PROPOSITION O
BOND BUILDING FUND OF

SWEETWATER UNION HIGH SCHOOL DISTRICT
SAN DIEGO COUNTY

FINANCIAL

AUDIT REPORT
For the Fiscal Year Ended
June 30, 2011

PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2011
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PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2011

Sweetwater Union High School District "the District" was established in 1920 and covers approximately 153 square miles. The District provides education for grades 7-12 and is currently operating: eleven middle schools, twelve high schools, one continuation school, five adult schools and four alternative education schools. One charter school also operates within the District boundaries.

On November 7, 2006, the voters of San Diego County approved by more than 55% Proposition O, authorizing the issuance and sale of $644,000,000 of general obligation bonds. On March 12, 2008, the District issued Series 2008A of the Election of 2006 General Obligation Bonds in the amount of $180,000,000.

Proposition O is a Proposition 39 bond. The passage of Proposition 39 on November 7, 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2011:

Name	Representation
Dency Souval	Senior Citizen Organization
David Butler	At Large
Debbie Espe	Taxpayer Association
Maria Arroyo	Parent-Teacher Organization
Guillermo Camarena	At Large
Bernardo Vasquez	Parent of SUHSD Student
Lourdes Valdez	Business Organization

INDEPENDENT AUDITORS' REPORT

Proposition O Citizens' Bond Oversight Committee and
Governing Board Members of
Sweetwater Union High School District
Chula Vista, California

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2011. These financial statements are the responsibility of the Sweetwater Union High School District's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition O Bond Building Fund and are not intended to present fairly the financial position of the Sweetwater Union High School District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition O Bond Building Fund of Sweetwater Union High School District as of June 30, 2011 and for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of Proposition O Bond Building Fund of Sweetwater Union High School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Christy White Accountancy Corporation

San Diego, California
December 19, 2011

FINANCIAL SECTION

PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
Balance Sheet
June 30, 2011

ASSETS		
Cash	$	25,242,623
Accounts receivable - interest		55,140
Due from other funds		144,849
Total Assets	$	25,442,612
LIABILITIES		
Accounts payable	$	3,035,392
Due to other funds		20,757
Total Liabilities		3,056,149
FUND BALANCE		
Restricted for capital projects		22,386,463
Total Liabilities and Fund Balance	$	25,442,612

The notes to financial statements are an integral part of this statement.

PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011

REVENUES		
Earnings on investments	$	248,045
Local revenue		109,975
Total Revenues		358,020
EXPENDITURES		
Plant services		908,009
Facility acquisition and construction		66,075,280
Total Expenditures		66,983,289
Deficiencies of Revenues Under Expenditures		(66,625,269)
OTHER FINANCING SOURCES (USES)		
Transfers in		139,962
Total Other Financing Sources (Uses)		139,962
NET CHANGE IN FUND BALANCE		(66,485,307)
Fund Balance, July 1, 2010		88,871,770
Fund Balance, June 30, 2011	$	22,386,463

The notes to financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Sweetwater Union High School District (the District) was founded in 1920 and is located in San Diego County. The District serves more than 42,000 students, grades 7 through 12, on 32 campuses located across 4 different cities.

On November 6, 2006 the District voters authorized $644 million in General Obligation Bonds (Proposition O) for the remodeling and renovations of items which improve learning and safety at every Sweetwater Union High School District campus by repairing/earthquake retrofitting classrooms and restrooms by installing upgraded fire safety systems, security fencing, and safety lighting. In addition, funds will be used to upgrade science labs and computer technology, improve handicap accessibility, replace leaky roofs, heating and air conditioning, outdated plumbing, and remove asbestos, mold, and lead paint.

An advisory committee to the District's Governing Board and Superintendent, called the Proposition O Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, verifying the project plans are in alignment with the budget, and ensuring compliance with the conditions of Proposition O.

The statements presented are for the individual Proposition O Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual.* The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned.* The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collected within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

E. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

F. Deposits and Investments

In accordance with Education Code Section 41001, the District maintains a substantial portion of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Interfund Borrowing

The District's policy is to comply with Education Code Section 42603 which permits temporary borrowing between funds so long as the temporary loan is repaid in the same fiscal year; or in the following fiscal year if the transfer took place within the final 120 calendar days of a fiscal year. The borrowing shall occur only when the fund or account receiving the money will earn sufficient income, during the current fiscal year, to repay the amount transferred. In addition, no more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be transferred.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. The adopted and final budgets are presented for the Proposition O Bond Building Fund in the supplementary information section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 consisted of the following:

Cash in county treasury	$	25,239,217
Cash in bank		3,406
Total	$	25,242,623

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	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. The District manages its exposure to interest rate risk by investing in the County Treasury. The District's Building Fund maintains an investment with the San Diego County Investment Pool with a fair value of approximately $25,380,557 and an amortized book value of $25,239,217. The weighted average maturity for this pool is 425 days as of June 30, 2011.

