ 9,315,986
Receivables, net	2,591,223
Prepaid expenses	323,871
Total current assets	<u>12,231,080</u>

#### Noncurrent assets:

Restricted cash and cash equivalents	21,348,802
Lease receivable	473,021
Depreciable capital assets, net	53,786,684
Nondepreciable capital assets	60,705,789
Other postemployment benefits asset	227,267
Security Deposits	16,512
Total noncurrent assets	<u>136,558,075</u>
Total assets	<u>148,789,155</u>

### DEFERRED OUTFLOWS OF RESOURCES:

Deferred amount on refunding	4,370,256
Deferred outflows of resources related to pensions	7,151,850
Total deferred outflows	<u>11,522,106</u>

### LIABILITIES:

#### Current liabilities:

Accounts payable	6,847,296
Accrued payroll	1,709,323
Accrued interest payable	2,094,589
Unearned revenue	3,141,665
Long-term liabilities due within one year	3,355,437
Total current liabilities	<u>17,148,310</u>

#### Noncurrent liabilities:

Net pension liability	33,315,484
Bonds payable	112,645,872
Total noncurrent liabilities	<u>145,961,356</u>
Total liabilities	<u>163,109,666</u>

### DEFERRED INFLOWS OF RESOURCES:

Deferred inflows of resources related to pensions	<u>1,673,723</u>
---	------------------

### NET POSITION (DEFICIT):

Net investment in capital assets	17,310,084
Restricted for:	
Debt service	4,466,967
Unrestricted	<u>(26,249,179)</u>
Total net deficit	<u>\$ (4,472,128)</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, 2017

---

<b>OPERATING REVENUES:</b>	
Tuition and fees (gross)	\$ 5,462,704
Less: scholarship discounts and allowances	<u>(2,759,583)</u>
Net tuition and fees	2,703,121
Grants and contracts, noncapital:	
Federal	9,241,170
State	8,598,457
Local	<u>69,203</u>
<b>TOTAL OPERATING REVENUES</b>	<u>20,611,951</u>
<b>OPERATING EXPENSES:</b>	
Salaries	24,112,488
Employee benefits	9,450,061
Supplies, materials, and other operating expenses and services	10,562,379
Student financial aid and scholarships	7,123,550
Depreciation	<u>2,116,814</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>53,365,292</u>
<b>OPERATING LOSS</b>	<u>(32,753,341)</u>
<b>NON-OPERATING REVENUES:</b>	
State apportionments, noncapital	1,143,498
Education protection account	4,337,894
Local property taxes, noncapital	24,514,750
State taxes and other revenues	134,781
Interest income, noncapital	80,872
Other non-operating revenues	<u>706,805</u>
<b>TOTAL NON-OPERATING REVENUES</b>	<u>30,918,600</u>
<b>LOSS BEFORE CAPITAL ACTIVITY</b>	<u>(1,834,741)</u>
<b>CAPITAL REVENUES (EXPENSES):</b>	
State apportionments, capital	217,801
Local property taxes and revenues, capital	6,495,329
Interest income, capital	28,516
Interest expense on capital asset-related debt, net	(4,559,132)
Cost of issuance and other fees	<u>(412,777)</u>
<b>TOTAL CAPITAL REVENUES</b>	<u>1,769,737</u>
<b>DECREASE IN NET POSITION</b>	(65,004)
<b>NET DEFICIT -- BEGINNING OF YEAR</b>	<u>(4,407,124)</u>
<b>NET DEFICIT -- END OF YEAR</b>	<u>\$ (4,472,128)</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, 2017

---

### CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$ 2,523,965
Federal grants and contracts	9,005,481
State grants and contracts	9,120,536
Local grants and contracts	(722,136)
Payments to suppliers	(9,539,730)
Payments to/on behalf of employees	(31,035,074)
Payments to/on behalf of students	<u>(7,150,353)</u>
Net cash used by operating activities	<u>(27,797,311)</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State apportionments, noncapital	5,785,114
Local property taxes, noncapital	24,514,750
State taxes and other revenues	134,781
Other non-operating revenues	<u>706,805</u>
Net cash provided by noncapital financing activities	<u>31,141,450</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from bond issuance	13,915,000
Debt service costs	(412,777)
State apportionments, capital	495,140
State grants and contracts, capital	94,151
Local property taxes and revenues, capital	6,495,329
Interest income, capital	80,872
Purchases of capital assets	(12,452,237)
Sale of capital assets	115,690
Proceeds from lease receivable	22,525
Principal paid on capital debt	(1,765,000)
Interest paid on capital debt	<u>(4,546,362)</u>
Net cash provided by capital and related financing activities	<u>2,042,331</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income, noncapital	<u>28,516</u>
Net cash provided by investing activities	<u>28,516</u>

**NET INCREASE IN CASH AND EQUIVALENTS** 5,414,986

**CASH AND EQUIVALENTS -- BEGINNING OF YEAR** 25,249,802

**CASH AND EQUIVALENTS -- END OF YEAR** \$ 30,664,788

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2017

---

Reconciliation to statement of net position:

Cash and cash equivalents	\$ 9,315,986
Restricted cash and cash equivalents, noncurrent	<u>21,348,802</u>
Total cash and cash equivalents	<u>\$ 30,664,788</u>

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

Operating loss	\$ (32,753,341)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,116,814
Changes in assets and liabilities:	
Receivables, net	(837,955)
Prepaid expenses	(297,111)
Deferred outflows related to pensions	(4,209,356)
Accounts payable	2,293,483
Accrued payroll	744,874
Unearned revenue	207,365
Compensated absences	115,494
Postemployment benefits	(23,970)
Net pension liability	6,412,192
Deferred inflows related to pensions	<u>(1,565,800)</u>
Net cash used by operating activities	<u>\$ (27,797,311)</u>

### NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Amortization of deferred amount on refunding	\$ (448,811)
Amortization of premiums on long-term debt	653,257

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2017

---

	<b>Private- Purpose Trust Funds</b>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 543,344
Due from District	16,726
Receivables	<u>1,908</u>
<b>TOTAL ASSETS</b>	<u>561,978</u>
<b>LIABILITIES:</b>	
Accounts payable and accrued expenses	9,148
Amounts held in trust for others	<u>69,695</u>
<b>TOTAL LIABILITIES</b>	<u>78,843</u>
<b>RESTRICTED NET POSITION:</b>	
Restricted net position held in trust	<u>\$ 483,135</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2017

---

	<b>Private- Purpose Trust Funds</b>
<b>ADDITIONS:</b>	
Employer contributions	\$ 317
ASB fees and sales	130,269
Donations and fundraising	71,475
Other local receipts	<u>12,199</u>
<b>TOTAL ADDITIONS</b>	<u>214,260</u>
<b>DEDUCTIONS:</b>	
Salaries	7,087
Employee benefits	3,442
Supplies and services	116,849
Operating expenses	58,037
Capital outlay	31,682
Scholarships	<u>2,500</u>
<b>TOTAL DEDUCTIONS</b>	<u>219,597</u>
<b>CHANGE IN NET POSITION</b>	<u>(5,337)</u>
<b>NET POSITION -- BEGINNING OF YEAR</b>	<u>488,472</u>
<b>NET POSITION -- END OF YEAR</b>	<u>\$ 483,135</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

---

### 1. ORGANIZATION AND REPORTING ENTITY

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

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

---

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

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

**Cash and Cash Equivalents** – For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Santa Clara County Treasury are considered cash equivalents.

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

**Receivables** – Receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursements of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$298,162 for the year ended June 30, 2017.

**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 \$4,559,132 during the year ended June 30, 2017, and \$187,322 was capitalized as interest earnings on tax-exempt debt proceeds restricted for capital projects exceeded interest costs attributable to construction.

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



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

---

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 7 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, 2017

---

*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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. 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, 2017, are classified in the accompanying financial statements as follows:

Statement of net position of the District:	
Cash and cash equivalents	\$ 9,315,986
Restricted cash and cash equivalents - noncurrent	21,348,802
Statement of fiduciary net position:	
Cash and cash equivalents	543,344
Total cash and cash equivalents	\$ 31,208,132

Cash and cash equivalents as of June 30, 2017, consist of the following:

	<b>District</b>	<b>Fiduciary Funds</b>
Cash and cash equivalents in Santa Clara County Treasury	\$ 21,334,353	\$ 53,764
Cash in banks	9,330,435	489,580
Total cash, cash equivalents, and investments	\$ 30,664,788	\$ 543,344

**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, 2017

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

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

**Interest Rate Risk** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2017, the weighted average maturity of the investments contained in the Treasury's investment pool is approximately 528 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, 2017, the District had no concentrations of credit risk.

**Deposits** – The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

institutions. At June 30, 2017, the carrying amount of the District's cash in banks for the primary governmental entity was \$9,330,435. The bank balance for such accounts at June 30, 2017, was \$9,693,045, of which \$9,193,045 exceeded FDIC limits. At June 30, 2017, cash in banks for the fiduciary funds had a carrying amount of \$489,580 and a bank balance of \$491,376, of which \$62,411 exceeded FDIC limits.

