

SWEETWATER UNION HIGH SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**SWEETWATER UNION HIGH SCHOOL DISTRICT
OF SAN DIEGO COUNTY**

CHULA VISTA, CALIFORNIA

JUNE 30, 2012

The Sweetwater Union High School District was established in 1920 and consists of 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, four adult schools and four alternative education schools. One charter school also operates within the district boundaries.

GOVERNING BOARD

Member	Office	Term Expires
Pearl Quiñones	President	2012
Jim Cartmill	Vice President	2014
John McCann	Member	2014
Bertha López	Member	2012
Arlie N. Ricasa	Member	2014

DISTRICT ADMINISTRATORS

Dr. Edward Brand
Interim Superintendent

Dianne Russo
Chief Financial Officer

Sandra Huevo
Assistant Superintendent, Human Resources

**SWEETWATER UNION HIGH SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2012**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
Sweetwater Union High School District
Chula Vista, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sweetwater Union High School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sweetwater Union High School District's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District, as of June 30, 2012, and the respective changes in financial position thereof 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 December 15, 2012 on our consideration of Sweetwater Union High School District's internal control over financial reporting and on 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 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.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

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State Board of Accountancy

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 10, the budgetary comparison information on page 52, and the schedule of funding progress on page 53 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sweetwater Union High School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
December 15, 2012

SWEETWATER UNION HIGH SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

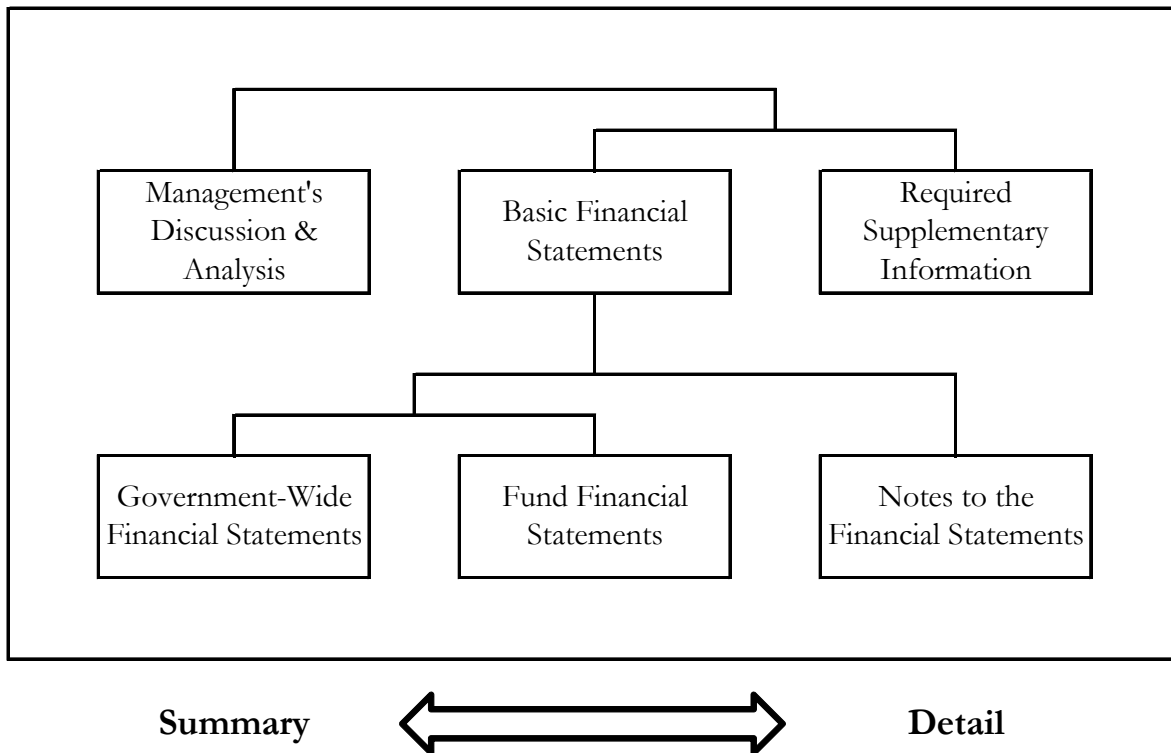
Our discussion and analysis of Sweetwater Union High School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net assets were \$552,909,716 at June 30, 2012. This was an increase of \$20,317,292 from the prior year.
- ▶ Overall revenues were \$432,428,400 which exceeded expenses of \$412,111,108.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$552,909,716 at June 30, 2012, as reflected in Table A-1 below. Of this amount, \$(1,263,256) was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net assets for day-to-day operations.

Table A-1	Governmental Activities		
	2012	2011	Net Change
ASSETS			
Current and other assets	\$ 319,543,882	\$ 307,237,415	\$ 12,306,467
Capital assets	867,666,934	884,236,229	(16,569,295)
Total Assets	1,187,210,816	1,191,473,644	(4,262,828)
LIABILITIES			
Current liabilities	45,473,708	59,066,800	13,593,092
Long-term liabilities	588,827,392	599,814,420	10,987,028
Total Liabilities	634,301,100	658,881,220	24,580,120
NET ASSETS			
Invested in capital assets, net of related debt	362,261,467	438,715,676	(76,454,209)
Restricted	191,911,505	95,457,711	96,453,794
Unrestricted	(1,263,256)	(1,580,963)	317,707
Total Net Assets	\$ 552,909,716	\$ 532,592,424	\$ 20,317,292

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

Table A-2	Governmental Activities		
	2012	2011	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 1,865,649	\$ 8,329,252	\$ (6,463,603)
Operating grants and contributions	80,820,228	76,880,294	3,939,934
Capital grants and contributions	6,464,906	54,660,714	(48,195,808)
General revenues			
Property taxes	103,574,539	104,363,572	(789,033)
Unrestricted federal and state aid	230,726,374	235,572,848	(4,846,474)
Other	8,976,704	6,449,615	2,527,089
Total Revenues	432,428,400	486,256,295	(53,827,895)
EXPENSES			
Instruction	222,216,771	218,862,884	3,353,887
Instruction-related services	55,351,347	67,586,034	(12,234,687)
Pupil services	45,257,536	47,782,014	(2,524,478)
General administration	19,661,435	23,162,066	(3,500,631)
Plant services	32,933,605	35,747,295	(2,813,690)
Ancillary and community services	8,491,573	8,363,805	127,768
Debt service	27,641,454	37,305,677	(9,664,223)
Other Outgo	557,387	835,880	(278,493)
Depreciation (unallocated)	-	10,713,360	(10,713,360)
Total Expenses	412,111,108	450,359,015	(38,247,907)
Change in net assets	20,317,292	35,897,280	(15,579,988)
Net Assets - Beginning	532,592,424	495,024,644	37,567,780
Net Assets - Beginning, Adjustment	-	1,670,500	(1,670,500)
Net Assets - Beginning, As Restated	532,592,424	496,695,144	35,897,280
Net Assets - Ending	\$ 552,909,716	\$ 532,592,424	\$ 20,317,292

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

The cost of all our governmental activities this year was \$412,111,108 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$322,960,325 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

Table A-3	Total cost of services	Net cost of services
Instruction	\$ 222,216,771	\$ 166,392,835
Instruction-related services	55,351,347	42,913,742
Pupil services	45,257,536	29,592,057
General administration	19,661,435	17,874,231
Plant services	32,933,605	32,708,281
Ancillary and community services	8,491,573	5,504,761
Debt service	27,641,454	27,641,454
Transfers to other agencies	557,387	332,964
Total Expenses	\$ 412,111,108	\$ 322,960,325

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT’S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$276,746,018, which is less than last year’s ending fund balance of \$285,281,737. The District’s General Fund had \$18,013,559 more in operating revenues than expenditures for the year ended June 30, 2012.

CURRENT YEAR BUDGET 2011-12

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval which reflects changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District’s financial projections and current budget based on State and local financial information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$867,666,934 in capital assets, net of accumulated depreciation.

