

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
Gilroy, California

MEASURE E GENERAL OBLIGATION BOND
PERFORMANCE AUDIT
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Citizen's Fiscal Oversight Committee
and Governing Board
Gavilan Joint Community College District
Gilroy, California

We have conducted a performance audit of the Gavilan Joint Community College District (the "District") Measure E General Obligation Bond funds for the year ended June 30, 2014.

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

Our audit was limited to the objectives listed on page 4 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure E General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Gavilan Joint Community College District's compliance with those requirements.

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

The results of our tests indicate that, in all significant respects, Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Governing Board and approved by voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 18, 2014

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BOND
BACKGROUND INFORMATION

LEGISLATIVE HISTORY

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

Education Code Section 15278 provides additional accountability measures:

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

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E GENERAL OBLIGATION BOND

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

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

Following is the Measure E Bond Projects listing:

Funding - 100% Measure E Funds

- Land acquisition Coyote Valley, San Benito
- Infrastructure
- Science Complex: Life Science, Physical Science, and Math
- Humanities, Art and Music Buildings
- Cosmetology and Business Buildings
- Security and Maintenance Building
- Social Science Building
- Occupational Education Building (renamed Multi-Purpose)
- Cafeteria renovation
- Parking lots
- Technology/ERP
- Computer replacement/Phone system
- Tennis courts

(Continued)

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BOND
BACKGROUND INFORMATION

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT MEASURE E GENERAL OBLIGATION BOND
(Continued)

Funding - 50% Measure E Funds; 50% State Funds

- Physical Education Building
- Library/TV Studio Buildings
- Administration/Student Services Building

In June 2004, the District issued Measure E General Obligation Bonds, Series 2004 A and B in the amounts of \$29,170,000 and \$830,000, respectively. The Bonds were issued to construct and modernize college facilities and to refund certain lease obligations of the District. The 2004 Series B Bonds matured on August 1, 2006. The Series 2004 A Bonds mature through 2028 and accrue interest ranging from 2.00% to 5.38% per annum from the date of issuance.

In December 2007, the District issued Measure E General Obligation Bonds, Series 2004 C in the amount of \$50,000,000 to construct and modernize certain District facilities to finance the acquisition of equipment and to pay the cost of issuance associated with the bonds. The Series 2004 C Bonds accrue interest up to a maximum of 5.0% per annum from the date of issuance and mature through August 2032.

In May 2011, the District issued Measure E General Obligation Bonds Series 2004 D in the amount of \$28,000,000 to construct and modernize certain District facilities to finance the acquisition of equipment and to pay certain costs of issuance associated with the bonds. The Series 2004 D Bonds mature through August 2035 and bear interest at rates ranging from 2.00% to 5.75%.

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 General Obligations Bonds 2004 Series A 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 2.00% to 5.00%.

The financial activity related to the Series 2004 Measure E General Obligation Bond is recorded in the District's Financial Activity Report for Fund 60 (Measure E Construction Bond Fund) in the District's financial statements.

GAVILAN JOINT COMMUNITY COLLEGE DISTRICT
MEASURE E GENERAL OBLIGATION BOND
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSION

OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure E General Obligation Bond funds for the year ended June 30, 2014 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure E General Obligation Bond project expenditures for the year ended June 30, 2014 (the "List"). An approximate total of 484 transactions were identified, representing \$2,190,568 in expenditures from July 1, 2013 through June 30, 2014.

METHODOLOGY

We performed the following procedures to the List of Measure E General Obligation Bond project expenditures for the year ended June 30, 2014:

- Interviewed District management related to controls over planning, bidding, contracting, expenditure of bond funds and financial reporting to assess that controls have been put in place and are working as documented.
- Documented District procedures and controls over planning, bidding, contracting, expenditure of bond funds and financial reporting.
- Performed tests to determine that the District controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Verified the mathematical accuracy of the List.
- Reconciled the List to total bond expenditures as reported by the District in the District's audited financial statements for the year ended June 30, 2014, presented as the Measure E Construction Bond Fund (Fund 60).
- Selected a sample of 25 expenditures totaling \$453,731 from Measure E. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented 5% of the number of expenditures and 21% of the total expenditure amounts. Verified that the expenditures were for authorized projects, and were to improve fire safety and security, to repair, acquire, construct and equip classrooms and buildings, libraries and sites, to upgrade sewer systems or plumbing, to upgrade wiring for computer technology.

CONCLUSION

The results of our tests indicated that, in all significant respects, Gavilan Joint Community College District expended Measure E General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Governing Board and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.