**Restricted Cash and Cash Equivalents** – The District's noncurrent restricted cash and cash equivalents balance is \$21,348,802 at June 30, 2017. Included in this restricted balance is \$5,701,020 of unspent Measure E bond proceeds restricted for capital projects, \$4,466,770 of assessments collected by the County Treasurer's Office on behalf of the District for the repayment of the District's general obligation bonds, \$8,721,787 of unspent lease revenue bond and CREB bond proceeds restricted for capital projects and \$2,459,225 is 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, 2017 are summarized as follows:

Federal	\$ 1,133,297
State	414,309
Local and other	<u>1,341,779</u>
Less allowance for doubtful accounts	<u>(298,162)</u>
Receivables, net	<u>\$ 2,591,223</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>
2018	\$ 22,525
2019	22,525
2020	22,525
2021	22,525
2022	22,525
2023-2027	112,625
2028-2032	112,625
2033-2037	112,625
2038	<u>22,521</u>
	<u>\$ 473,021</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<b>Balance</b>		<b>Balance</b>
	<b>July 1, 2016</b>	<b>Additions</b>	<b>June 30, 2017</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital assets, not depreciated:			
Land	\$ 28,074,857		\$ 28,074,857
Construction in progress	23,061,053	\$ 12,255,339	\$ 32,630,932
Total capital assets, not depreciated	<u>51,135,910</u>	<u>12,255,339</u>	<u>60,705,789</u>
Capital assets, depreciated:			
Land improvements	1,352,730		1,352,730
Buildings and building improvements	70,097,210		72,782,670
Furniture and equipment	8,336,797	188,571	8,525,368
Vehicles	280,418	8,327	288,745
Total capital assets, depreciated	<u>80,067,155</u>	<u>196,898</u>	<u>82,949,513</u>
Less accumulated depreciation:			
Land improvements	(767,410)	(40,305)	(807,715)
Buildings and building improvements	(20,023,074)	(1,431,184)	(21,454,258)
Furniture and equipment	(5,993,466)	(641,711)	(6,635,177)
Vehicles	(262,065)	(3,614)	(265,679)
Total accumulated depreciation	<u>(27,046,015)</u>	<u>(2,116,814)</u>	<u>(29,162,829)</u>
Total capital assets, depreciated, net	<u>53,021,140</u>	<u>(1,919,916)</u>	<u>53,786,684</u>
Capital assets, net	<u>\$ 104,157,050</u>	<u>\$ 10,335,423</u>	<u>\$ 114,492,473</u>

### 6. LONG-TERM LIABILITIES

#### General Obligation Bonds

In June 2004, the District issued \$29,170,000 of General Obligation Bonds, 2004 Series A. The Bonds were issued to finance the construction and modernization of District facilities and refund certain lease obligations. In April 2012, the District refunded \$22,770,000 of the 2004 Series A General Obligation Bonds through the issuance of the 2012 Series A and Series B General Obligation Refunding Bonds. The remaining 2004 Series A General Obligation Bonds mature through August 2028 and bear interest at rates ranging from 2.000% to 5.375%.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,000	\$ 31,319	\$ 56,319
2019	30,000	29,969	59,969
2020	30,000	28,394	58,394
2021	35,000	26,688	61,688
2022	40,000	24,694	64,694
2023-2027	280,000	84,709	364,709
2028-2029	<u>160,000</u>	<u>9,075</u>	<u>169,075</u>
	<u>\$ 600,000</u>	<u>\$ 234,848</u>	<u>\$ 834,848</u>

In December 2007, the District issued \$50,000,000 of General Obligation Bonds, 2004 Series C. The Bonds were issued to finance the construction and modernization of District facilities, the acquisition of equipment, and to pay the costs of issuance associated with the Bonds. The Bonds were partially refunded in fiscal year 2015-16. The bond premium was removed during the refunding. Refer to 2015 General Obligation Refunding bonds below. The bonds will mature August 2018 and bear interest at 4.000%.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 765,000	\$ 15,300	\$ 780,300

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 \$750,588 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, 2017

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>
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	255,000	1,510,875	1,765,875
2022	305,000	1,499,675	1,804,675
2023-2027	2,405,000	7,215,200	9,620,200
2028-2032	4,335,000	6,338,613	10,673,613
2033-2036	<u>19,800,000</u>	<u>2,752,813</u>	<u>22,552,813</u>
	<u>\$ 27,600,000</u>	<u>\$ 23,898,501</u>	<u>\$ 51,498,501</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 \$1,435,297 is capitalized and will be amortized over the term of the Bonds.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,235,000	357,125	1,592,125
2022	1,385,000	291,625	1,676,625
2023-2025	<u>5,140,000</u>	<u>401,250</u>	<u>5,541,250</u>
	<u>\$ 10,665,000</u>	<u>\$ 2,415,725</u>	<u>\$ 13,080,725</u>



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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>
2018	\$ 105,000	\$ 379,900	\$ 484,900
2019	100,000	377,850	477,850
2020	105,000	375,275	480,275
2021	110,000	372,050	482,050
2022	115,000	368,675	483,675
2023-2027	5,030,000	1,643,713	6,673,713
2028-2029	<u>5,470,000</u>	<u>200,450</u>	<u>5,670,450</u>
	<u>\$ 11,035,000</u>	<u>\$ 3,717,913</u>	<u>\$ 14,752,913</u>

In August 2015, the District issued \$42,320,000 of General Obligation Refunding Bonds, 2015 Series C. The bonds were issued to advance partially refund \$45,485,000 of the District's outstanding 2004 Series C General Obligation Bonds. The 2015 Series C Refunding Bonds mature through August 2032 and bear interest at rates ranging from 3.000% to 5.000%.

Bond premium (net of accumulated amortization) of \$6,760,813 is capitalized and will be amortized over the term of the Bonds.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018		\$ 2,087,150	\$ 2,087,150
2019	\$ 745,000	2,075,975	2,820,975
2020	820,000	2,048,400	2,868,400
2021	940,000	2,008,500	2,948,500
2022	1,070,000	1,958,250	3,028,250
2023-2027	7,720,000	8,775,500	16,495,500
2028-2032	23,405,000	5,488,625	28,893,625
2033	<u>7,505,000</u>	<u>187,625</u>	<u>7,692,625</u>
	<u>\$ 42,205,000</u>	<u>\$ 24,630,025</u>	<u>\$ 66,835,025</u>

### Revenue Bonds

In August 2016, the California Community Colleges Financing Authority (Authority) issued Lease Revenue Bonds in the amount of \$7,415,000 for the District. The Bonds were issued to finance certain public capital improvements for the District, purchase an issuance policy for deposit into a debt service reserve fund established for the bonds, and to pay the costs associated with the issuance of the bonds. The District is obligated to make lease payments to the Authority pursuant to a Lease/Purchase Agreement. The Bonds mature through August 2036 and bear interest at rates ranging from 2.000% to 3.00%.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Bond premium (net of accumulated amortization) of \$115,692 is capitalized and will be amortized over the term of the Bond.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018		\$ 200,325	\$ 200,325
2019	\$ 240,000	200,325	440,325
2020	250,000	193,125	443,125
2021	255,000	185,625	440,625
2022	265,000	177,975	442,975
2023-2027	1,405,000	795,125	2,200,125
2028-2032	1,565,000	639,313	2,204,313
2033-2037	1,795,000	410,850	2,205,850
2038-2040	1,640,000	124,950	1,764,950
	<u>\$ 7,415,000</u>	<u>\$ 2,927,613</u>	<u>\$ 10,342,613</u>

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018		\$ 64,741	\$ 64,741
2019	\$ 189,000	68,657	257,657
2020	206,000	66,601	272,601
2021	224,000	64,361	288,361
2022	243,000	61,927	304,927
2023-2027	1,546,000	265,452	1,811,452
2028-2032	1,837,000	174,206	2,011,206
2037	2,255,000	68,311	2,323,311
	<u>\$ 6,500,000</u>	<u>\$ 834,256</u>	<u>\$ 7,334,256</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

### Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2017, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 94,635,000	\$ 13,915,000	\$ (1,765,000)	\$ 106,785,000	\$ 1,895,000
Premiums	8,946,698	115,690	(653,258)	8,409,130	653,258
Compensated absences	691,685	115,494	_____	807,179	807,179
	<b>\$ 104,273,383</b>	<b>\$ 14,146,184</b>	<b>\$ (2,418,258)</b>	<b>\$ 116,001,309</b>	<b>\$ 3,355,437</b>

### Operating Lease

In June 2015, the District amended its agreement with the City of Morgan Hill (City) to lease Gavilan Community College Campus at Morgan Hill and Cultural Center. Payments of \$16,642 are due monthly over a 5 year period, with the first payment due July 1, 2015. In May 2017, the District entered into an agreement with the City of Hollister to lease the Repor Briggs Building. Payments are due monthly over a 5 year period, June 21, 2017 through June 20, 2022, and range from \$9,401 to \$10,590 per month. In January 2016, the District entered into a lease agreement with the County of Santa Clara to lease a hanger in an undeveloped portion of the San Martin Airport. The lease is for 20 years from January 1, 2016 through December 21, 2035 with a base rent of \$28,429 per month. The rent is subject to a 1.035% escalation annually starting July 1, 2017.