Table A-4

	Governmental Activities		
	2012	2011	Net Change
CAPITAL ASSETS			
Land	\$ 116,142,178	\$ 116,142,178	\$ -
Construction in progress	363,007,374	355,903,044	7,104,330
Land improvements	6,831,171	6,831,171	-
Buildings & improvements	477,174,372	459,355,871	17,818,501
Furniture & equipment	21,242,376	20,138,780	1,103,596
Accumulated depreciation	(116,730,537)	(105,290,256)	(11,440,281)
Total Capital Assets	\$ 867,666,934	\$ 853,080,788	\$ 14,586,146

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end, the District had \$608,400,718 in long-term debt, a decrease of 2.26% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

Table A-5

	Governmental Activities		
	2012	2011	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 357,030,370	\$ 357,491,068	\$ (460,698)
Total certificates of participation	1,905,000	3,730,000	(1,825,000)
Special revenue bonds	205,815,000	213,785,000	(7,970,000)
Qualified zone academy bonds	4,420,000	4,710,000	(290,000)
Capital leases	3,253,730	5,454,839	(2,201,109)
Early retirement incentive	7,092,691	12,070,478	(4,977,787)
Compensated absences	6,395,069	6,125,301	269,768
Net OPEB obligation	22,488,858	19,127,906	3,360,952
Total Long-term Liabilities	\$ 608,400,718	\$ 622,494,592	\$ (14,093,874)

The State limits the amount of general obligation debt that Districts can issue based on a percentage of the assessed value of all taxable property within the District. Based on projections performed by the financial advisor, the estimated 2013 and 2018 general obligation bond debt service capacity is limited to \$20,485,000 and \$77,495,000, respectively. District's management will continue to monitor its bonding capacity, and will ensure fiscally prudent decisions are made with respect to future bond issuance.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2012-13 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Business Office at Sweetwater Union High School District; Chula Vista, California, 91911.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 180,015,258
Accounts receivable	107,679,086
Inventory	291,067
Prepaid expenses	490,532
Land held in Plan Nine Partners, LLC	28,652,500
Deferred charges	2,415,439
Capital assets, not depreciated	479,149,552
Capital assets, net of accumulated depreciation	388,517,382
Total Assets	1,187,210,816
LIABILITIES	
Accrued liabilities	24,418,690
Deferred revenue	1,481,692
Long-term liabilities, current portion	19,573,326
Long-term liabilities, non-current portion	588,827,392
Total Liabilities	634,301,100
NET ASSETS	
Invested in capital assets, net of related debt	362,261,467
Restricted for	
Capital projects	172,060,743
Debt service	14,837,640
Educational programs	5,013,122
Unrestricted	(1,263,256)
Total Net Assets	\$ 552,909,716

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 222,216,771	\$ -	\$ 49,359,030	\$ 6,464,906	\$ (166,392,835)
Instruction-related services					
Instructional supervision and adm	16,039,202	-	12,154,814	-	(3,884,388)
Instructional library, media, and te	4,410,681	-	199,220	-	(4,211,461)
School site administration	34,901,464	-	83,571	-	(34,817,893)
Pupil services					
Home-to-school transportation	9,519,769	294,117	1,407,526	-	(7,818,126)
Food services	11,751,814	1,561,313	9,419,039	-	(771,462)
All other pupil services	23,985,953	-	2,983,484	-	(21,002,469)
General administration					
Centralized data processing	5,783,380	-	-	-	(5,783,380)
All other general administration	13,878,055	-	1,787,204	-	(12,090,851)
Plant services	32,933,605	8,986	216,338	-	(32,708,281)
Ancillary services	8,221,494	-	2,986,812	-	(5,234,682)
Community services	270,079	-	-	-	(270,079)
Interest on long-term debt	27,641,454	-	-	-	(27,641,454)
Other Outgo	557,387	1,233	223,190	-	(332,964)
Total Governmental Activities	\$ 412,111,108	\$ 1,865,649	\$ 80,820,228	\$ 6,464,906	(322,960,325)
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes					55,516,524
Property taxes, levied for debt service					21,477,823
Property taxes, levied for other specific purposes					26,580,192
Federal and state aid not restricted for specific purposes					230,726,374
Interest and investment earnings					736,081
Interagency revenues					173,324
Miscellaneous					8,067,299
Subtotal, General Revenue					343,277,617
CHANGE IN NET ASSETS					20,317,292
Net Assets - Beginning					532,592,424
Net Assets - Ending					\$ 552,909,716

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 15,298,076	\$ 54,089,669	\$ 55,164,582	\$ 55,462,931	\$ 180,015,258
Accounts receivable	104,575,357	36,986	41,078	3,025,665	107,679,086
Due from other funds	3,571,393	18,905	64,722,135	23,370,237	91,682,670
Stores inventory	226,557	-	-	64,510	291,067
Prepaid expenditures	490,532	-	-	-	490,532
Total Assets	\$ 124,161,915	\$ 54,145,560	\$ 119,927,795	\$ 81,923,343	\$ 380,158,613
LIABILITIES					
Accrued liabilities	\$ 8,613,699	\$ 1,100,886	\$ 27,537	\$ 506,111	\$ 10,248,233
Due to other funds	83,205,062	2,324,965	962,068	5,190,575	91,682,670
Deferred revenue	1,480,692	-	-	1,000	1,481,692
Total Liabilities	93,299,453	3,425,851	989,605	5,697,686	103,412,595
FUND BALANCES					
Nonspendable	742,083	-	-	70,785	812,868
Restricted	5,013,122	50,719,709	118,938,190	67,960,193	242,631,214
Committed	-	-	-	8,194,679	8,194,679
Assigned	8,370,619	-	-	-	8,370,619
Unassigned	16,736,638	-	-	-	16,736,638
Total Fund Balances	30,862,462	50,719,709	118,938,190	76,225,657	276,746,018
Total Liabilities and Fund Balances	\$ 124,161,915	\$ 54,145,560	\$ 119,927,795	\$ 81,923,343	\$ 380,158,613

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds \$ 276,746,018

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:

Land held in Plan Nine Partners, LLC	\$ 28,652,500	
Capital assets	984,397,471	
Accumulated depreciation	<u>(116,730,537)</u>	896,319,434

Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in net long-term debt on the statement of net assets are:

2,415,439

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:

(14,170,457)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 357,030,370	
Total certificates of participation	1,905,000	
Special revenue bonds	205,815,000	
Qualified zone academy bonds	4,420,000	
Capital leases	3,253,730	
Early retirement incentive	7,092,691	
Compensated absences	6,395,069	
Net OPEB obligation	<u>22,488,858</u>	(608,400,718)

Total Net Assets - Governmental Activities \$ 552,909,716

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources					
State aid	\$ 179,668,797	\$ -	\$ -	\$ -	\$ 179,668,797
Local sources	55,521,063	-	-	-	55,521,063
Transfers	1,289,094	-	-	-	1,289,094
Federal sources	32,150,022	-	-	10,240,452	42,390,474
Other state sources	63,352,689	-	-	7,788,246	71,140,935
Other local sources	30,520,582	221,712	26,211,419	25,464,324	82,418,037
Total Revenues	362,502,247	221,712	26,211,419	43,493,022	432,428,400
EXPENDITURES					
Current					
Instruction	203,618,552	-	-	9,151,436	212,769,988
Instruction-related services					
Instructional supervision and administration	16,463,099	-	-	1,090,392	17,553,491
Instructional library, media, and technology	4,065,235	-	-	241,829	4,307,064
School site administration	30,991,213	-	-	3,026,906	34,018,119
Pupil services					
Home-to-school transportation	10,300,999	-	-	-	10,300,999
Food services	838	-	-	11,689,739	11,690,577
All other pupil services	22,702,547	-	-	706,803	23,409,350
General administration					
Centralized data processing	5,739,888	-	-	-	5,739,888
All other general administration	13,125,036	-	-	156,387	13,281,423
Plant services	25,684,959	2,849,772	1,550,033	2,677,350	32,762,114
Facilities acquisition and maintenance	13,789	22,889,846	566,145	2,116,026	25,585,806
Ancillary services	8,159,327	-	-	-	8,159,327
Community services	267,334	-	-	-	267,334
Transfers to other agencies	557,387	-	-	-	557,387
Debt service					
Principal	2,427,249	23,245,000	-	14,323,860	39,996,109
Interest and other	371,236	624,671	-	23,405,362	24,401,269
Total Expenditures	344,488,688	49,609,289	2,116,178	68,586,090	464,800,245
Excess (Deficiency) of Revenues Over Expenditures	18,013,559	(49,387,577)	24,095,241	(25,093,068)	(32,371,845)
Other Financing Sources (Uses)					
Transfers In	71,989	47,362,130	42,103	42,913,983	90,390,205
Other Sources	-	23,835,000	-	4,805	23,839,805
Transfers Out	(22,499,356)	-	(20,432,400)	(47,458,449)	(90,390,205)
Other Uses	-	(3,679)	-	-	(3,679)
Net Financing Sources (Uses)	(22,427,367)	71,193,451	(20,390,297)	(4,539,661)	23,836,126
NET CHANGE IN FUND BALANCE	(4,413,808)	21,805,874	3,704,944	(29,632,729)	(8,535,719)
Fund Balance - Beginning	35,276,270	28,913,835	115,233,246	105,858,386	285,281,737
Fund Balance - Ending	\$ 30,862,462	\$ 50,719,709	\$ 118,938,190	\$ 76,225,657	\$ 276,746,018