Credit Risk

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 individual investments within the San Diego County Investment Pool are rated at least A by Standard & Poor's Investment Direct.

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 amounting to $55,140 consists of interest on Proposition O Bond investments held in the county treasury.

NOTE 4 – PROPOSITION O GENERAL OBLIGATION BONDS

General Obligation Bonds

On March 12, 2008, the District issued Series 2008A of the Election of 2006 Proposition O General Obligation Bonds in the amount of $180,000,000 with issuance costs of $3,735,785 and interest rates that range from 3.0% - 5.5%.

At June 30, 2011, the principal balance outstanding on these bonds was $170,820,000. The annual requirements to amortize the District's Proposition O, Series 2008A, general obligation bonds outstanding as of June 30, 2011, is as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	$ 50,000	$ 9,089,713	$ 9,139,713
2013	495,000	9,087,838	9,582,838
2014	970,000	9,070,513	10,040,513
2015	1,055,000	9,041,413	10,096,413
2016	1,040,000	9,008,444	10,048,444
2017-2021	4,475,000	44,337,031	48,812,031
2022-2026	-	43,806,406	43,806,406
2027-2031	5,695,000	43,806,406	49,501,406
2032-2036	33,050,000	39,238,906	72,288,906
2037-2041	42,230,000	30,052,438	72,282,438
2042-2046	55,130,000	17,130,938	72,260,938
2047-2048	26,630,000	2,267,438	28,897,438
Total	$ 170,820,000	$ 265,937,484	$ 436,757,484

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2011, the District had commitments with respect to unfinished capital projects of approximately $22.1 million to be paid from Proposition O bond funds.

NOTE 6 – INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Interfund receivable and payable balances as of June 30, 2011 are as follows:

- The Proposition O - Building Fund borrowed $20,757 from the General Fund during fiscal year 2010-11 for PERS reductions, OPEB costs, and other expenses.
- The General Fund borrowed $144,849 from the Proposition O - Building Fund during fiscal year 2010-11 for interest owed from interfund borrowing.

B. Interfund Transfers

Interfund transfers as of June 30, 2011 are as follows:

- The General Fund transferred $139,962 into the Proposition O - Building Fund during fiscal year 2010-11 for reimbursement of expenditures.

OTHER INDEPENDENT AUDITORS' REPORTS

INDEPENDENT AUDITORS' 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*

Proposition O Citizens' Bond Oversight Committee and
Governing Board Members of
Sweetwater Union High School District
Chula Vista, California

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Sweetwater Union High School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Proposition O Bond Building Fund of Sweetwater Union High School District's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Proposition O Bond Building Fund of Sweetwater Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Proposition O Bond Building Fund of Sweetwater Union High School District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition O Bond Building Fund of Sweetwater Union High School 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.*

This report is intended solely for the information and use of the District's Governing Board, the Proposition O Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Sweetwater Union High School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Accountancy Corporation

San Diego, California
December 19, 2011

FINDINGS AND RECOMMENDATIONS SECTION

PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2011

There were no financial statement findings in 2010-2011.

PROPOSITION O BOND BUILDING FUND
SWEETWATER UNION HIGH SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011

Finding #2010-1: Interfund Borrowing (60000)

Finding: The District's General Fund has borrowed cash from the Proposition O bond building fund for the second fiscal year in a row and at an increased level. The amount borrowed rose from $31.75 million as of June 30, 2010 to $42.1 million as of June 30, 2010. Two issues directly related to the bond program were noted:

1. **Compliance with Education Code Section 42603:** The law requires that all temporary loans be repaid in the same fiscal year with the exception of loans taken out in the last 120 days of the year. The 2008-09 loan was not repaid in 2009-10. Mechanically the District staff stated an intent (which was not fulfilled) to repay the loan and then immediately re-borrow the money at the end of 2009-10. Booking the repayment even if a new borrowing is then recorded would have met the requirements of law, according to staff. As the repayment was not booked, the District is, in our opinion, out of compliance with the Education Code.

2. **Proposition O Project Timeline:** If the bond funds are not repaid, the building program timelines and projects are at risk of delay.

Recommendation: We recommend that the District develop a plan to repay the bond funds that might include, for example, expenditure reductions and an increase in General Fund balance reserves to assist with cash flow needs.

Current Status: Implemented