SIERRA JOINT COMMUNITY COLLEGE DISTRICT
Rocklin, California

SCHOOL FACILITIES IMPROVEMENT DISTRICT #2
MEASURE G GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT
June 30, 2013
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REPORT OF INDEPENDENT AUDITORS

Nevada County Campus Citizens'
Bond Oversight Committee for
Measure G, Series A and B and
the Board of Trustees
Sierra Joint Community College District
Rocklin, California

We have conducted a performance audit of the Sierra Joint Community College District (the "District") School Facilities Improvement District #2 ("SFID #2"), Measure G General Obligation Bond funds for the year ended June 30, 2013.

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 the evidence obtained provides a reasonable basis for our findings and 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 G General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XllIA of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Sierra 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 Sierra 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 XllIA of the California Constitution. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that, in all significant respects, Sierra Joint Community College District expended Measure G General Obligation Bond funds for the year ended June 30, 2013 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 XllIA of the California Constitution.

Sacramento, California
December 19, 2013

Crowe Horwath LLP

December 19, 2013
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.

SIERRA JOINT COMMUNITY COLLEGE DISTRICT SCHOOL FACILITIES IMPROVEMENT DISTRICT #2, MEASURE G GENERAL OBLIGATION BONDS

The Sierra Joint Community College District, Rocklin, California Election of 2004 General Obligation Bonds, Measure G were authorized at an election of the registered voters of the Sierra Joint Community College District School Facilities Improvement District No. 2 held on November 2, 2004 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of $44,400,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the construction, rehabilitation or replacement of school facilities, including furnishing and equipping of school facilities. The Bonds are general obligations of the District, payable solely from ad valorem property taxes. A summary of the text of the ballot language was as follows:

“*To prepare Western Nevada County area students for jobs/four-year colleges, provide for lifelong learning, improve safety, and accommodate increasing enrollment by repairing, acquiring, constructing, equipping buildings, sites, classrooms, labs, and libraries, shall School Facilities Improvement District Number 2 (Western Nevada County Campus Area) of Sierra Joint Community College District issue $44,400,000 in bonds, at legal rates, with no money for administrators' salaries, and with citizen oversight and guaranteed annual audits?*”

The project scope was created by the Board of Trustees of Sierra Joint Community College District in conjunction with the District's Facilities Master Plan at its June 22, 2004 meeting. That scope was as follows:

- Construct new flexible classroom building.
- Construct Public Safety Training Facility.
- Construct Fine and Performing Arts Center.
- Classroom renovations.
- Computer lab renovations.
- Construct Physical and Health Education building.
SIERRA JOINT COMMUNITY COLLEGE DISTRICT SCHOOL FACILITIES IMPROVEMENT DISTRICT #2, MEASURE G GENERAL OBLIGATION BONDS (Continued)

- Renovate Student Center.
- Renovate and expand Administration and Student Services.
- Renovate and expand Corporation Yard and Physical Plant.
- Campus Wide Upgrades.

When the project design was completed in 2007 and the construction cost was calculated, the estimated cost exceeded the District's construction budget and the Board of Trustees amended the scope of work at a special meeting on February 5, 2008. The amended project scope excluded the renovation and expansion of the Corporation Yard and Physical Plant, and the expansion of the Administration building. The Trustees also directed the College staff to move forward with construction of a new classroom building and the two new art buildings, but to re-work the project scope to stay within budget and complete as much of the original scope as possible. The second phase of the project was then redesigned to include the construction of a Gymnasium and a separate Wellness Center in place of the Physical and Health Education building, and the construction of a Multipurpose Facility in place of the Fine and Performing Arts Center. The Multipurpose Facility was designed and built to not only accommodate various types of performances, but is also flexible enough to be used for other (instructional and community) purposes as well.

On April 21, 2005, the District issued $18,000,000 of Measure G, Series A bonds to fund the construction, rehabilitation or replacement of school facilities. The interest rate ranges from 3.20% to 5.00%. The final maturity date of Series A bonds is August 1, 2029.

On June 21, 2007, the District issued Measure G, Series B bonds to fund the acquisition, construction and development of a new campus. Serial Bonds of $4,260,000 bear interest at a rate of 4.00%, maturing August 1, 2012. Interest payments are due semiannually on February 1 and August 1 of each year, commencing February 1, 2008. Capital Appreciation Bonds of $22,136,517 bear interest at rates ranging from 4.15% to 6.32%. Bonds maturing August 1, 2013 to August 1, 2031 are payable only at maturity on August 1 of each year, and interest on such Capital Appreciation Bonds is compounded semiannually on February 1 and August 1 of each year, commencing June 21, 2007. The Capital Appreciation Bonds mature June 1, 2032 and interest on such Capital Appreciation Bonds is compounded semiannually on June 1 and December 1 of each year commencing June 21, 2007.

During 2013, the Financing Corporation issued $13,555,000 of 2013 General Obligation Refunding Bonds, Series B, with an effective interest rate of 2.40%. Proceeds were used to advance refund a portion of the outstanding SFID No. 2, Election of 2004 General Obligation Bonds, Series A and to pay the costs of issuing the Series B Refunding Bonds. The Series B Refunding Bonds are general obligations of the District payable solely from ad valorem taxes within the Sierra Joint Community College District School Facilities Improvement District No. 2. On June 30, 2013, $14,625,000 of bonds outstanding are considered defeased.

Calculation of Difference in Cash Flow Requirements and Economic Gain

<table>
<thead>
<tr>
<th>Cash Flow Difference</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Old debt service cash flows</td>
<td>$ 23,260,831</td>
</tr>
<tr>
<td>New debt service cash flows</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20,518,882</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,741,949</strong></td>
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</tbody>
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(Continued)
Economic Gain

The economic gain or difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid is $2,179,076.

There was no accrued interest or sinking fund resources related to the new debt proceeds.

The Bonds represent an obligation of the District payable solely from \textit{ad valorem} property taxes levied and collected by the Counties of Placer and Nevada on properties within Improvement District No. 2. The Board of Supervisors of each of the Counties has power and is obligated to annually levy \textit{ad valorem} taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the Improvement District No. 2 without limitation of rate or amount, except as to certain personal property which is taxable at limited rates.

The financial activity related to the Measure G General Obligation Bonds is recorded in the District's Financial Activity Report for SFID #2 Construction Funds.
OBJECTIVES

The objective of our performance audit was to determine that the District expended SFID #2, Measure G General Obligation Bond funds for the year ended June 30, 2013 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 SFID #2, Measure G General Obligation Bond project expenditures for the year ended June 30, 2013 (the "List"). An approximate total of 115 transactions were identified, representing $727,289 in expenditures from July 1, 2012 through June 30, 2013.

METHODOLOGY

We performed the following procedures to the List of SFID #2, Measure G General Obligation Bond project expenditures for the year ended June 30, 2013:

- Interviewed District management to determine that controls over planning, bidding, contracting, expenditure of bond funds and financial reporting 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 test 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 expenditures 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, 2013, presented as the Building Fund.
- Selected a sample of 15 expenditures totaling $519,904 from Measure G. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. Verified that the expenditures were for authorized projects, and were to construct, upgrade, and improve classrooms and school facilities, renovate restrooms and plumbing, upgrade electrical systems, improve student access to computers and technology, replace heating and air conditioning systems or to make health and safety improvements.

CONCLUSION

The results of our tests indicated that, in all significant respects, Sierra Joint Community College District expended Measure G General Obligation Bond funds for the year ended June 30, 2013 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.