PROPOSITION O
BOND BUILDING FUND
OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
SAN DIEGO COUNTY

AUDIT REPORT
June 30, 2008

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PROPOSITION O BOND BUILDING FUND OF SWEETWATER UNION HIGH SCHOOL DISTRICT

Introduction and Citizens' Bond Oversight Committee Member Listing

June 30, 2008

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: ten middle schools, twelve high schools, one continuation, four 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 was a Proposition 39 bond. The passage of Proposition 39 in March 2008 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 O 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, 2008:

Name	Title	Representation
Rudy Gonzalez	Chairperson	Senior Citizen Organization
Yolanda Hernandez	Vice Chairperson	At Large Member
Debbie Espe	Member	Taxpayer Association
Robert Garcia	Member	Parent Organization
Jane McGill	Member	At Large Member
Cynthia Melcher	Member	Parent Organization
Lourdes Valdez	Member	Business Community

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District (the "District") and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2008. These financial statements are the responsibility of the 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 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, 2008 and for the 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 February 4, 2009 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, 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 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Proposition O Bond Building Fund of Sweetwater Union High School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Rogers Rogers & White, PC

San Diego, California
February 4, 2009

Financial Section

PROPOSITION O BOND BUILDING FUND OF SWEETWATER UNION HIGH SCHOOL DISTRICT

Balance Sheet

June 30, 2008

ASSETS		
Cash in county treasury	$	160,660,864
Accounts receivable - interest		1,494,896
Due from other funds		12,719,771
Total Assets	$	174,875,531
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	$	646,690
Due to other funds		57,045
Total Liabilities		703,735
Fund Balance		
Reserved for capital projects		174,171,796
Total Liabilities and Fund Balance	$	174,875,531

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

PROPOSITION O BOND BUILDING FUND OF SWEETWATER UNION HIGH SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008

REVENUES		
Earnings on investments	$	1,494,896
Total Revenues		1,494,896
EXPENDITURES		
Facility acquisition and construction		7,187,489
Issuance costs		3,735,785
Total Expenditures		10,923,274
Deficiencies of Revenues Under Expenditures		(9,428,378)
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds		180,000,000
Premium on sales of bonds		3,746,194
Transfer out to debt service fund		(10,409)
Transfer out to building fund		(135,611)
Total Other Financing Sources (Uses)		183,600,174
Net Change in Fund Balance		174,171,796
Fund Balance, July 1, 2007		-
Fund Balance, June 30, 2008	$	174,171,796

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. 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.

D. 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.

E. 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.

F. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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 budget 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 IN COUNTY TREASURY

Deposits and investments as of June 30, 2008 consisted of the following:

Cash in county treasury	$160,660,864

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 IN COUNTY TREASURY (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 $161,239,243 and an amortized book value of $160,660,864. The weighted average maturity for this pool is 427 days as of June 30, 2008.

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 AAAf/S1 by Standard & Poor's Investment Direct.

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, 2008 consist of interest for Proposition O Bond of $1,494,896.

NOTE 4 – PROPOSITION O GENERAL OBLIGATION BONDS

A. 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 in the amount of $3,735,785 and interest rates that range from 3.0% - 5.5%.

At June 30, 2008, the principal balance outstanding on these bonds was $180,000,000. The annual requirements to amortize the District's Proposition O, Series 2008A, general obligation bonds outstanding as of June 30, 2008, is as follows:

	Series 2008A		
Fiscal Year	Principal	Interest	Total
2008-09	$ 6,525,000	$ 3,293,522	$ 9,818,522
2009-10	1,095,000	9,202,963	10,297,963
2010-11	1,560,000	9,148,213	10,708,213
2011-12	50,000	9,089,713	9,139,713
2012-13	495,000	9,087,838	9,582,838
2013-2018	5,425,000	45,006,856	50,431,856
2018-2023	2,115,000	43,973,106	46,088,106
2023-2028	-	43,806,406	43,806,406
2028-2033	17,955,000	42,937,906	60,892,906
2033-2038	36,440,000	35,851,156	72,291,156
2038-2043	46,845,000	25,429,782	72,274,782
2043-2048	61,495,000	10,754,717	72,249,717
Total	$ 180,000,000	$ 287,582,178	$ 467,582,178

NOTE 5 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2008, Proposition O Bond Building Fund expenditures exceeded appropriations as follows:

Classified Salaries	$ 42,951
Employee Benefits	14,094
Services and other Operating Expenditures	2,780,058

NOTE 6 – CONSTRUCTION COMMITMENTS

As of June 30, 2008, the District had commitments with respect to unfinished capital projects of approximately $34.1 million to be paid from Proposition O bond funds.