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ (8,535,719)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 26,026,427	
Depreciation expense:	(11,440,281)	14,586,146

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

39,996,109

Debt proceeds:

Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(23,835,000)

Debt issue costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

(87,502)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

260,493

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2012**

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (3,684,760)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (269,768)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (3,360,952)

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 4,977,787

Amortization of debt issue premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 270,458

Change in Net Assets of Governmental Activities

\$ 20,317,292

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012**

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Private-Purpose</u>	<u>Student Body</u>
	<u>Trust Fund</u>	<u>Fund</u>
ASSETS		
Cash and cash equivalents	\$ 12,464	\$ 5,367,422
Accounts receivable	11	64,771
Stores inventory	-	264,579
Prepaid expenses	-	104,302
Total Assets	<u>12,475</u>	<u>\$ 5,801,074</u>
LIABILITIES		
Due to student groups	-	\$ 5,801,074
Total Liabilities	<u>-</u>	<u>\$ 5,801,074</u>
NET ASSETS		
Unrestricted	12,475	
Total Net Assets	<u>\$ 12,475</u>	

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Trust Funds</u>
	<u>Private-Purpose</u>
	<u>Trust Fund</u>
ADDITIONS	
Investment earnings	\$ 58
Total Additions	<u>58</u>
CHANGE IN NET ASSETS	58
Net Assets - Beginning	<u>12,417</u>
Net Assets - Ending	<u>\$ 12,475</u>

The accompanying notes are an integral part of these financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Sweetwater Union High School District (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).

The District operates under a locally elected five-member Board form of government and provides educational services to grades 7-12 as mandated by the State. The Sweetwater Union High School District and the Sweetwater Union High School District Financing Corporation (the "Corporation") have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, as amended by GASB 39, *The Financial Reporting Entity*, for inclusion of the corporation as a component unit of the District. Accordingly, the financial activities of the component unit will be included in the financial statements of the District.

B. Component Units

The Corporation was created for the sole purpose of financing the purchase, construction, expansion or rehabilitation of certain real and other tangible property with an estimated useful life of five years or longer, including secondary school sites and structures, and other governmental facilities which the District is authorized by law to contract, own or operate in order to meet increased demands placed upon the District as a result of developments or rehabilitation occurring within the area.

The following are those aspects of the relationship between the District and the component units that satisfy GASB Statement No.14 criteria.

Accountability:

1. The District's Board of Trustees appointed the component unit's board of directors.
2. The District is able to impose its will upon the component unit, based on the following:
 - a. All major financing arrangements, contracts, and other transactions of the component unit must have the consent of the District.
 - b. The District exercises significant influence over operations of the component unit, as the District is the sole lessee of all facilities owned by the component unit. Likewise, the District's lease payments are the major revenue source of the component unit.
3. The component unit provides specific financial benefits or impose specific financial burdens on the District, based on the following:
 - a. Any deficits incurred by the component unit will be reflected in the lease payments of the District.
 - b. Any surpluses of the component unit revert to the District at the end of the lease period.
 - c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the component unit

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Component Units (continued)

Scope of Public Service:

The component unit is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The corporation was formed for the sole purpose of providing financial assistance to the District for the financing of construction and acquisition of major capital facilities and modernization of existing school sites. The District will lease certain school facilities from the corporation under a lease-purchase agreement. The District is required under the lease agreement to make payments in each fiscal year from certain Special Taxes levied in and collected from various Community Facilities Districts.

Financial Presentation:

For financial presentation purposes, the component unit's financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the component unit's financial activity within the Capital Projects Fund. Certificates of Participation and Bonded Debt issued by the component unit will be included in the long-term liabilities on the Statement of Net Assets.

Other Related Entities:

The District has approved a Charter for The Metropolitan Area Advisory Committee Community Charter School pursuant to Education Code Section 47605. The Metropolitan Area Advisory Committee Community Charter School is operated by a separate governing board and not considered a component unit of the District. The District receives revenue on behalf of the Charter, which it passes on to the Charter.

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation

Government-Wide Statements. The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Capital Projects Fund for Blended Component Units: This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b]* and *52501.5[a]*).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091* and *38100*).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584* and *17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582* and *17583*).

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Foundation Private-Purpose Trust Fund: This fund is used to account separately for gifts or bequests per *Education Code Section 41031* that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the District's own programs.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

Government-Wide and Fiduciary Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental activities of the District follow the FASB and AICPA pronouncements, unless those pronouncements conflict with GASB pronouncements.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, Fund Balance and Net Assets

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (continued)

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$20,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-15 years
Vehicles	8 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

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 classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - 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.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (continued)

Fund Balance (continued)

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Total	
	Governmental	Fiduciary
	Activities	Funds
Cash in county	\$ 130,874,798	\$ 12,464
Cash on hand and in banks	8,474,540	5,367,422
Cash with fiscal agent	40,634,650	-
Cash in revolving fund	31,270	-
Total cash and cash equivalents	\$ 180,015,258	\$ 5,379,886

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

C. 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 the investment types permitted by California Government Code.

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

D. 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 maintains a pooled investment with the County Treasury with a fair value of approximately \$131,272,660 and an amortized book value of \$130,887,262. The average weighted maturity for this pool is 343 days.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

E. 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 investments in the County Treasury are not required to be rated. As of June 30, 2012, the pooled investments in the County Treasury were rated AA Af/S1 by Standard & Poor’s.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consisted of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Projects Fund for Blended Component Units</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>	<u>Total Fiduciary</u>
Federal Government						
Categorical aid	\$ 7,012,981	\$ -	\$ -	\$ 2,797,581	\$ 9,810,562	\$ -
State Government						
Apportionment	70,675,791	-	-	176,622	70,852,413	-
Categorical aid	8,896,054	-	-	-	8,896,054	-
Lottery	3,533,667	-	-	-	3,533,667	-
Local Government						
Other local sources	14,456,864	36,986	41,078	51,462	14,586,390	64,782
Total	\$ 104,575,357	\$ 36,986	\$ 41,078	\$ 3,025,665	\$ 107,679,086	\$ 64,782

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 116,142,178	\$ -	\$ -	\$ 116,142,178
Construction in progress	355,903,044	24,922,831	17,818,501	363,007,374
Total Capital Assets not Being Depreciated	472,045,222	24,922,831	17,818,501	479,149,552
Capital assets being depreciated				
Land improvements	6,831,171	-	-	6,831,171
Buildings & improvements	459,355,871	17,818,501	-	477,174,372
Furniture & equipment	20,138,780	1,103,596	-	21,242,376
Total Capital Assets Being Depreciated	486,325,822	18,922,097	-	505,247,919
Less Accumulated Depreciation				
Land improvements	5,520,641	122,664	-	5,643,305
Buildings & improvements	84,993,890	10,300,648	-	95,294,538
Furniture & equipment	14,775,725	1,016,969	-	15,792,694
Total Accumulated Depreciation	105,290,256	11,440,281	-	116,730,537
Governmental Activities				
Capital Assets, net	\$ 853,080,788	\$ 32,404,647	\$ 17,818,501	\$ 867,666,934