Future payments are due as follows:

<b>Year Ending June 30,</b>	<b>Payment</b>
2018	\$ 341,982
2019	343,048
2020	289,872
2021	32,699
2022	33,854
2023-2027	188,077
2028-2032	223,725
2033-2035	181,626
	<b>\$ 1,634,883</b>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

---

### 7. RETIREMENT PLANS

#### California State Teachers' Retirement System (CalSTRS)

##### Plan Description

The District participates in the State Teachers' Retirement Plan (the CalSTRS Plan), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. CalSTRS acts as a common investment and administrative agent for participating public entities within the State of California. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at [www.calstrs.com](http://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 2% service retirement, members hired prior to January 1, 2013, must be at least age 60 with a minimum of five years of CalSTRS-credited service, while members hired after January 1, 2013, must be at least age 62 with five years of service.

##### Contributions

Assembly Bill 1469 (AB 1469), signed into law as a part of the State of California's (the State) 2014-15 budget, increases contributions to the CalSTRS Plan from members, employers, and the State over the next seven years, effective July 1, 2014. School employer contributions will increase from 8.25% to a total of 19.10% of covered payroll over the seven-year period. The District's required contribution rate for the year ended June 30, 2017, was 12.58% of annual pay. District contributions to the CalSTRS Plan were \$1,611,746 for the year ended June 30, 2017.

The State contributes a percentage of the annual earnings of all members of the CalSTRS Plan. AB 1469 increases the State's contribution attributable to the benefits in effect in 1990, but does not change the base rate of 2.017%. In accordance with AB 1469, the portion of the state appropriation under Education Code Sections 22955(b) that is in addition to the base rate has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution increased from 1.437% in 2014-15 to 4.311% in 2016-17. The increased contributions end as of fiscal year 2046-47. The State contribution rate for the period ended June 30, 2017, was 8.828% of the District's 2014-15 creditable CalSTRS compensation.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

### 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, 2015, and rolling forward the total pension liability to the measurement date of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, 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 <sup>(1)</sup>	7.60%
Mortality <sup>(2)</sup>	CalSTRS' Membership Data 2% simple for DB (Annually) Maintain 85% purchasing power Level for DB
Post-Retirement Benefit Increase	Not applicable for DBS /CBB

<sup>(1)</sup> Net of investment expenses, but gross of administrative expenses.

<sup>(2)</sup> 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 adjusted to fit CalSTRS specific experience through June 30, 2015. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis and June 30, 2015 Actuary Program Valuations 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. The actuarial investment rate of return assumption was adopted by the board on 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

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

\*20-year geometric average

### California Public Employees' Retirement System (CalPERS)

#### Plan Description

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

#### Benefits Provided

The benefits for the CalPERS Plan are established by contract, in accordance with the provisions of the California Public Employees' Retirement Law (PERL). The benefits are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. 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 after January 1, 2013, must be at least age 52 with a minimum of five years of CalPERS-credited service.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

### Contributions

Section 20814(c) of the PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the CalPERS Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The CalPERS Plan's actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District's required contribution rate for the year ended June 30, 2017, was 13.888% of annual pay. District contributions to the CalPERS Plan were \$1,216,038 for the year ended June 30, 2017.

### Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2016 total pension liability amounts were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases <sup>(1)</sup>	Varies
Investment Rate of Return <sup>(2)</sup>	7.65%
Mortality <sup>(3)</sup>	CalPERS' Membership Data
Post-Retirement Benefit Increase <sup>(4)</sup>	Up to 2.75%

<sup>(1)</sup> Depending on age and service

<sup>(2)</sup> Net of pension plan investment; includes inflation

<sup>(3)</sup> The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the April 2014 experience study report.

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

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates.

### Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the CalPERS Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing periods recently adopted by the Board were used. A projection of expected benefit payments and contributions was performed for the Plan to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the CalPERS Plan. The results of the crossover testing for the CalPERS Plan are presented in a detailed report that can be obtained from the CalPERS' website.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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. 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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10<sup>(a)</sup></u>	<u>Real Return Years 11+<sup>(b)</sup></u>
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

<sup>(a)</sup> An expected inflation of 2.5% was used for this period.

<sup>(b)</sup> 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, 2017

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

As of June 30, 2017, 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	\$ 19,411,440
CalPERS Plan	13,904,044
Total District net pension liability	33,315,484
State's proportionate share of CalSTRS net pension liability associated with the District	10,881,561
Total	\$ 44,197,045

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, 2016, 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, 2016, was 0.024% and 0.0704% for the CalSTRS and CalPERS Plans, respectively, which was no change and 0.0025% decrease, respectively, from its proportion measured as of June 30, 2015 for CalSTRS and CalPERS Plans, respectively.

For the year ended June 30, 2017, the District recognized pension expense of \$4,518,862 and revenue of \$1,054,041 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 598,007	\$ (473,521)
Changes in assumptions		(417,734)
Changes in proportion		(782,468)
Change in proportionate share of contributions	25,399	
Net differences between projected and actual investment earnings of pension plan investments	3,700,660	
District contributions subsequent to measurement date	2,827,784	
Total	\$ 7,151,850	\$ (1,673,723)

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

The \$2,827,784 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, 2018. 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>		
2018	\$	121,200
2019		121,583
2020		1,677,223
2021		955,031
2022		(186,875)
Thereafter		(37,839)

### 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:

	<b>Discount Rate -1%</b> <b>(6.60%)</b>	<b>Current Discount Rate</b> <b>(7.60%)</b>	<b>Discount Rate +1%</b> <b>(8.60%)</b>
District's proportionate share of the CalSTRS Plan's net pension liability	\$ 27,937,440	\$ 19,411,440	\$ 12,330,240
	<b>Discount Rate -1%</b> <b>(6.65%)</b>	<b>Current Discount Rate</b> <b>(7.65%)</b>	<b>Discount Rate +1%</b> <b>(8.65%)</b>
District's proportionate share of the CalPERS Plan's net pension liability	\$ 20,744,910	\$ 13,904,044	\$ 8,207,676

## 8. OTHER POSTEMPLOYMENT BENEFITS

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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	\$ 499,062
Interest on net OPEB obligation	
Adjustment to annual required contribution	
Annual OPEB expense	<u>499,062</u>
Contributions made:	
Pay-as-you-go	(23,032)
Deposits in Investment Trust	<u>(500,000)</u>
Decrease in OPEB obligation	(23,970)
Net OPEB obligation (asset) at July 1, 2016	<u>(203,297)</u>
Net OPEB obligation (asset) at June 30, 2017	<u>\$ (227,267)</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 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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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 June 30, 2017 valuation:

Actuarial cost method	Entry Age Normal
Amortization method	30-year level dollar, closed period
Remaining amortization period at June 30, 2015	22 years
Inflation rate	2.75% annually
Asset valuation method	Market value basis
Investment return	7.00% annually
Healthcare cost trend rate	4.00% - 7.00% 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 (asset) for the year ended June 30, 2017, and the preceding two years, is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Expense</u>	<u>% of Annual OPEB Expense Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2015	\$ 495,697	281.63%	\$ 193,213
June 30, 2016	\$ 499,508	179.38%	\$ (203,297)
June 30, 2017	\$ 499,062	104.80%	\$ (227,267)

The District's funding status for other postemployment benefits as of the most recent valuation date, June 30, 2017, 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>
6/30/17	\$7,478,481	\$ 9,311,156	\$ 1,832,675	80%	\$ 16,532,000	11%

## 9. CONTINGENCIES

### Litigation

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

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

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

The District participates in two joint ventures under joint powers agreements (JPAs), the 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:

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

Self-insurance and other limits are as follows:

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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):

	<b>BACCDJPA Property / Liability June 30, 2017</b>	<b>NCCCP Workers' compensation June 30, 2017</b>
Total Assets	<u>\$ 8,515,424</u>	<u>\$ 1,682,878</u>
Total Liabilities	\$ 3,271,912	\$ 683,674
Net Position	<u>5,243,512</u>	<u>999,204</u>
Total Liabilities and Net Position	<u>\$ 8,515,424</u>	<u>\$ 1,682,878</u>
Total Revenues	\$ 3,910,530	\$ 3,450,549
Total Expenses	<u>4,565,535</u>	<u>3,467,662</u>
Net Increase (Decrease) in Net Position	<u>\$ (655,005)</u>	<u>\$ (17,113)</u>

### 11. SUBSEQUENT EVENT

On July 1, 2017, the District left the Bay Area Community College Districts Joint Powers Authority (BACCDJPA) and is now a direct member of the Statewide Association of Community Colleges (SWACC).

On December 20, 2017, the District issued 2017 General Obligation Refunding Bonds in the amount of \$27,045,000, maturing through August 2035 and bearing interest at rates ranging from 2.000% - 5.000%. The bonds were issued to currently 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 reduces the District's total debt service payments by \$9,797,189 over the next 18 years, and results in an economic gain of \$6,113,567.