NOTE 7 – INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due To Other Funds			
	General Fund	Prop O Building Fund	Other Governmental Funds	Total
General Fund	$ -	$ 57,045	$ -	$ 57,045
Prop O Building Fund	8,000,000	-	4,719,771	12,719,771
Total	$ 8,000,000	$ 57,045	$ 4,719,771	$ 12,776,816

General Fund due to the Prop O Building Fund for a temporary loan to be repaid	$ 8,000,000
Adult Education Fund due to the Prop O Building Fund for temporary loan to be repaid	2,060,000
Prop O Building Fund due to the General Fund for labor correction	57,045
Cafeteria Fund due to the Prop O Building Fund for temporary loan to be repaid	2,659,771
Total	$ 12,776,816

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. There were transfers out from the Proposition O Building Fund to the Debt Service Fund and the main Building Fund for $10,409 and $135,611 respectively. The transfer to the Debt Service Fund was for original issued premium on the 2008A Series Bond dedicated to debt service payments. The transfer to the main Building Fund was to repay issuance costs.

Supplementary Information Section

PROPOSITION O BOND BUILDING FUND OF SWEETWATER UNION HIGH SCHOOL DISTRICT

Budgetary Comparison Schedule – Proposition O Building Fund

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
Other Local	$ 7,200,000	$ 7,200,000	$ 1,494,896	$ (5,705,104)
Total Revenues	7,200,000	7,200,000	1,494,896	(5,705,104)
Expenditures				
Classified Salaries	-	-	42,951	(42,951)
Employee Benefits	-	-	14,094	(14,094)
Books and Supplies	-	2,580,002	-	2,580,002
Services and Other Operating Expenditures	-	1,158,296	3,938,354	(2,780,058)
Capital Outlay	36,000,000	189,419,998	6,927,875	182,492,123
Total Expenditures	36,000,000	193,158,296	10,923,274	182,235,022
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,800,000)	(185,958,296)	(9,428,378)	176,529,918
Other Financing Sources (Uses)				
Proceeds from sale of bonds	180,000,000	180,000,000	180,000,000	-
Premium on sales of bonds	3,746,194	3,746,194	3,746,194	-
Transfer out to debt service fund	(10,409)	(10,409)	(10,409)	-
Transfer out to building fund	(135,611)	(135,611)	(135,611)	-
Total Other Financing Sources (Uses)	183,600,174	183,600,174	183,600,174	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	154,800,174	(2,358,122)	174,171,796	176,529,918
Fund Balances, July 1, 2007	-	-	-	-
Fund Balances, June 30, 2008	$ 154,800,174	$ (2,358,122)	$ 174,171,796	$ 176,529,918

Other Independent Auditors' Reports

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Sweetwater Union High School District
Chula Vista, California

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*

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District (the "District") and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2008. 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

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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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 grants, 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 *Governmental Auditing Standards.*

Sweetwater Union High School District's responses to the findings indentified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit Sweetwater Union High School District's responses and, accordingly, express no opinion on them.

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

Rogers Rogers & White, PC

San Diego, California
February 4, 2009

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Chula Vista, California

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have audited the financial statements of the Proposition O Bond Building Fund of the Sweetwater Union High School District (the "District") as of and for the year ended June 30, 2008 and have issued our report thereon dated February 4, 2009. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition O General Obligation Bond for the fiscal year ended June 30, 2008. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Proposition O Bonds were only used for the purposes set forth in the ballot Measure and not for any other purpose, such as teacher and administrative salaries.

- The Governing Board of the District, in establishing the approved projects set forth in the ballot Measure, evaluated the remodeling, new construction and renovations of items which will enhance student learning and safety in the District, with no funds expended on administrator salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or abuse regarding Proposition O projects
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)

Internal Control Evaluation (continued)

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the 2007-08 financial statement balances for the Proposition O Bond Fund are not materially misstated.

Results of Procedures Performed:

The results of audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unqualified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We did not perform a facilities site walk for the 2007-08 fiscal year as all of the projects were still in their design phase. Actual construction is not scheduled to begin until 2008-09 fiscal year, at which point a site walk will be conducted to inspect the modernization work.

We verified that no costs incurred during 2007-08 were for site construction and that no bids for site construction had been awarded as of the end of the fiscal year.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether or not Proposition O funds were spent solely on voter and Board approved school facilities projects (as contained in the Facilities Master Plan). The expenditure test included a sample of 30 payments, totaling $1.5 million, or 21% of total expenditures for fiscal year 2007-08 not including the issuance costs.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Proposition O ballot measure and applicable State laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

As of June 30, 2008, no projects had gone to bid or been awarded for Proposition O. All of the contracts were for professional services, (i.e., architecture) and are not subject to bidding requirements.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, based on the fieldwork described above as well as other tests that we conducted, the District complied with the compliance requirements for the Proposition O Bond proceeds as listed and tested above.

This report is intended for the information of the Governing Board, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.

Rogo Rogo & White, PC

San Diego, California
February 4, 2009

Findings and Recommendations Section

PROPOSITION O BOND BUILDING FUND OF SWEETWATER UNION HIGH SCHOOL DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2008

There were findings related to the financial and performance audit of the Proposition O Bond Building Fund for the year ended June 30, 2008, set forth as follows:

Finding #2008-1: Reporting Potential Fraud and Ethical Issues

Finding: In conducting our required SAS 99 interviews throughout the District as part of both the district-wide audit and Proposition O audit, we found that the District's views on ethical issues and reporting potential fraud may not be communicated regularly or frequently at all levels throughout the organization. Discussions are held at the superintendent and cabinet levels but when interviewing staff, some were unsure how potential fraud or ethical concerns would be reported. In other words, while many administrators may have an "open door policy", there are no formal channels that ensure anonymity and encourage legitimate concerns to be voiced. For example, in our interview with one district employee a concern was brought forward in regards to expediting procedures. However, our testing did not uncover any specific illegal or questionable transactions and overall the District's internal controls appear sound.