Depreciation expense was allocated to the following governmental functions as follows:

Instruction	\$ 10,296,253
Instruction-related services	572,014
Pupil services	572,014
Total	<u>\$ 11,440,281</u>

NOTE 5 – LAND HELD IN PLAN NINE PARTNERS, LLC

On February 1, 2005, the District invested in Plan Nine Partners, LLC, who is holding land at a cost of \$28,652,500 pursuant to an exchange agreement (see Note 10 section D). Upon repayment of the bonds, the land will be transferred to the District.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 6 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2012 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Projects Fund for Blended Component Units</u>	<u>Non-Major Governmental Funds</u>	
General Fund	\$ -	\$ 18,905	\$ 61,587,422	\$ 21,598,735	\$ 83,205,062
Building Fund	2,324,965	-	-	-	2,324,965
Capital Projects Fund for Blended Component Units	730,216	-	-	231,852	962,068
Non-Major Governmental Funds	516,212	-	3,134,713	1,539,650	5,190,575
Total Due From Other Funds	\$ 3,571,393	\$ 18,905	\$ 64,722,135	\$ 23,370,237	\$ 91,682,670
Due from the General Fund to the Building Fund for reimbursement of expenditures.				\$ 18,905	
Due from the General Fund to the County School Facilities Fund for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.					5,213,477
Due from the General Fund to the Adult Education Fund for apportionment and grant revenue.					1,785,456
Due from the General Fund to the Cafeteria Special Reserve Fund for assistance and other operating expenditures.					538,891
Due from the General Fund to the Deferred Maintenance Fund for transfer of revenue, district revenue match, and unliquidated balances.					8,209,504
Due from the General Fund to the Special Reserve for Capital Outlay Fund for COP payments and debt reserves.					5,851,408
Due from the General Fund to the Capital Project for Blended Component Units Fund for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.					61,587,421
Due from the Adult Education Fund to the General Fund for PERS reduction, indirect costs, OPEB costs, and other operating expenditures.					331,675
Due from the Adult Education Fund to the Capital Facilities Fund for interest owed.					383
Due from the Adult Education Fund to the Special Reserve Fund for Capital Outlay Projects for interest owed.					12,155
Due from the Adult Education Fund to the Capital Projects Fund for Blended Component Units for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.					2,207,559
Due from the Cafeteria Special Revenue Fund to the General Fund for unliquidated balances, PERS reduction, OPEB costs, and other operating expenditures.					128,057
Due from the Cafeteria Special Revenue Fund to the Capital Facilities Fund for unliquidated balances, inability to transfer monies due to county treasury cut-off, and interest owed.					1,526,586
Due from the Cafeteria Special Revenue Fund to the Special Reserve Fund for Capital Outlay Projects for interest owed.					527
Due from the Cafeteria Special Revenue Fund to the Capital Projects Fund for Blended Component Units for unliquidated balances and interest owed.					897,122
Due from the Deferred Maintenance Fund to the General Fund for unliquidated balances and inability to transfer monies due to county treasury cut-off.					50,000
Due from the Building Fund to the General Fund for PERS reductions, OPEB costs, and reimbursement of expenditures.					2,324,965
Due from the Capital Facilities Fund to the General Fund for PERS reduction and OPEB costs.					6,481
Due from the Capital Facilities Fund to the Capital Project for Blended Component Units Fund to reclassify operating expenditures.					30,030
Due from the Capital Project Fund for Blended Component Units to the General Fund for CFD allocations and labor corrections.					730,213
Due from the Capital Project Fund for Blended Component Units to the Capital Facilities Fund for planning of OPEB and salaries.					231,855
Total					\$ 91,682,670

SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 6 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

Interfund Transfers Out	Interfund Transfers In				Total
	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 37,422	\$ 22,461,934	\$ 22,499,356
Capital Project Fund for Blended Component Units	-	-	-	20,432,400	20,432,400
Non-Major Fund	71,989	47,362,130	4,681	19,649	47,458,449
Total Interfund Transfers	\$ 71,989	\$ 47,362,130	\$ 42,103	\$ 42,913,983	\$ 90,390,205
Transfer from the General Fund to the Adult Education Fund for apportionment.				\$ 12,650,000	
Transfer from the General Fund to the Cafeteria Special Revenue Fund for assistance and other operating expenditures.				537,545	
Transfer from the General Fund to the Deferred Maintenance Fund for revenue and district matching funds.				3,209,504	
Transfer from the General Fund to the Special Reserve Fund for Capital Outlay Projects for COP payments, reversal of debt, and interest owed.				5,851,408	
Transfer from the General Fund to the County School Facilities Fund for reimbursement of expenditures.				213,477	
Transfer from the General Fund to the Capital Projects Fund for Blended Component Units for interest owed.				37,422	
Transfer from the Adult Education Fund to the General Fund for reimbursement of services.				71,989	
Transfer from the Adult Education Fund to the Capital Facilities Fund for interest owed.				382	
Transfer from the Adult Education Fund to the Special Reserve for Capital Outlay Fund for interest owed.				12,155	
Transfer from the Adult Education Fund to the Capital Projects Fund for Blended Component Units for interest owed.				2,559	
Transfer from the Cafeteria Special Revenue Fund to the Capital Facilities Fund for interest owed.				6,586	
Transfer from the Cafeteria Special Revenue Fund to the Special Reserve for Capital Outlay Fund for interest owed.				527	
Transfer from the Cafeteria Special Revenue Fund to the Capital Projects Fund for Blended Component Units for interest owed.				2,121	
Transfer from the County School Facilities Fund to the Building Fund for state matching funds.				47,362,130	
Transfer from the Capital Projects Fund for Blended Component Units to the County County School Facilities Fund for reimbursement of expenditures.				4,225,855	
Transfer from the Capital Projects Fund for Blended Component Units to Debt Service Fund for Blended Component Unit for debt service payments.				16,206,545	
Total				\$ 90,390,205	

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 7 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consisted of the following:

	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	District-Wide	Total Governmental Activities
Payroll	\$ 1,049,895	\$ -	\$ -	\$ 108,989	\$ -	\$ 1,158,884
Construction	-	1,100,886	27,537	25,595	-	1,154,018
Vendors payable	7,563,804	-	-	371,527	-	7,935,331
Unmatured interest	-	-	-	-	14,170,457	14,170,457
Total	\$ 8,613,699	\$ 1,100,886	\$ 27,537	\$ 506,111	\$ 14,170,457	\$ 24,418,690

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 125,866	\$ -	\$ 125,866
State categorical sources	1,290,980	-	1,290,980
Local deferrals	63,846	1,000	64,846
Total	\$ 1,480,692	\$ 1,000	\$ 1,481,692

NOTE 9 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$15,000,000 of Tax and Revenue Anticipation Notes bearing interest at two percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on January 31, 2012. By June 30, 2012, the District had paid off the notes.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 consisted of the following:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 350,968,579	\$ 27,519,760	\$ 27,710,000	\$ 350,778,339	\$ 6,000,000
Unamortized premium	6,522,489	-	270,458	6,252,031	270,458
Total general obligation bonds	357,491,068	27,519,760	27,980,458	357,030,370	6,270,458
Certificates of participation	3,730,000	-	1,825,000	1,905,000	1,905,000
Special revenue bonds	213,785,000	-	7,970,000	205,815,000	8,590,000
Qualified zone academy bonds	4,710,000	-	290,000	4,420,000	295,000
Capital leases	5,454,839	-	2,201,109	3,253,730	1,545,177
Early retirement incentive	12,070,478	-	4,977,787	7,092,691	967,691
Compensated absences	6,125,301	269,768	-	6,395,069	-
Net OPEB obligation	19,127,906	3,360,952	-	22,488,858	-
Total	\$ 622,494,592	\$ 31,150,480	\$ 45,244,354	\$ 608,400,718	\$ 19,573,326

A. Early Retirement Incentive

In 2010-11, the District offered an early retirement incentive at a cost of \$17,875,534. The outstanding balance will be paid in accordance with the schedule below:

Year Ended June 30,	Total
2013	\$ 967,691
2014	875,000
2015	875,000
2016	875,000
2017	875,000
2018 - 2022	2,625,000
Total	<u>\$ 7,092,691</u>

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT (continued)

B. General Obligation Bonds

The outstanding general obligation bonded debt of the District at June 30, 2012 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2011</u>	<u>Additions*</u>	<u>Deletions</u>	<u>Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
<u>Election of 2000</u>									
Series A	3/27/2001	3.25%-5.25%	8/1/2025	\$ 38,000,000	\$ 24,400,000	\$ -	\$ 24,400,000	\$ -	\$ -
Series B	6/25/2003	3.00%-4.75%	8/1/2028	52,000,000	50,100,000	-	870,000	49,230,000	995,000
Series C	10/21/2004	2.5%-5.27%	8/1/2029	96,999,415	105,648,579	3,684,760	2,390,000	106,943,339	2,875,000
Series 2011-A Refunding	12/14/2011	3.22%	8/1/2025	23,835,000	-	23,835,000	-	23,835,000	1,635,000
<u>Election of 2006</u>									
Series A	3/12/2008	3.00%-5.5%	8/1/2047	180,000,000	170,820,000	-	50,000	170,770,000	495,000
Total				\$ 390,834,415	\$ 350,968,579	\$ 27,519,760	\$ 27,710,000	\$ 350,778,339	\$ 6,000,000

Election of 2000

In November 2000, the District voters authorized \$187 million in General Obligation Bonds for the remodeling, new construction and renovations detailed in the Facilities Improvement Plan. Series A through C were issued and consisted of: (1) \$153,570,000 in serial bonds; and, (2) \$33,439,415 in capital appreciation bonds, with interest rates ranging from 2.5% to 5.27%. The annual requirements to amortize the Election of 2000 general obligation bonds payable, outstanding as of June 30, 2012, are as follows:

<u>Year Ended June 30,</u>	<u>Principal *</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,505,000	\$ 5,614,241	\$ 11,119,241
2014	5,925,000	5,322,053	11,247,053
2015	6,665,000	5,109,343	11,774,343
2016	5,782,778	6,523,181	12,305,959
2017	6,011,898	6,840,278	12,852,176
2018-2022	33,973,591	39,094,801	73,068,392
2023-2027	46,916,149	39,420,195	86,336,344
2028-2032	52,930,000	5,414,004	58,344,004
TOTAL	\$ 163,709,416	\$ 113,338,096	\$ 277,047,512

* Principal amount excludes accreted interest of \$16,298,923

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

Election of 2006

In November 2006, the District voters approved Proposition O, which authorizes \$644 million in general obligation bonds. On March 12, 2008, Series A amounting to \$180,000,000 was issued and consists of: (1) \$17,265,000 in serial bonds; and, (2) \$162,735,000 in term bonds with state interest rates ranging from 3% - 5.5%. The bonds are for the construction, reconstruction and equipping schools as described in the Long Range Facilities Plan. The annual requirements to amortize the Election of 2006 general obligation bonds payable, outstanding as of June 30, 2012, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	1,180,000	8,966,844	10,146,844
2018-2022	3,295,000	44,131,469	47,426,469
2023-2027	-	43,806,406	43,806,406
2028-2032	11,675,000	43,521,656	55,196,656
2033-2037	34,705,000	37,586,406	72,291,406
2038-2042	44,450,000	27,827,407	72,277,407
2043-2047	58,225,000	14,029,874	72,254,874
2048	13,680,000	769,500	14,449,500
Total	\$ 170,770,000	\$ 256,847,770	\$ 427,617,770

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT (continued)

C. Certificates of Participation

The District has certificates of participation (COP) outstanding as of June 30, 2012 for a total principal balance of \$1,905,000.

- The COP was issued July 13, 2006 in the amount of \$11,875,000, with interest rates ranging from 3.7% to 4.01%, to advance refund various lease-purchases for relocatable buildings and equipment.

The annual requirements to amortize the certificates of participation, outstanding as of June 30, 2012 consisted of principal balance of \$1,905,000 and interest balance of \$85,725.

D. Special Revenue Bonds

Community Facilities District Obligations

The Sweetwater Union High School District Financing Corporation has issued the following obligations as authorized by the Mello-Roos Community Facilities Act of 1982, as amended, and the Mark-Roos Local Bond Pooling Act of 1985. The debt is payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. The table below shows the outstanding obligations, with remaining principal and interest payments amounting to \$245,327,964 as of June 30, 2012.

	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Additions	Deletions	Outstanding June 30, 2012	Due Within One Year
<u>Community Facilities District</u>									
Series 2001	3/14/2001	3.20%-5.10%	9/1/2025	\$ 42,875,000	\$ 38,580,000	\$ -	\$ 825,000	\$ 37,755,000	\$ 1,795,000
Series 2002	12/12/2002	3.00%-5.00%	9/1/2027	55,940,000	47,190,000	-	1,395,000	45,795,000	1,605,000
Series 2003	5/21/2003	2.00%-3.50%	9/1/2015	23,700,000	8,965,000	-	2,530,000	6,435,000	1,930,000
Series 2005	11/9/2005	2.90%-5.00%	9/1/2022	18,330,000	14,650,000	-	895,000	13,755,000	930,000
Series 2005A	2/24/2005	3.00%-5.00%	9/1/2029	66,385,000	58,300,000	-	1,740,000	56,560,000	1,700,000
Seroes 2005B	2/24/2005	3.50%-4.75%	9/1/2029	15,180,000	12,450,000	-	585,000	11,865,000	630,000
<u>Development Revenue Bond Obligation</u>									
Series 2005A				25,415,000	25,415,000	-	-	25,415,000	-
Series 2005B				8,235,000	8,235,000	-	-	8,235,000	-
Total				\$ 256,060,000	\$ 213,785,000	\$ -	\$ 7,970,000	\$ 205,815,000	\$ 8,590,000

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT (continued)

D. Special Revenue Bonds (continued)

Community Facilities District Obligations (continued)

The annual requirements to amortize the CFD obligations, outstanding as of June 30, 2012, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,590,000	\$ 7,923,231	\$ 16,513,231
2014	8,920,000	7,577,042	16,497,042
2015	9,130,000	7,205,308	16,335,308
2016	9,255,000	6,816,135	16,071,135
2017	9,725,000	6,400,965	16,125,965
2018-2022	53,050,000	24,911,820	77,961,820
2023-2027	55,470,000	11,170,575	66,640,575
2028-2030	18,025,000	1,157,888	19,182,888
Total	\$ 172,165,000	\$ 73,162,964	\$ 245,327,964

Development Revenue Bond Obligations

On February 1, 2005, the California Statewide Communities Development Authority and Plan Nine Partners, LLC, a nonprofit public benefit corporation issued Series A and B in variable rate special revenue bonds in the amounts of \$25,415,000 and \$8,235,000, respectively. Payments of principal and interest are secured by an irrevocable direct-pay letter of credit between the District (and Plan Nine Partners, LLC) and the bank and which expires February 2, 2035 in the amount of \$34,129,962. The proceeds were used to purchase a 23.82 acre parcel of land in the city of Chula Vista, California (see Note 5). The land is held in the name of Plan Nine Partners, LLC, until such time as the bonds are paid off and the land is conveyed to the District pursuant to an exchange agreement. The District will lease the project from Plan Nine Partners and the District is obligated under a lease agreement to pay rent equal to the debt service on the bonds. The principal balance outstanding on June 30, 2012 is \$33,650,000 as only interest payments have been made to date.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 10 – LONG-TERM DEBT (continued)

E. Capital Leases

The District's leases for facilities and equipment under agreements with options to purchase are summarized below:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
2013	\$ 1,713,269
2014	734,988
2015	301,896
2016	272,403
2017	272,403
2018 - 2019	340,504
Total	<u>3,635,463</u>
Less: Amount representing interest	<u>(381,733)</u>
Present value of minimum lease payments	<u>\$ 3,253,730</u>