**REQUIRED SUPPLEMENTARY INFORMATION**

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS YEAR ENDED JUNE 30, 2017

---

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
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%
6/30/17	\$ 7,478,481	\$ 9,311,156	\$ 1,832,675	80%	\$ 16,532,000	11%



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2017 LAST 10 YEARS\*

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

**Notes to Schedule:**

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

**Changes in assumptions** – There were no changes in assumptions.

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2017 LAST 10 YEARS\*

---

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

**Notes to Schedule:**

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

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

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AS OF JUNE 30, 2017 LAST 10 YEARS\*

---

	<b>CalSTRS Plan</b>		
	<b>Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution (actuarially determined)	\$ 1,611,746	\$ 1,288,845	\$ 1,014,998
Contributions in relation to the contractually required contributions	<u>(1,611,746)</u>	<u>(1,288,845)</u>	<u>(1,014,998)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 13,218,981	\$ 12,053,939	\$ 8,461,631
Contributions as a percentage of covered-employee payroll	12.2%	10.7%	12.00%

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS AS OF JUNE 30, 2017 LAST 10 YEARS\*

---

	<b>CalPERS Plan</b>		
	<b>Fiscal Year</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution (actuarially determined)	\$ 1,216,038	\$ 1,005,496	\$ 959,947
Contributions in relation to the contractually required contributions	<u>(1,216,038)</u>	<u>(1,005,496)</u>	<u>(959,947)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 8,800,859	\$ 8,536,247	\$ 6,886,947
Contributions as a percentage of covered-employee payroll	13.8%	11.8%	13.94%

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

## **SUPPLEMENTARY INFORMATION**

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Program Expenditures</u>
<b>U.S. Department of Education:</b>				
Student Financial Assistance Programs Cluster:				
Pell Grant Program	84.063	N/A		\$ 5,600,412
Federal Work Study	84.033	N/A		91,093
Supplemental Educational Opportunity Grant Program	84.007	N/A		83,200
Direct Student Loan Program	84.268	N/A		148,598
Subtotal Student Financial Assistance Programs Cluster			<u>                    </u>	<u>5,923,303</u>
Higher Education - Institutional Aid Program:				
Higher Education - STEM	84.031C	P031C110070	\$ 108,503	1,070,464
Title V - Higher Education	84.031S	P031S100004		447,304
Title V - Higher Education	84.031S	P031S120075	231,597	766,272
Title V - Higher Education	84.031S	P031S150003		212,431
Subtotal Title V Higher Education			<u>                    </u>	<u>2,496,471</u>
Higher Education - TRIO Cluster	84.042A	N/A		227,101
Subtotal Higher Education - Institutional Aid Program			<u>340,100</u>	<u>2,723,572</u>
Passed through California Department of Education:				
Vocational and Applied Technology - Title IC	84.011	03578		130,993
Vocational and Applied Technology - CTE Transitions	84.048	03578		43,748
State Vocational Rehabilitation Services	84.126A	03578		214,401
<b>Total U.S. Department of Education</b>			<u>340,100</u>	<u>9,036,017</u>
<b>U.S. Department of Health and Human Services:</b>				
TANF Cluster:				
GAIN Program	93.558	N/A		154,535
TANF Program	93.558	N/A		50,618
<b>Total U.S. Department of Health and Human Services/TANF Cluster</b>			<u>                    </u>	<u>205,153</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 340,100</u>	<u>\$ 9,241,170</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2017

Program Title	Entitlements			Program Revenues				Program Expenditures
	Prior Year # Carryforward	Current Entitlement	Total Entitlement	Unearned Revenue and Cash Received	Accounts Receivable	Unearned Revenue and Payables	Total	
Financial Aid - BFAP		\$ 218,660	\$ 218,660	\$ 218,660			\$ 218,660	\$ 218,660
EOPS	\$ 5,533	621,612	627,145	627,145		\$ 7,592	619,553	619,553
CARE		183,234	183,234	183,234			183,234	183,234
DSPS		750,529	750,529	750,529			750,529	750,529
Cal WORKs		391,493	391,493	367,974	\$ 23,519	2,244	389,249	389,249
SSSP (Credit)	136,279	1,206,106	1,342,385	1,342,385			1,342,385	1,342,385
SSSP (Non-Credit)		99,790	99,790	99,790		10,036	89,754	89,754
Child Development Consortium		4,250	4,250	4,250			4,250	4,250
Full-time Student Success	16,826	141,270	158,096	158,096		31,196	126,900	126,900
Student Equity	268,115	560,171	828,286	828,286		25,018	803,268	803,268
Health Fee Service	6,844	1,389	8,233	8,233		7,233	1,000	1,000
Lottery		119,769	119,769	16,640	103,129		119,769	119,769
Staff Diversity	416	60,000	60,416	60,416			60,416	60,416
Basic Skills	6,007	1,587,600	1,593,607	695,047		277,982	417,065	417,065
MAA	972	1,167	2,139	2,139		2,139		
General		341	341	341			341	341
Athletics	1,874	778	2,652	2,652			2,652	2,652
Cal Grant B & C	21,873	505,500	527,373	486,978	40,395		527,373	527,373
MESA		16,510	16,510	30,300	41,647	4,621	67,326	67,326
CTC Apprenticeship	7,873	22,669	30,542	30,542		8,683	21,859	21,859
Capacity RN Grant		141,680	141,680	141,680	12,320		154,000	154,000
CTE Enhancement		84,151	84,151	84,151		50,000	34,151	34,151
Lifeline	29,630	2,269	31,899	31,899		23,035	8,864	8,864
Strong Workforce		654,561	654,561	654,561		545,478	109,083	109,083
Adult Ed AB 86		16,335	16,335					
Adult Ed AB 104	359,474	514,518	873,992	873,993		247,978	626,015	626,015
Adult Ed Data Accountability	123,711		123,711	123,711		78,110	45,601	45,601
Instructional Equipment		217,801	217,801	217,801			217,801	217,801
Scheduled Maintenance	739,221	727,373	1,466,594	1,466,594		818,684	647,910	647,910
Proposition 39	88,255	189,306	277,561	189,306	88,255	277,339	222	222
Water System Replacement	264,297	40,000	304,297	293,821	10,476		304,297	304,297
<b>Total</b>	<b>\$ 2,077,200</b>	<b>\$ 9,080,832</b>	<b>\$ 11,158,032</b>	<b>\$ 9,991,154</b>	<b>\$ 319,741</b>	<b>\$ 2,417,368</b>	<b>\$ 7,893,527</b>	<b>\$ 7,893,527</b>

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, 2017

### STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data*</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
<b>A. Summer Intersession (Summer 2016 Only)</b>			
1. Noncredit	86.59		86.59
2. Credit	394.14		394.40
<b>B. Summer Intersession (Summer 2017, Prior to July 1, 2017)</b>			
1. Noncredit	0.33		0.33
2. Credit	25.90		25.90
<b>C. Primary Terms (Exclusive of Summer Intersession)</b>			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	2,997.46	(3.02)	2,994.440
(b) Daily Census Contact Hours	119.18	(3.28)	115.900
2. Actual Hours of Attendance Courses:			
(a) Noncredit	492.21	(0.009)	492.201
(b) Credit	716.94	4.92	721.860
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	470.35	(1.73)	468.620
(b) Daily Census Procedure Courses	68.77		68.770
(c) Noncredit Independent Study	0.00		0.000
<b>D. Total Full-Time Equivalent Students</b>	<b>5,371.87</b>	<b>(3.120)</b>	<b>5,368.750</b>
<u>Supplemental Information</u>			
<b>E. In-service Training Courses (FTES)</b>	149.04		149.04
<b>F. Basic Skills Courses and Immigrant Education (FTES)</b>			
(a) Noncredit	175.31		175.31
(b) Credit	437.54		437.54
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	114.54		114.54
<u>Centers FTES</u>			
(a) Noncredit	0.00		0.00
(b) Credit	0.00		0.00

\*FTES reported in the in the Recal Apportionment Attendance Report (CCFS-320) by the District on November 16, 2017.



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2017

	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
<b>ACADEMIC SALARIES</b>							
Instructional Salaries:							
Contract or Regular	1100	\$ 4,666,641		\$ 4,666,641	\$ 4,666,641		\$ 4,666,641
Other	1300	6,852,452		6,852,452	6,930,613		6,930,613
Total Instructional Salaries		<u>11,519,093</u>		<u>11,519,093</u>	<u>11,597,254</u>		<u>11,597,254</u>
Non-Instructional Salaries:							
Contract or Regular	1200				2,473,386		2,473,386
Other	1400				375,290		375,290
Total Non-Instructional Salaries					<u>2,848,676</u>		<u>2,848,676</u>
<b>Total Academic Salaries</b>		<u>11,519,093</u>		<u>11,519,093</u>	<u>14,445,930</u>		<u>14,445,930</u>
<b>CLASSIFIED SALARIES</b>							
Non-Instructional Salaries:							
Regular Status	2100				5,131,801		5,131,801
Other	2300				296,486		296,486
Total Non-Instructional Salaries					<u>5,428,287</u>		<u>5,428,287</u>
Instructional Aides:							
Regular Status	2200	271,894		271,894	271,894		271,894
Other	2400	165,082		165,082	190,116		190,116
Total Instructional Aides		<u>436,976</u>		<u>436,976</u>	<u>462,010</u>		<u>462,010</u>
<b>Total Classified Salaries</b>		<u>436,976</u>		<u>436,976</u>	<u>5,890,297</u>		<u>5,890,297</u>
Employee Benefits	3000	2,880,932		2,880,932	6,878,681		6,878,681
Supplies and Materials	4000				470,874		470,874
Other Operating Expenses	5000				4,508,337		4,508,337
Equipment Replacement	6420						
<b>TOTAL EXPENDITURES PRIOR TO EXCLUSIONS</b>		<u>14,837,001</u>		<u>14,837,001</u>	<u>32,194,119</u>		<u>32,194,119</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, 2017