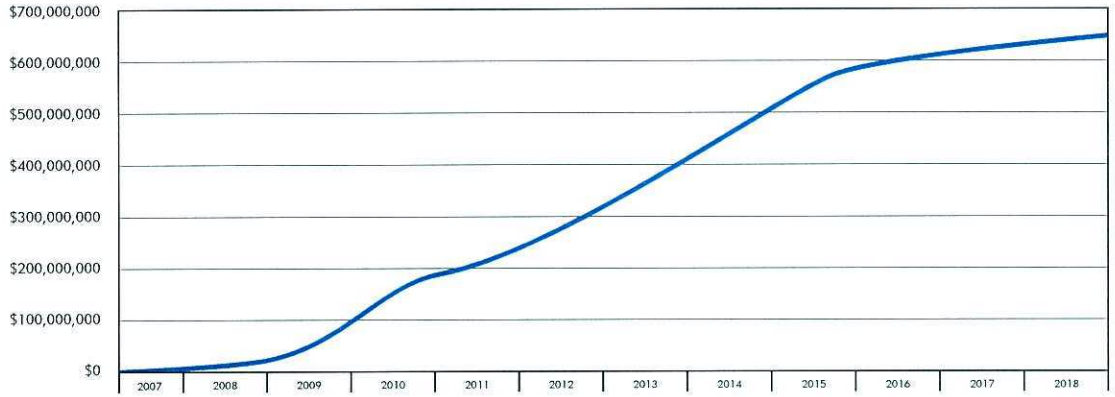
The lack of a formal and anonymous communication process for reporting potential fraud or ethics issues could result in fraud or negligence going unreported and may contribute to behavioral causes leading to fraud.

Recommendation: We recommend the District have a process to communicate to all levels the District's views on illegal, unethical or negligent behavior. Reporting this kind of activity should be encouraged and made easier for those involved by having a formal channel. Implementing an anonymous hotline is a great way to allow for activities to be reported in a non-hostile manner without fear of repercussions.

District Response: The District fully agrees with this recommendation and is in the process of working with and gathering information on the "WeTip Do Tell" prevention program. As a member of the San Diego County Joint Powers Authority, the District can utilize this program to establish an ethics and fraud hotline that will guarantee 100% anonymity. In addition, the District will provide materials to further inform staff about the "WeTip Do Tell" resources.

Bond Expenditures as of June 30, 2008

The Sweetwater Union High School District is in the initial stages of the implementation of the $644 million Proposition O Bond Program. The following graph represents a projected spending curve of Proposition O Bond funds through 2018. Consistent with large scale building programs, a large percentage of expenditures to date fall within the Planning & Programing and Design categories. As the program matures a greater percentage of funding will be utilized in construction activities.



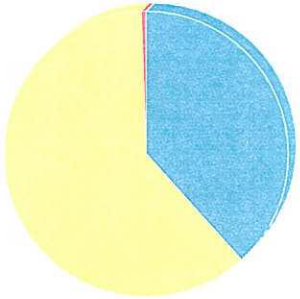
Expenditures

Total Bond Expenditures $10,923,274

Bond Funds Remaining $633,076,726

Expenditures by Category

*June 20, 2008**



Planning & Programming 38%

Design 61%

Construction 1%

** Expenditures by Category - June 20, 2008 does not include Issuance Costs.*

Propositon O Audit Report

Independent audit performed by Nigro, Nigro & White.

PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
Balance Sheet
June 30, 2008

ASSETS	
Cash in county treasury	$ 160,660,864
Accounts receivable - interest	1,494,896
Due from other funds	12,719,771
Total Assets	$ 174,875,531
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	$ 646,690
Due to other funds	57,045
Total Liabilities	703,735
Fund Balance	
Reserved for capital projects	174,171,796
Total Liabilities and Fund Balance	$ 174,875,531

PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008

REVENUES	
Earnings on investments	$ 1,494,896
Total Revenues	1,494,896
EXPENDITURES	
Facility acquisition and construction	7,187,489
Issuance costs	3,735,785
Total Expenditures	10,923,274
Deficiencies of Revenues Under Expenditures	(9,428,378)
OTHER FINANCING SOURCES (USES)	
Proceeds from sale of bonds	180,000,000
Premium on sales of bonds	3,746,194
Transfer out to debt service fund	(10,409)
Transfer out to building fund	(135,611)
Total Other Financing Sources (Uses)	183,600,174
Net Change in Fund Balance	174,171,796
Fund Balance, July 1, 2007	-
Fund Balance, June 30, 2008	$ 174,171,796