F. Qualified Zone Academy Bond (QZAB)

The District has entered into a Trust Agreement dated as of April 1, 2010, under which the Trustee agrees to execute and deliver \$5,000,000 aggregate principal amount of Certificates of Participation, 2010 Series A (Qualified Zone Academy Bond Program) (the "Certificates"), each evidencing a direct, undivided fractional interest in lease payments to be paid by the District under the Lease. The annual requirements to amortize the QZAB outstanding as of June 30, 2012, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 295,000	\$ 101,521	\$ 396,521
2014	300,000	94,875	394,875
2015	310,000	87,975	397,975
2016	315,000	80,956	395,956
2017	325,000	73,499	398,499
2018-2022	1,735,000	252,781	1,987,781
2023-2025	1,140,000	52,912	1,192,912
Total	<u>\$ 4,420,000</u>	<u>\$ 744,519</u>	<u>\$ 5,164,519</u>

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 11 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2012:

	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 24,994	\$ -	\$ -	\$ 6,274	\$ 31,268
Stores inventory	226,557	-	-	64,511	291,068
Prepaid expenditures	490,532	-	-	-	490,532
Total non-spendable	742,083	-	-	70,785	812,868
Restricted					
Educational programs	5,013,122	-	-	-	5,013,122
School Modernization and new construction	-	50,719,709	-	-	50,719,709
Other Capital projects	-	-	118,938,190	53,122,553	172,060,743
Debt service	-	-	-	14,837,640	14,837,640
Total restricted	5,013,122	50,719,709	118,938,190	67,960,193	242,631,214
Committed					
Adult Education	-	-	-	2,526	2,526
Deferred maintenance	-	-	-	8,192,153	8,192,153
Total committed	-	-	-	8,194,679	8,194,679
Assigned					
Early Retirement Incentive	4,108,311	-	-	-	4,108,311
Site Carryover	2,000,000	-	-	-	2,000,000
QZAB expenditures	2,262,308	-	-	-	2,262,308
Total assigned	8,370,619	-	-	-	8,370,619
Unassigned					
Reserve for economic uncertainties	10,794,338	-	-	-	10,794,338
Remaining unassigned	5,942,300	-	-	-	5,942,300
Total unassigned	16,736,638	-	-	-	16,736,638
Total	\$ 30,862,462	\$ 50,719,709	\$ 118,938,190	\$ 76,225,657	\$ 276,746,018

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 2 percent of General Fund expenditures and other financing uses.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 12 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment plan (OPEB) that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	349
Active plan members	3,883
Total*	<u>4,232</u>
 Number of participating employers	 1

*As of July 1, 2010 actuarial study

To be eligible the employee must have fifteen years of service with the District and be between the age of fifty-five and the age of Medicare eligibility or be approved for CalSTRS or CalPERS disability retirement within thirty-nine months of his/her fifty-five year birthday. Dependents of retirees are eligible under the same condition and restraints as dependents of active plan members.

B. Funding Policy

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2011-12, the District contributed \$2,413,172.

As of June 30, 2012, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$ 6,081,042
Interest on net OPEB obligation	956,395
Adjustment to annual required contribution	(1,263,313)
Annual OPEB cost (expense)	<u>5,774,124</u>
Contributions made	<u>(2,413,172)</u>
Increase (decrease) in net OPEB obligation	3,360,952
Net OPEB obligation, beginning of the year	19,127,906
Net OPEB obligation, end of the year	<u>\$ 22,488,858</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 and the preceding two years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 5,774,124	42%	\$ 22,488,858
2011	\$ 5,964,136	28%	\$ 19,127,906
2010	\$ 6,064,699	31%	\$ 14,848,241

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability (AAL) for benefits was \$48.7 million and the unfunded actuarial accrued liability (UAAL) was 48.7 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level-dollar basis
Remaining Amortization Period	26
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	5.0%
Discount rate	5.0%
Health care trend rate	8.5%
Inflation rate	0.5%

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 14,457,279	100%
2010-11	\$ 15,020,515	100%
2009-10	\$ 15,352,587	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$8,759,702 to CalSTRS (4.267% of salaries subject to CalSTRS in 2011-12).

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% of annual payroll. The contribution requirements of the plan members are established by state statute. The District’s contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 6,555,780	100%
2010-11	\$ 6,877,379	100%
2009-10	\$ 6,330,891	100%

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

C. Construction Commitments

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of \$9,312,192.

NOTE 15– PARTICIPATION IN JOINT POWERS AUTHORITIES

The Sweetwater Union High School District participates in one joint venture under a joint powers agreement (JPA), the San Diego County Schools Risk Management JPA (RM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of the JPA independent of any influence by the Sweetwater School District beyond the District's representation on the governing board.

The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation in the JPA.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SWEETWATER UNION HIGH SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources				
State aid	\$ 181,482,579	\$ 179,125,895	\$ 179,668,797	\$ 542,902
Local sources	55,320,680	55,080,321	55,521,063	440,742
Transfers	373,895	405,123	1,289,094	883,971
Federal sources	28,426,357	36,625,403	32,150,022	(4,475,381)
Other State sources	48,417,888	54,995,793	56,175,910	1,180,117
Other local sources	24,811,362	26,670,744	30,520,582	3,849,838
Total Revenues	338,832,761	352,903,279	355,325,468	2,422,189
EXPENDITURES				
Certificated salaries	158,123,427	172,453,376	171,908,180	545,196
Classified salaries	57,853,969	58,276,298	57,044,315	1,231,983
Employee benefits	57,500,057	59,408,909	62,218,964	(2,810,055)
Books and supplies	11,918,742	19,450,391	14,020,699	5,429,692
Services and other operating expenditures	26,935,398	33,633,124	27,772,851	5,860,273
Capital outlay	-	1,591,951	1,117,385	474,566
Other outgo				
Excluding transfers of indirect costs	2,765,431	2,798,410	3,355,872	(557,462)
Transfers of indirect costs	(1,250,074)	(1,250,074)	(126,357)	(1,123,717)
Total Expenditures	313,846,950	346,362,385	337,311,909	9,050,476
Excess (Deficiency) of Revenues				
Over Expenditures	24,985,811	6,540,894	18,013,559	11,472,665
Other Financing Sources (Uses)				
Transfers In	-	71,988	71,989	1
Transfers Out	(13,982,420)	(13,982,420)	(22,499,356)	(8,516,936)
Net Financing Sources (Uses)	(13,982,420)	(13,910,432)	(22,427,367)	(8,516,935)
NET CHANGE IN FUND BALANCE	11,003,391	(7,369,538)	(4,413,808)	2,955,730
Fund Balance - Beginning	35,276,270	35,276,270	35,276,270	-
Fund Balance - Ending	\$ 46,279,661	\$ 27,906,732	\$ 30,862,462	\$ 2,955,730

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$7,176,779 are not included in the actual revenues and expenditures reported in this schedule.

See accompanying note to required supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 48,702,607	\$ 48,702,607	0%	\$ 212,521,000	23%
July 1, 2008	\$ -	\$ 48,086,562	\$ 48,086,562	0%	\$ 231,175,000	21%
July 1, 2006	\$ -	\$ 55,600,023	\$ 55,600,023	0%	\$ 259,100,000	21%

See accompanying note to required supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Other outgo			
Excluding transfers of indirect costs	\$ 2,798,410	\$ 3,355,872	\$ 557,462
Transfers of indirect costs	\$ (1,250,074)	\$ (126,357)	\$ 1,123,717