	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799			
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<b>EXCLUSIONS</b>							
<b>Activities to Exclude:</b>							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	775		775	525,681		525,681
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740						
<b>Objects to Exclude:</b>							
Rents and Leases	5060				453,967		453,967
Lottery Expenditures:							
Academic Salaries	1000						
Classified Salaries	2000						
Employee Benefits	3000						
Supplies and Materials:							
Software	4100						
Books, Magazines, & Periodicals	4200						
Instructional Supplies & Materials	4300				313,467		313,467
Noninstructional Supplies & Materials	4400						
Total Supplies and Materials					313,467		313,467
Other Operating Expenses and Services	5000				313,467		313,467
Capital Outlay:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410				1,274,031		1,274,031
Equipment - Replacement	6420						
Total Equipment					1,274,031		1,274,031
Total Capital Outlay					1,274,031		1,274,031
Other Outgo	7000						
<b>TOTAL EXCLUSIONS</b>		<u>775</u>		<u>775</u>	<u>2,880,613</u>		<u>2,880,613</u>
Total for ECS 84362, 50% Law		<u>\$ 14,836,226</u>		<u>\$ 14,836,226</u>	<u>\$ 29,313,506</u>		<u>\$ 29,313,506</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		50.61%		50.61%	100%		100%
50% of Current Expense of Education					\$ 14,656,753		\$ 14,656,753

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, 2017**

**Prop 30 EPA Expenditure Report**

<b>Activity Classification</b>	<b>Activity Code</b>				<b>Unrestricted</b>
EPA Proceeds:	8630				\$ 4,337,894
<b>Activity Classification</b>	<b>Activity Code</b>	<b>Salaries and Benefits (1000-3000)</b>	<b>Operating Expenses (4000-5000)</b>	<b>Capital Outlay (6000)</b>	<b>Total</b>
Instructional Activities	0100-5900	\$ 4,337,894			4,337,894
Total Expenditures for EPA*		<u>\$ 4,337,894</u>	<u>\$</u>	<u>\$</u>	<u>4,337,894</u>
Revenues less Expenditures					<u>\$</u>

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS TO NET POSITION YEAR ENDED JUNE 30, 2017

---

Fund Balance:

Unrestricted General Fund	\$ 4,620,418
Restricted General Fund	
Child Development Fund	
Bond Interest and Redemption Fund	4,466,968
Other Debt Service Fund	7,171,302
Capital Projects Fund	7,891,024
Measure E Bond Construction Fund	4,919,696
Associated Students Trust Fund	483,135
Student Financial Aid Fund	
Total Audited Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	<u>29,552,543</u>

Net audit adjustments:

No adjustments were made to the District's Funds	
Total Fund Balance	<u>29,552,543</u>

Reconciliation to Net Position:

Net OPEB Asset	227,267
Capital assets, net	114,492,473
Deferred amount on refunding	4,370,256
Deferred outflows of resources related to pensions	7,151,850
Lease Receivable	473,021
Net pension liability	(33,315,484)
Accrued Interest	(2,094,585)
Long-term debt	(116,001,309)
Deferred inflows of resources related to pensions	(1,673,723)
Remove Fiduciary Fund Balances	(483,135)
Remove OPEB Irrevocable Trust Fund	<u>(7,171,302)</u>
Total Net Position	<u>\$ (4,472,128)</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

---

### 1. PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2017, was conducted in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which requires disclosure of the financial activities of all federally funded programs. To comply with Uniform Guidance, the Schedule of Expenditures of Federal Awards was prepared by the District.

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

#### Schedule of State Financial Awards

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

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

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

#### Reconciliation of ECS 84362 (50 Percent Law) Calculation

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

#### Reconciliation of Education Protection Account Expenditures to District Accounting Records

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

---

### 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, 2017 (UNAUDITED)

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Risk Management	Bond Interest and Redemption Fund
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 9,569,067					
Receivables, net	944,099	\$ 1,109,198		\$ 4,899	\$ 33,984	\$ 6,266
Due from other funds	2,802,023				25,995	
Prepaid expenses/expenditures	297,233	26,638				
Total current assets	13,612,422	1,135,836		4,899	59,979	6,266
Noncurrent assets:						
Restricted cash and cash equivalents		1,205,183	\$ 186,777	150,907		4,466,770
Lease receivable						
Security deposit						
OPEB Asset						
Depreciable capital assets, net						
Nondepreciable capital assets						
Total noncurrent assets		1,205,183	186,777	150,907		4,466,770
<b>Total assets</b>	13,612,422	2,341,019	186,777	155,806	59,979	4,473,036
<b>Deferred outflows of resources:</b>						
Deferred amount on refunding						
Deferred outflows of resources related to pensions						
<b>Total deferred outflows of resources</b>						
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	4,571,934	605,914	34,777	259		
Accrued payroll	1,704,690	4,635				
Accrued interest payable						
Unearned revenue	99,645	1,730,470		155,547	59,979	
Due to other funds	2,615,735		152,000			6,068
Compensated absences						
Bonds payable, current portion						
Total current liabilities	8,992,004	2,341,019	186,777	155,806	59,979	6,068
Noncurrent liabilities:						
Net pension liability						
Bonds payable, noncurrent portion						
Total noncurrent liabilities						
<b>Total liabilities</b>	8,992,004	2,341,019	186,777	155,806	59,979	6,068
<b>Deferred inflows of resources:</b>						
Deferred inflows of resources related to pensions						
<b>Net position:</b>						
Net investment in capital assets						
Restricted for:						
Debt service						4,466,968
Capital projects						
Unrestricted	4,620,418					
<b>Total net position</b>	\$ 4,620,418	\$	\$	\$	\$	\$ 4,466,968



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## COMBINING STATEMENTS OF FUND BALANCE/NET POSITION BY FUND (Continued)

JUNE 30, 2017

(UNAUDITED)

	Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Position
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents			\$ (253,081)	\$ 9,315,986		\$ 9,315,986
Receivables, net	\$ 19,123	\$ 11,355	392,604	2,521,528	\$ 69,695	2,591,223
Due from other funds	504,474			3,332,492	(3,332,492)	
Prepaid expenses/expenditures				323,871		323,871
Total current assets	<u>523,597</u>	<u>11,355</u>	<u>139,523</u>	<u>15,493,877</u>	<u>(3,262,797)</u>	<u>12,231,080</u>
Noncurrent assets:						
Restricted cash and cash equivalents	9,638,145	5,701,020		21,348,802		21,348,802
Lease receivable		473,021		473,021		473,021
Security deposit		16,512		16,512		16,512
OPEB Asset					227,267	227,267
Depreciable capital assets, net					53,786,684	53,786,684
Nondepreciable capital assets					60,705,789	60,705,789
Total noncurrent assets	<u>9,638,145</u>	<u>6,190,553</u>		<u>21,838,335</u>	<u>114,719,740</u>	<u>136,558,075</u>
<b>Total assets</b>	<u>10,161,742</u>	<u>6,201,908</u>	<u>139,523</u>	<u>37,332,212</u>	<u>111,456,943</u>	<u>148,789,155</u>
<b>Deferred outflows of resources:</b>						
Deferred amount on refunding					4,370,256	4,370,256
Deferred outflows of resources related to pensions					7,151,850	7,151,850
<b>Total deferred outflows of resources</b>					<u>11,522,106</u>	<u>11,522,106</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	730,019	748,147	139,523	6,830,573	16,723	6,847,296
Accrued payroll				1,709,325	(2)	1,709,323
Accrued interest payable					2,094,589	2,094,589
Unearned revenue	1,096,024	473,021		3,614,686	(473,021)	3,141,665
Due to other funds	444,675	61,044		3,279,522	(3,279,522)	
Compensated absences					807,179	807,179
Bonds payable, current portion					2,548,258	2,548,258
Total current liabilities	<u>2,270,718</u>	<u>1,282,212</u>	<u>139,523</u>	<u>15,434,106</u>	<u>1,714,204</u>	<u>17,148,310</u>
Noncurrent liabilities:						
Net pension liability					33,315,484	33,315,484
Bonds payable, noncurrent portion					112,645,872	112,645,872
Total noncurrent liabilities					<u>145,961,356</u>	<u>145,961,356</u>
<b>Total liabilities</b>	<u>2,270,718</u>	<u>1,282,212</u>	<u>139,523</u>	<u>15,434,106</u>	<u>147,675,560</u>	<u>163,109,666</u>
<b>Deferred inflows of resources:</b>						
Deferred inflows of resources related to pensions					1,673,723	1,673,723
<b>Net position:</b>						
Net investment in capital assets					17,310,084	17,310,084
Restricted for:						
Debt service				4,466,968	(1)	4,466,967
Capital projects	7,891,024	4,919,696		12,810,720	(12,810,720)	
Unrestricted				4,620,418	(30,869,597)	(26,249,179)
<b>Total net position</b>	<u>\$ 7,891,024</u>	<u>\$ 4,919,696</u>	<u>\$</u>	<u>\$ 21,898,106</u>	<u>\$ (26,370,234)</u>	<u>\$ (4,472,128)</u>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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

