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INDEPENDENT AUDITOR'S REPORT

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, 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 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 XIIIA 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 XIIIA of the California Constitution. Accordingly, we do not express any assurance on the internal controls.

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

Crowe Horwath LLP
Sacramento, California
January 20, 2015
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 list 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 list 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.

(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 bonds were partially refunded and the remaining bonds mature through 2015 and bear interest at rates ranging from 3.20% to 5.00%.

On June 21, 2007, the District issued Measure G, Series B bonds to fund the construction, rehabilitation or replacement of school facilities. Serial Bonds of $4,260,000 bore interest at rates of 4.00% and matured August 1, 2012. 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. Final capital appreciation bonds mature June 1, 2032 and are payable only at maturity. Interest on such capital appreciation bonds is compounded semiannually each year.

During the year ended June 30, 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. On June 30, 2014, $14,625,000 of bonds outstanding are considered defeased.

The Bonds represent an obligation of the District payable solely from ad valorem property taxes levied and collected by the County of Nevada on properties within Improvement District No. 2. The Board of Supervisors of Nevada County has power and is obligated to annually levy 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, 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 SFID #2, Measure G General Obligation Bond project expenditures for the year ended June 30, 2014 (the "List"). A total of 151 transactions were identified, representing $953,378 in expenditures from July 1, 2013 through June 30, 2014.

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, 2014:

- 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 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 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, 2014, presented as the Building Fund.

- Selected a sample of 3 expenditures totaling $639,747 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, 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.