**SUPPLEMENTARY
INFORMATION**

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 7,787,038
Title I, Part A, Program Improvement	84.010	14955	1,259,070
ARRA - Title I - Part A	84.389	15005	121,745
Subtotal Title I, Part A Cluster			<u>9,167,853</u>
Title I, School Improvement Grant	84.377	15127	26,687
Adult Education: Adult Secondary Education	84.002A	13978	177,657
Adult Education: English Literacy and Civics Education	84.002A	14109	220,935
Adult Education: Adult Basic Education and ESL (Section 231)	84.002A	14508	829,103
Title II, Part A, Administrator Training	84.367	14344	41,600
Title II, Part A, Teacher Quality	84.367A	14341	1,090,539
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.386	15126	159,779
Title III, Immigrant Education Program	84.365	15146	131,446
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	1,082,371
Title IV, Part A, Drug-Free Schools	84.186	14347	2,540
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	527,917
Department of Rehab: Workability II, Transition Partnership	84.158	10006	168,339
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	6,458,792
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	415,520
Subtotal Special Education Cluster			<u>6,874,312</u>
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	981,506
Title X, McKinney-Vento Homeless Assistance	84.196	14332	24,093
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	*	261,267
Education Jobs Fund	84.410	25152	8,941,387
Carol White PE Program Grant	84.215F	*	297,060
Total U. S. Department of Education			<u>31,006,391</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	23668	28,626
National School Lunch Program	10.555	13391	5,922,270
Especially Needy Breakfast	10.553	13390	2,381,628
Meal Supplements	10.555	13666	152,473
Subtotal Child Nutrition Cluster			<u>8,484,997</u>
Total U. S. Department of Agriculture			<u>8,484,997</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	1,977,790
Medi-Cal Administrative Activities	93.778	10060	706,076
Total U. S. Department of Health & Human Services			<u>2,683,866</u>
Total Federal Expenditures			<u>\$ 42,175,254</u>

* - PCS Number not available or not applicable

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2012**

	Second Period Report	Annual Report
ELEMENTARY		
Seventh through eighth	10,612	10,600
Community day school	29	32
Home and hospital	4	5
Special education	612	608
Total Elementary	11,257	11,245
SECONDARY		
Regular classes	25,168	24,929
Continuation education	371	361
Community day school	29	67
Home and hospital	72	32
Special education	1,387	1,380
Total Secondary	27,027	26,769
Average Daily Attendance Total	38,284	38,014

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83		1986-87		2011-12 Actual Minutes	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced			
Grade 7	57,244	53,428	54,000	50,400	61,336	180	Complied
Grade 8	57,244	53,428	54,000	50,400	61,336	180	Complied
Grade 9	58,020	54,152	64,800	60,480	65,415	180	Complied
Grade 10	58,020	54,152	64,800	60,480	65,415	180	Complied
Grade 11	58,020	54,152	64,800	60,480	65,415	180	Complied
Grade 12	58,020	54,152	64,800	60,480	65,415	180	Complied

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	2013 (Budget)	2012	2011	2010
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 308,839,091	\$ 355,397,457	\$ 367,220,825	\$ 358,452,570
Expenditures And Other Financing Uses	308,744,881	359,811,265	371,062,987	363,020,521
Net change in Fund Balance	\$ 94,210	\$ (4,413,808)	\$ (3,842,162)	\$ (4,567,951)
Adjustments for Restatements	\$ -	\$ -	\$ 1,670,500	\$ -
Ending Fund Balance	\$ 30,956,672	\$ 30,862,462	\$ 35,276,270	\$ 37,447,932
Available Reserves*	\$ 17,515,568	\$ 16,739,639	\$ 13,421,158	\$ 12,369,964
Available Reserves As A Percentage Of Outgo	5.67%	4.65%	3.62%	3.41%
Long-term Debt	\$ 588,827,392	\$ 608,400,718	\$ 622,494,592	\$ 624,033,256
Average Daily Attendance At P-2	38,284	38,284	38,776	39,333

The General Fund balance has decreased by \$6,585,470 over the past two years. The fiscal year 2012-13 budget projects an increase of \$94,210. For a District this size, the State recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in each of the past three years and anticipates incurring an operating surplus during the 2012-13 fiscal year. Total long term obligations have decreased by \$15,632,538 over the past two years.

Average daily attendance has decreased by 1,049 ADA over the past two years. No change in ADA is anticipated during the 2012-13 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**On behalf payments of \$7,176,779 are not included in the actual revenues and expenditures reported in this schedule.

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no differences between the annual financial and budget report and the audited financial statements.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2012**

Charter School	Included in Audit Report
The Metropolitan Area Advisory Committee	
Community Charter (MAAC) School	Not included

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 184,870	\$ 106,159	\$ 33,728	\$ 672,317	\$ 32,027,295	\$ 7,600,922	\$ 14,837,640	\$ -	\$ 55,462,931
Accounts receivable	811,339	2,162,864	3,721	448	41,068	6,225	-	-	3,025,665
Due from other funds	1,785,456	538,891	8,209,504	1,758,820	5,213,477	5,864,089	-	-	23,370,237
Stores inventory	-	64,510	-	-	-	-	-	-	64,510
Total Assets	\$ 2,781,665	\$ 2,872,424	\$ 8,246,953	\$ 2,431,585	\$ 37,281,840	\$ 13,471,236	\$ 14,837,640	\$ -	\$ 81,923,343
LIABILITIES									
Accrued liabilities	\$ 226,368	\$ 249,348	\$ 4,800	\$ 8,006	\$ 7,834	\$ 9,755	\$ -	\$ -	\$ 506,111
Due to other funds	2,551,771	2,552,291	50,000	36,513	-	-	-	-	5,190,575
Deferred revenue	1,000	-	-	-	-	-	-	-	1,000
Total Liabilities	2,779,139	2,801,639	54,800	44,519	7,834	9,755	-	-	5,697,686
FUND BALANCES									
Non-spendable	-	70,785	-	-	-	-	-	-	70,785
Restricted	-	-	-	2,387,066	37,274,006	13,461,481	14,837,640	-	67,960,193
Committed	2,526	-	8,192,153	-	-	-	-	-	8,194,679
Total Fund Balances	2,526	70,785	8,192,153	2,387,066	37,274,006	13,461,481	14,837,640	-	76,225,657
Total Liabilities and Fund Balance	\$ 2,781,665	\$ 2,872,424	\$ 8,246,953	\$ 2,431,585	\$ 37,281,840	\$ 13,471,236	\$ 14,837,640	\$ -	\$ 81,923,343

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Debt Service Fund for Blended Component Units	Non-Major Governmental Funds
REVENUES									
Federal sources	\$ 1,743,413	\$ 8,497,039	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,240,452
Other State sources	299,706	774,906	-	-	6,464,906	-	248,728	-	7,788,246
Other local sources	807,348	1,780,531	14,253	282,847	189,366	1,168,642	21,221,337	-	25,464,324
Total Revenues	2,850,467	11,052,476	14,253	282,847	6,654,272	1,168,642	21,470,065	-	43,493,022
EXPENDITURES									
Current									
Instruction	9,151,436	-	-	-	-	-	-	-	9,151,436
Instruction-related services									
Instructional supervision and administration	1,090,392	-	-	-	-	-	-	-	1,090,392
Instructional library, media, and technology	241,829	-	-	-	-	-	-	-	241,829
School site administration	3,026,906	-	-	-	-	-	-	-	3,026,906
Pupil services									
Food services	-	11,689,739	-	-	-	-	-	-	11,689,739
All other pupil services	706,803	-	-	-	-	-	-	-	706,803
General administration									
All other general administration	126,357	-	-	30,030	-	-	-	-	156,387
Plant services	1,142,689	67,274	752,684	35,189	290,436	389,078	-	-	2,677,350
Facilities acquisition and maintenance	-	-	-	412,405	1,637,984	65,637	-	-	2,116,026
Debt service									
Principal	-	-	63,860	-	-	1,825,000	4,465,000	7,970,000	14,323,860
Interest and other	-	-	8,286	-	-	626,083	14,534,448	8,236,545	23,405,362
Total Expenditures	15,486,412	11,757,013	824,830	477,624	1,928,420	2,905,798	18,999,448	16,206,545	68,586,090
Excess (Deficiency) of Revenues									
Over Expenditures	(12,635,945)	(704,537)	(810,577)	(194,777)	4,725,852	(1,737,156)	2,470,617	(16,206,545)	(25,093,068)
Other Financing Sources (Uses)									
Transfers In	12,650,000	537,545	3,209,504	6,968	4,439,332	5,864,089	-	16,206,545	42,913,983
Other Sources	-	-	-	-	-	-	4,805	-	4,805
Transfers Out	(87,084)	(9,235)	-	-	(47,362,130)	-	-	-	(47,458,449)
Net Financing Sources (Uses)	12,562,916	528,310	3,209,504	6,968	(42,922,798)	5,864,089	4,805	16,206,545	(4,539,661)
NET CHANGE IN FUND BALANCE	(73,029)	(176,227)	2,398,927	(187,809)	(38,196,946)	4,126,933	2,475,422	-	(29,632,729)
Fund Balance - Beginning	75,555	247,012	5,793,226	2,574,875	75,470,952	9,334,548	12,362,218	-	105,858,386
Fund Balance - Ending	\$ 2,526	\$ 70,785	\$ 8,192,153	\$ 2,387,066	\$ 37,274,006	\$ 13,461,481	\$ 14,837,640	\$ -	\$ 76,225,657

See accompanying note to supplementary information.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46206*.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code Section 46201*. For 2011-12, the instructional day and minute requirements have been reduced pursuant to *Education Code Sections 46201.2 and 46201.3*.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

**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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

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Governing Board
Sweetwater Union High School District
Chula Vista, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2012. 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.