JUNE 30, 2017

(UNAUDITED)

	Unrestricted General Fund	Restricted General Fund	Restricted Instructional Equipment Fund	Restricted Parking Fund	Risk Management	Bond Interest and Redemption Fund
<b>Operating revenues:</b>						
Tuition and fees	\$ 5,158,537	\$ 304,167				
Less: Scholarship discounts and allowance	(2,759,583)					
Net tuition and fees	2,398,954	304,167				
Grants and contracts, noncapital:						
Federal		3,408,960				
State	1,344,476	6,301,552				
Local	36,323	32,880				
<b>Total operating revenues</b>	<b>3,779,753</b>	<b>10,047,559</b>				
<b>Operating expenditures/expenses:</b>						
Salaries	18,278,503	5,684,140		\$ 34,351		
Employee benefits	6,878,927	1,936,706		21,362		
Supplies, materials, and other operating expenses and services	6,996,798	3,269,107	\$ 217,867	10,234		\$ 4,996
Student aid		1,291,340				
Depreciation						
<b>Total operating expenditures/expenses</b>	<b>32,154,228</b>	<b>12,181,293</b>	<b>217,867</b>	<b>65,947</b>		<b>4,996</b>
<b>Loss from operations</b>	<b>(28,374,475)</b>	<b>(2,133,734)</b>	<b>(217,867)</b>	<b>(65,947)</b>		<b>(4,996)</b>
<b>Non-operating revenues (expenditures/ expenses):</b>						
State apportionment, noncapital	726,039	417,456				
Education protection account	4,337,894					
Local property taxes, noncapital	24,514,750					
State taxes and other revenues	97,720					37,061
Interest income, noncapital	51,240					19,217
Other non-operating revenues (expenditures/expenses)	402,927	107,851		65,947		
Interfund transfers out	(1,488,908)	(30,000)				
Interfund transfers in		1,638,427				
<b>Total non-operating revenues     (expenditures/expenses)</b>	<b>28,641,662</b>	<b>2,133,734</b>		<b>65,947</b>		<b>56,278</b>
<b>Gain (loss) before capital activity</b>	<b>267,187</b>		<b>(217,867)</b>			<b>51,282</b>
<b>Capital activity:</b>						
State apportionment, capital			217,800			
Local property taxes and other revenues, capital						6,495,329
Other financing sources - Bond Proceeds						
Other financing sources - Premium						
Cost of Issuance						
Interest income, capital						
Debt reduction						(1,765,000)
Interest expense on capital asset related debt						(4,590,119)
<b>Total capital activity</b>			<b>217,800</b>			<b>140,210</b>
<b>Change in fund balance/net position</b>	<b>267,187</b>		<b>(67)</b>			<b>191,492</b>
<b>Fund balance/net position (deficit), beginning of year</b>	<b>4,353,231</b>		<b>67</b>			<b>4,275,476</b>
<b>Fund balance/net position (deficit), end of year</b>	<b>\$ 4,620,418</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 4,466,968</b>

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

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

JUNE 30, 2017

(UNAUDITED)

	Capital Projects Fund	Measure E Bond Construction Fund	Student Financial Aid Fund	Totals	Reconciling Adjustments/ Eliminations	Statement of Net Position
<b>Operating revenues:</b>						
Tuition and fees				\$ 5,462,704		\$ 5,462,704
Less: Scholarship discounts and allowance				(2,759,583)		(2,759,583)
Net tuition and fees				2,703,121		2,703,121
Grants and contracts, noncapital:						
Federal			\$ 5,832,210	9,241,170		9,241,170
State	\$ 952,429			8,598,457		8,598,457
Local				69,203		69,203
<b>Total operating revenues</b>	<u>952,429</u>		<u>5,832,210</u>	<u>20,611,951</u>		<u>20,611,951</u>
<b>Operating expenditures/expenses:</b>						
Salaries				23,996,994	\$ 115,494	24,112,488
Employee benefits				8,836,995	613,066	9,450,061
Supplies, materials, and other operating expenses and services	6,622,002	\$ 5,706,289		22,827,293	(12,264,914)	10,562,379
Student aid			5,832,210	7,123,550		7,123,550
Depreciation					2,116,814	2,116,814
<b>Total operating expenditures/expenses</b>	<u>6,622,002</u>	<u>5,706,289</u>	<u>5,832,210</u>	<u>62,784,832</u>	<u>(9,419,540)</u>	<u>53,365,292</u>
<b>Loss from operations</b>	<u>(5,669,573)</u>	<u>(5,706,289)</u>		<u>(42,172,881)</u>	<u>9,419,540</u>	<u>(32,753,341)</u>
<b>Non-operating revenues (expenditures/ expenses):</b>						
State apportionment, noncapital				1,143,495	3	1,143,498
Education protection account				4,337,894		4,337,894
Local property taxes, noncapital				24,514,750		24,514,750
State taxes and other revenues				134,781		134,781
Interest income, noncapital	10,415			80,872		80,872
Other non-operating revenues (expenditures/expenses)		33,085		609,810	96,995	706,805
Interfund transfers out				(1,518,908)	1,518,908	
Interfund transfers in				1,638,427	(1,638,427)	
<b>Total non-operating revenues (expenditures/expenses)</b>	<u>10,415</u>	<u>33,085</u>		<u>30,941,121</u>	<u>(22,521)</u>	<u>30,918,600</u>
<b>Gain (loss) before capital activity</b>	<u>(5,659,158)</u>	<u>(5,673,204)</u>		<u>(11,231,760)</u>	<u>9,397,019</u>	<u>(1,834,741)</u>
<b>Capital activity:</b>						
State apportionment, capital				217,800	1	217,801
Local property taxes and other revenues, capital				6,495,329		6,495,329
Other financing sources - Bond Proceeds	13,915,000			13,915,000	(13,915,000)	
Other financing sources - Premium	115,691			115,691	(115,691)	
Cost of Issuance	(412,777)			(412,777)		(412,777)
Interest income, capital		28,516		28,516		28,516
Debt reduction				(1,765,000)	1,765,000	
Interest expense on capital asset related debt	(143,566)			(4,733,685)	174,553	(4,559,132)
<b>Total capital activity</b>	<u>13,474,348</u>	<u>28,516</u>		<u>13,860,874</u>	<u>(12,091,137)</u>	<u>1,769,737</u>
<b>Change in fund balance/net position</b>	<u>7,815,190</u>	<u>(5,644,688)</u>		<u>2,629,114</u>	<u>(2,694,118)</u>	<u>(65,004)</u>
<b>Fund balance/net position (deficit), beginning of year</b>	<u>75,834</u>	<u>10,564,384</u>		<u>19,268,992</u>	<u>(23,676,116)</u>	<u>(4,407,124)</u>
<b>Fund balance/net position (deficit), end of year</b>	<u>\$ 7,891,024</u>	<u>\$ 4,919,696</u>	<u>\$</u>	<u>\$ 21,898,106</u>	<u>\$ (26,370,234)</u>	<u>\$ (4,472,128)</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, 2017, 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 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not be identified.

**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*.

**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 20, 2017**

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

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Gavilan Joint Community College District's (the District) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Audit Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Gilbert Associates, Inc.*

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

**December 20, 2017**



## **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, 2017.

#### ***Management's Responsibilities***

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

#### ***Auditor's Responsibility***

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

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

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

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

- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Dual Enrollment (CCAP and Non-CCAP)
- Student Equity
- Student Success and Support Program (SSSP) Funds
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Proposition 39 Clean Energy Fund
- Intersession Extension Programs
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D and 51 State Bond Funded Projects
- Proposition 55 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 2017-1, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, and 2017-008 the District did not comply with certain requirements regarding the State General Apportionment Funding System and Student Success and Support Program. 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, 2017.

***Other Matter***

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

*Gilbert Associates, Inc.*

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

**December 20, 2017**

## **FINDINGS AND RECOMMENDATIONS**

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### *Financial Statements*

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

           Yes        X   No

Significant deficiencies identified?

           Yes        X   None Reported

Noncompliance material to financial statements noted?

           Yes        X   No

#### *Federal Awards*

Internal control over major programs:

Material weakness(es) identified?

           Yes        X   No

Significant deficiencies identified?

           Yes        X   None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

           Yes        X   No

Identification of major programs

#### CFDA Numbers

84.007, 84.033, 84.063, 84.268

#### Name of Federal Programs or Cluster

Student Financial Assistance Programs Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

  X   Yes                 No

#### *State Awards*

Internal control over state programs:

Material weakness(es) identified?

           Yes        X   No

Significant deficiencies identified?

  X   Yes                 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, 2017

---

### SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported.

### SECTION III – FEDERAL COMPLIANCE

There were no federal compliance findings reported.

### SECTION IV – STATE COMPLIANCE

#### 2017-001 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ALTERNATIVE ATTENDANCE

##### **Criteria:**

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

##### **Condition:**

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

##### **Context:**

Out of 25 independent study classes tested, three courses were identified that were not reported at the correct amount of contact hours. Contact hours were reported using the actual number of contact hours rather than the number of students actively enrolled at weekly census times the number of units of academic credit associated with the class. It appears there was a lack of proper review prior to reporting.

##### **Effect:**

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

##### Gilroy Campus:

- Credit courses, residents – 1.730 FTES
- Credit courses, nonresidents – 0.000 FTES

##### **Questioned Costs:**

The total overreported daily census FTES for residents in credit courses identified above is 1.73 FTES, which based on the District's funding per credit FTES, is equal to \$8,659.94. The cost of the extrapolation of 3.39 overstated FTES is equal to \$16,991.67.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

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

### **Recommendation:**

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

### **District's Corrective Action Plan:**

The District will remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Department chairs will work to train any new faculty hired that may be unfamiliar with methods to ensure the accuracy of information. Additionally, the District will perform an internal review of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate. The District did not include these changes in the 320 Recal for this finding. District is aware of the significance of accumulating correct information in the preparation and reporting of the CCFS-320 to the Chancellor's Office and will make all necessary efforts to eliminate this finding in the future. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review and assist in all courses reporting of all class attendance including all alternative attendance classes, to ensure contact hours are properly calculated to avoid the mistakes of the past. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.

## 2017-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE

### **Criteria:**

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

### **Condition:**

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

### **Context:**

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Effect:**

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

#### Gilroy Campus:

- Credit courses, residents – 0.032 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.006 FTES
- Noncredit courses, nonresidents – 0.000 FTES

#### Morgan Hill Site:

- Credit courses, residents – 0.157 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.003 FTES
- Noncredit courses, nonresidents – 0.000 FTES

#### Coyote Valley Site:

- Credit courses, residents – 0.110 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.000 FTES
- Noncredit courses, nonresidents – 0.000 FTES

### **Questioned Costs:**

The total overreported actual hours of attendance census FTES for residents in credit courses identified above is 0.110 FTES, which based on the District's funding per credit FTES, is equal to \$550.63.

The total underreported actual hours of attendance census FTES for residents in credit courses identified above is 0.190 FTES, which based on the District's funding per credit FTES, is equal to \$951.09.

The cost of the extrapolation of 0.599 overstated credit FTES is equal to \$2,999.64. The extrapolation of 1.035 understated credit FTES is equal to \$5,181.20.

The total overreported actual hours of attendance census FTES for residents in noncredit courses identified above is 0.009 FTES, which based on the District's funding per credit FTES, is equal to \$26.49.

The cost of the extrapolation of 9.611 overstated noncredit FTES is equal to \$28,930.65.

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Recommendation:**

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

### **District's Corrective Action Plan:**

The District will remind instructors about the required methods to calculate contact hours for courses. Department chairs will work to train any new faculty hired that may be unfamiliar with methods to ensure the accuracy of information. Additionally, the District will perform an internal review of all classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate. The District did not include these changes in the 320 Recal for this finding. The District is aware of the significance of accumulating correct information in the preparation and reporting of the CCFS-320 to the Chancellor's Office and will make all necessary efforts to eliminate this finding in the future. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review and assist in all courses reporting of all class attendance to ensure contact hours are properly calculated to avoid the mistakes of the past. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.

### 2017-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE

#### **Criteria:**

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

#### **Condition:**

Six courses offered by the District were calculated based on a 60 minute contact hour instead of a 50 minute contact hour. Three courses offered by the District were calculated based on a 50 minute hour; however, these courses had excess time over the 50 minute hour that were converted using a 60 minute hour resulting in over calculation of these three courses.

#### **Context:**

Out of 25 actual hours of attendance courses tested, nine courses were identified that were not reported at the correct amount of contact hours. These errors were a result of the instructor not calculating the correct unit of measurement for contact hours and a lack of proper review prior to reporting.



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Effect:**

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

#### Gilroy Campus:

- Credit courses, residents – 4.840 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.000 FTES
- Noncredit courses, nonresidents – 0.000 FTES

### **Questioned Costs:**

The total underreported actual hours of attendance census FTES for residents in credit courses identified above is 4.840 FTES, which based on the District's funding per credit FTES, is equal to \$24,207.22.

The extrapolation of 26.344 underreported credit FTES is equal to \$131,872.18.

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

### **Recommendation:**

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

### **District's Corrective Action Plan:**

The District will remind instructors about the required methods to calculate contact hours for courses. Department chairs will work to train any new faculty hired that may be unfamiliar with methods to ensure the accuracy of information. Additionally, the District will perform an internal review of all classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate. The District did not include these changes in the 320 Recal for this finding. The District is aware of the significance of accumulating correct information in the preparation and reporting of the CCFS-320 to the Chancellor's Office and will make all necessary efforts to eliminate this finding in the future. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review and assist in all courses reporting of all class attendance including all to ensure contact hours are properly calculated to avoid the mistakes of the past. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

2017-004 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – CENSUS REPORTING

### **Criteria:**

According to California Code of Regulations, Title V, Section 58030, each district shall adopt procedures for retention of support documentation which will enable an independent determination regarding the accuracy of tabulations submitted by the District to the Chancellor's Office as the basis of its claim for State support.

### **Condition:**

The District was unable to produce the first census report for three courses tested and therefore did not follow its internal control procedures to ensure that each instructor had turned in the census reports supporting the FTES for the course as required per criteria described above.

### **Context:**

Out of 25 courses sampled, we were unable to review the first census report for three courses. Therefore, we expanded our sample to fifteen additional courses five of which were courses from the same instructors who did not turn in the first census and ten randomly selected courses. Out of the expanded sample, we identified no additional missing census reports. This resulted in a total population of 40 census reports tested for proper supporting documentation.

Due this internal control error, the District was unable to provide supporting documentation for these course's full rosters and as a result, the full FTES for each course is in question. The courses not supported by proper documentation were two daily courses which had eleven and three students, respectively, and one weekly course which had twenty six students.

### **Effect:**

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

#### Gilroy Campus:

- Credit courses, residents – 5.810 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.000 FTES
- Noncredit courses, nonresidents – 0.000 FTES

### **Questioned Costs:**

The total overreported actual hours of attendance census FTES for residents in credit courses identified above is 5.810 FTES (3.0 daily and 2.81 weekly), which based on the District's funding per credit FTES, is equal to \$29,083.39.

The potential extrapolation of 144.60 overstated credit FTES is equal to \$723,827.72.

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Recommendation:**

We recommend that the District has a process in place to ensure that all first census reports are turned in by the first census date.

### **District's Corrective Action Plan:**

The District will put in place a system to track all class census reports to ensure all are collected in a timely fashion through the banner software program. Training from department chairs will be needed for new faculty as hired, so that all are aware of the requirements for reporting. If at census not all reports are turned in the Banner program will submit a list to the Vice President of Academic Affairs who will then work with all Deans to account for any missing reports. It is incumbent on faculty to make sure these reports are submitted timely as required per CDAM. The District did not include these changes in the 320 Recal for this finding.

### 2017-005 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – CENSUS REPORTING

#### **Criteria:**

According to California Code of Regulations, Title V, Section 58003.1, the units of full-time equivalent student for apportionment purposes should be computed for courses based on type of course, the way the course is scheduled, and the length of the course. Pursuant to Title V, Section 58004, those procedures should be applied to the census day. Title 5, Section 58020, states for each course section census day, a separate tabulation is required for each of the course categories using a census day procedure which is then reported on the CCFS-320.

Additionally in Title 5, Section 58020, Districts shall, according to procedures adopted by the governing board, clear the rolls of inactive enrollment. Inactive enrollment is defined as follows: As of each census day, any student who has (1) been identified as a no show, or (2) officially withdrawn from the course, or (3) been dropped from the course. A student shall be dropped if no longer participating in the course, except if there are extenuating circumstances. "No longer participating" includes, but is not limited to, excessive unexcused absences but must relate to nonattendance. "Extenuating circumstances" are verified cases of accidents, illness, other circumstances beyond the control of the student, and other conditions defined by the governing board and published in regulations. The "drop date" shall be the end of business of the day immediately preceding the census day.

#### **Condition:**

The District did not properly apply the above described criteria to three courses tested.

#### **Context:**

Out of 25 courses sampled, three courses did not have the first census procedures performed properly. For one weekly course, one student was not dropped for apportionment. For one weekly and one daily course students were improperly excluded from the apportionment CCFS-320 report. These errors were a result of the instructor not performing the proper procedures over census reporting and a lack of proper review prior to reporting.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Effect:**

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

### Gilroy Campus:

- Credit courses, residents – 0.0300 FTES
- Credit courses, nonresidents – 0.000 FTES
- Noncredit courses, residents – 0.000 FTES
- Noncredit courses, nonresidents – 0.000 FTES

### **Questioned Costs:**

The total overreported FTES for residents in credit courses identified above is 0.210 FTES (weekly), which based on the District's funding per credit FTES, is equal to \$860.69. The total underreported actual hours of attendance census FTES for residents in credit courses identified above is 0.180 FTES (daily), which based on the District's funding per credit FTES, is equal to \$753.79.

The extrapolation of 12.730 overreported credit FTES is equal to \$63,712.58. The extrapolation of 6.900 underreported credit FTES is equal to \$34,550.57

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

### **Recommendation:**

We recommend that the District has a process in place to ensure that all first census reports are checked for accuracy.

### **District's Corrective Action Plan:**

The District will put in place a system to ensure class census reports checked for accuracy. Training from department chairs will be needed for new faculty as hired, so that all are aware of the requirements for reporting. It is incumbent on faculty to make sure these reports are submitted accurately as required per CDAM. The District did not include these changes in the 320 Recal for this finding.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

2017-006 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES

### **Criteria:**

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

### **Condition:**

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

### **Context:**

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

### **Effect:**

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

#### Gilroy Campus:

- Credit courses, residents – 0.430 FTES
- Credit courses, nonresidents – 0.000 FTES

### **Questioned Costs:**

The total overreported daily census FTES for residents in credit courses identified above is 0.430 FTES, which based on the District's funding per credit FTES, is equal to \$2,152.47.

The cost of the extrapolation of 1.740 overstated credit FTES is equal to \$8,715.34.

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

### **Recommendation:**

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

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **District's Corrective Action Plan:**

The District will remind instructors about the required methods to calculate contact hours for courses. Department chairs will work to train any new faculty hired that may be unfamiliar with methods to ensure the accuracy of information. Additionally, the District will perform an internal review of classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate. The District did not include these changes in the 320 Recal for this finding. The District is aware of the significance of accumulating correct information in the preparation and reporting of the CCFS-320 to the Chancellor's Office and will make all necessary efforts to eliminate this finding in the future. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review and assist in all courses reporting of all class attendance including all attendance classes, to ensure contact hours are properly calculated to avoid the mistakes of the past. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.

### 2017-007 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – HYBRID COURSES

#### **Criteria:**

Hybrid courses are a combination of distance education and classroom/laboratory instruction. If an entire hybrid course does not qualify to be on a basic attendance procedure (i.e. weekly, daily or actual attendance hour course) then alternative attendance accounting procedures will be applied to the hybrid course. When applying the weekly and daily attendance procedures to a Hybrid course the course must be regularly scheduled for both distance education and classroom/laboratory instruction.

#### **Condition:**

We noted two daily course identified as hybrid courses that were not regularly scheduled for both the in person lecture and online portion of the courses. Therefore, the two hybrid courses should have been calculated using an alternative attendance accounting method.

#### **Context:**

Out of a sample of 25 daily attendance courses tested, one hybrid course was identified as being incorrectly reported as a daily course because it was not regularly scheduled. We expanded our sample to all hybrid courses and isolated this error to two incorrectly reported hybrid courses.

#### **Effect:**

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

#### Gilroy Campus:

- Credit courses, residents – 0.030 FTES
- Credit courses, nonresidents – 0.000 FTES

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Questioned Costs:**

The total overreported hybrid attendance FTES for residents in credit courses identified above is 0.030 FTES, which based on the District's funding per credit FTES, is equal to \$150.17. This error was determined to be isolated and therefore not extrapolated.

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

### **Recommendation:**

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

### **District's Corrective Action Plan:**

The District will remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Department chairs will work to train any new faculty hired that may be unfamiliar with methods to ensure the accuracy of information. Additionally, the District will perform an internal review of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate. The District did not include these changes in the 320 Recal for this finding. The District is aware of the significance of accumulating correct information in the preparation and reporting of the CCFS-320 to the Chancellor's Office and will make all necessary efforts to eliminate this finding in the future. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review and assist in all courses reporting of all class attendance including all alternative attendance classes, to ensure contact hours are properly calculated to avoid the mistakes of the past. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.

2017-008 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – COURSE OUTLINE OF RECORD

### **Criteria:**

According to California Code of Regulations, Title V, Section 55002 (3), a community college shall maintain a course outline of record in the official college files that describes the course, including the unit value, the expected number of contact hours for the course as a whole, and other relevant information. Scheduling of courses should be consistent with the total contact hours indicated in the approved course outline of record, with the exception of reasonable variances due to legitimate scheduling considerations such as schedule compression.

### **Condition:**

Two weekly course offered by the District were listed in the course outline of record incorrectly as 18 week semester instead of the actual 16.7 week semester.

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

---

### **Context:**

A class's schedule was not consistent with the hours listed in the course outline of record for 2 out of 25 daily census classes tested

### **Effect:**

There is no impact on FTES for this exception, as the FTES was correctly calculated based on regularly scheduled hours of the course, and not the course outline of record.

### **Questioned Costs:**

There is no financial impact for this exception, as the FTES was correctly calculated based on regularly scheduled hours of the course, and not the course outline of record.

### **Recommendation:**

We recommend that the District compare the actual contact hours of courses with the course outline of record to identify and correct differences between the approved course description and the actual scheduling of the course.

### **District's Corrective Action Plan:**

The District will perform an internal review of classes to ensure actual contact hours of courses match the course outline of record are accurate as compared between the approved course description and the actual scheduling of the course. The District did not include these changes in the 320 Recal for this finding. The District is aware that information regarding course descriptions and course outlines and course scheduling should all match and be correct. Therefore, the District has created a new enrollment management team that will report directly to the Dean, Research, Planning, and Institutional Effectiveness. These fulltime employees will schedule all class sections, review the approved course description, course outlines and the actual scheduling of the course for consistency. Considerable resources are being devoted to a new solution for these issues, since previous attempts to eliminate these errors have not been successful.



# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2017

Condition and Recommendation	Current Status	District Explanation If Not Implemented
<b>FINANCIAL STATEMENT FINDINGS</b>		
2016-001 – SIGNIFICANT DEFICIENCY OVER YEAR END CLOSING PROCESS		
<p><b>Condition:</b> We noted that several adjustments to the District trial balance were necessary based on auditor inquiry after the start of the audit ranging from approximately \$7,000 to \$1,173,000. Although none of these adjustments impacted fund balance, the District’s year-end closing process did not ensure that account balances were reconciled and correct. The following financial statement areas were impacted by these adjustments:</p> <ul style="list-style-type: none"> <li>• Cash</li> <li>• Accounts and lease receivable</li> <li>• Capitalized assets</li> <li>• Unearned revenue</li> <li>• Revenue</li> <li>• Debt Service Interest</li> </ul> <p><b>Recommendation:</b> We recognize that the District was delayed due to internal projects which took resources away from their closing process. We recommend the District ensure adequate time is spent in reviewing and reconciling all accounts during their year-end close and before preparation of the financial reports to ensure accurate and timely information is reported to users of the financial statements.</p>	<p>Partially Implemented. District continues to make improvements in its closing process. Although less than in previous years, adjustments continue to be identified after the start of the audit through audit inquiry.</p>	<p>The District has successfully hired the additional staff needed to complete all necessary year-end closing processes timely.</p>
<b>STATE COMPLIANCE FINDINGS</b>		
2016-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES		
<p><b>Condition:</b> 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.</p> <p>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.</p>	<p>Implemented. No items of noncompliance were noted in 2017 audit.</p>	

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2017

<b>Condition and Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
<p><b>Recommendation:</b> 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.</p>		
<p>2016-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ALTERNATIVE ATTENDANCE</p>		
<p><b>Conditions:</b> We noted three weekly alternative attendance courses were not reported at the correct amount of Contact Hours.</p>	Partially Implemented. See finding 2017-001	See District’s corrective action plan for finding at 2017-001
<p><b>Recommendation:</b> We recommend that the District remind instructors about the required methods to calculate contact hours for courses using alternative attendance procedures. Additionally, we recommend that an internal review be performed of alternative attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>		
<p>2016-004 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE</p>		
<p><b>Condition:</b> We noted three actual hours of attendance courses were not reported at the correct amount of contact hours due to human error.</p>	Partially Implemented. See finding 2017-002	See District’s corrective action plan for finding at 2017-002
<p><b>Recommendation:</b> We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, we recommend that an internal review be performed of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>		

# GAVILAN JOINT COMMUNITY COLLEGE DISTRICT

## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2017

<u>Condition and Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2016-005 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – ACTUAL HOURS OF ATTENDANCE</p> <p><b>Condition:</b> Ten courses offered by the District were calculated based on a 60 minute contact hour instead of a 50 minute contact hour.</p> <p><b>Recommendation:</b> We recommend that the District remind instructors about the required methods to calculate contact hours for courses using actual hours of attendance procedures. Additionally, we recommend that an internal review be performed of actual hours of attendance classes to ensure contact hours are properly calculated, and therefore FTES amounts reported are accurate.</p>	<p>Partially Implemented. See finding 2017-003</p>	<p>See District’s corrective action plan for finding at 2017-003</p>
<p>2016-006 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – COURSE OUTLINE OF RECORD</p> <p><b>Condition:</b></p> <p>Nine weekly course offered by the District were listed in the course outline of record incorrectly as 18 week semester instead of the actual 17 week semester.</p> <p><b>Recommendation:</b></p> <p>We recommend that the District compare the actual contact hours of courses with the course outline of record to identify and correct differences between the approved course description and the actual scheduling of the course.</p>	<p>Partially Implemented. See finding 2017-008</p>	<p>See District’s corrective action plan for finding at 2017-008</p>
<p>2016-007 – STUDENT SUCCESS AND SUPPORT PROGRAM</p> <p><b>Condition:</b></p> <p>We noted an expense charged to the SSSP program for office furniture.</p> <p><b>Recommendation:</b></p> <p>We recommend that the District review expenditures coded to the SSSP program to ensure only allowable expenditures are claimed.</p>	<p>Implemented. No items of noncompliance were noted in 2017 audit.</p>	