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 Sweetwater Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sweetwater Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as items #2012-1 through #2012-5 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 15, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
Sweetwater Union High School District
Chula Vista, California

Compliance

We have audited Sweetwater Union High School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Sweetwater Union High School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Sweetwater Union High School District's management. Our responsibility is to express an opinion on Sweetwater Union High School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sweetwater Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sweetwater Union High School District's compliance with those requirements.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

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As described in item #2012-6 in the accompanying schedule of findings and questioned costs, Sweetwater Union High School District did not comply with requirements regarding attending annual trainings that are applicable to its Medi-Cal Administrative Activities program. Compliance with such requirements is necessary, in our opinion, for Sweetwater Union High School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Sweetwater Union High School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of Sweetwater Union High School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Sweetwater Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sweetwater Union High School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as item #2012-6 that we consider being significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Sweetwater Union High School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Sweetwater Union High School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 15, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Sweetwater Union High School District
 Chula Vista, California

We have audited Sweetwater Union High School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Sweetwater Union High School District's management. Our responsibility is to express an opinion on Sweetwater Union High School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Sweetwater Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sweetwater Union High School District's compliance with the state laws and regulations referred to above.

In connection with the audit referred to above, we selected and tested transactions and records to determine Sweetwater Union High School District's compliance with the state laws and regulations applicable to the following items:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

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8686 Haven Avenue
 Suite 250
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ALAMEDA

1050 Marina Village Parkway
 Suite 201
 Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

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<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Not Applicable
Option One	3	Not Applicable
Option Two	4	Not Applicable
Districts or charter schools with only one school serving K - 3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Yes
Contemporaneous Records of Attendance; for charter schools	3	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	4	Not Applicable

As described in the Schedule of Findings and Questioned Costs as findings #2012-7 and #2012-8, the Sweetwater Union High School District did not comply with requirements regarding Instructional Materials and After School Education and Safety (ASES) program. Compliance with such requirements is necessary, in our opinion, for Sweetwater Union High School District to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Sweetwater Union High School District complied, in all material respects, with the other state laws and regulations referred to above for the year ended June 30, 2012.

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

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 15, 2012

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	
Identification of major programs:	<u>Yes</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>84.318</u>	<u>No Child Left Behind: Title II, Part D</u>
<u>93.778</u>	<u>Medi-Cal Billing Option Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>National School Lunch</u>
<u>84.365</u>	<u>No Child Left Behind: Title III, LEP</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,265,258</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Qualified</u>

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

FINDING #2012-1: ASSOCIATED STUDENT BODY (30000)

Criteria: Proper internal controls are necessary to ensure the safeguard over the Associated Student Body (ASB) assets. Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

Bonita Vista High School

- 2 out of 20 cash receipts selections had a sales/fundraising activity that could not be reconciled to receipts due to lack of supporting documentation (i.e. tally sheets, individualized receipts, etc.). These items included donations and fundraisers.
- 2 out of 20 cash disbursements were questionable or inappropriate expenditures. (Check #29984 ASB funds used to pay for teacher's lunch, Check #29993 paid for construction to put tile in place to prevent skateboarding).
- 1 out of 20 cash receipts related to a raffle which is unallowable per Ed Code, whereby students paid \$1 for a candy and a chance to win prizes including gift cards and a grand prize iPod Touch (\$655.50, Receipt #1826).

Bonita Vista Middle School

- 7 out of 15 cash receipts tested lack adequate supporting documentation such as tally sheets, inventory count sheets, or sales reports to support the amount of sales/collections. These fundraising events included ticket sales, PJ donations, candy sales, and lollipop sales.
- 1 out of 10 expenditures tested appear to be questionable or inappropriate uses of student body funds. These disbursements were made to reimburse a District employee for food and gas expenses incurred while completing a summer woodworking project.

Castle Park High School

- 2 out of 21 cash receipts were not supported by adequate supporting documentation for ticket sales.
- 4 out of 21 cash receipts did not have adequate sales supporting documentation. These receipts lacked any proper form of cash reconciliation of sales to the amounts received.
- 2 out of 21 cash receipts were not deposited in a timely manner. This included collections for Cycling Fundraising Ride and a donation.
- 3 out of 20 cash disbursements tested did not obtained prior approval before an expense was made (Check #'s 51384 to Aspire Fundraising, #51413 to International Baccalaureate, and #51583 to club advisor)

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-1: ASSOCIATED STUDENT BODY (30000) (continued)

Chula Vista Adult School

- Fundraiser sales for Valentine's Grams lacked adequate supporting documentation such as tally sheets and inventory count sheets.

Chula Vista High School

- Revenue potentials are not being prepared.
- 5 out of 20 cash receipts tested lack adequate supporting documentation such as tally sheets, inventory count sheets, or sales reports to support the amount of sales/collections. These fundraising events included kettle corn sales, dance tickets, T-shirt sales, marriage booth tickets and coffee sales.
- 4 out of 20 cash disbursements were approved in an untimely manner.

Granger Junior High School

- 8 out of 20 cash receipts selections had sales/fundraising activity that could not be reconciled to receipts due to lack of supporting documentation (i.e. tally sheets, individualized receipts, etc.). These items included donations and fundraisers.
- 4 out of 20 cash receipts selections was not documented with check copies to support checks received.

Hilltop Middle School

- 3 out of 17 cash receipts tested lack adequate supporting documentation such as tally sheets, inventory count sheets, or sales reports to support the amount of sales/collections. These fundraising events included T-shirt sales, food fairs, and candy sales.

Mar Vista High School

- 5 out of 20 cash receipts tested lack adequate supporting documentation such as tally sheets, inventory count sheets, or sales reports to support the amount of sales/collections. These fundraising events included food fairs, carnivals, and cookie dough sales.
- 1 out of 20 expenditures tested appear to be questionable or inappropriate uses of student body funds. These expenditures are in the amount of \$230 for sprinkler repairs of District owned property.
- 2 out of 20 disbursements lack appropriate supporting documentation were missing itemized receipts to support the disbursement (Check # 41155 Payable to Giant Pizza King and Check #41400 Payable to Plaza Donuts).

Montgomery High School

- 1 out of 20 cash disbursements (Check #34830) tested was not an appropriate expenditure. A staff appreciation breakfast was paid for with ASB funds.

Montgomery Middle School

- Auditor noted in our testing of ASB expenditures that the school purchased a cable for a District golf cart repair. Auditor also noted that the golf court was an ASB donation to the District for inclusion in its insured equipment.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-1: ASSOCIATED STUDENT BODY (30000) (continued)

Rancho Del Rey High School

- 5 out of 20 cash receipts tested lacked adequate supporting documentation. The site was not using any form of cash control documentation to recorded sales for various donations and fundraisers.
- 5 out of 20 cash disbursements tested did not obtained prior approval before an expense was made (Check #'s 5214 to a club advisor, 5265 to A & M Team Sales, 5273 to Goldfield State, 5292 to Berry Athletic Supply, and 5327 to a club advisor).
- 1 out of 20 cash disbursements was unable to be located by the ASB (Check #5200).

Southwest Middle School

- 1 of 20 disbursements was for an unallowable expense to repair district owned soccer goal posts. (Check # 11617 to Blue Steel Enterprises)
- Per inquiry, auditor learned that the ASB reimbursed teacher expenses in excess of the District approved maximum allowable reimbursement amount. However the District approved expenditures and reimbursement was made to the teacher.

Southwest High School

- 1 of 20 cash receipts included a receipt for football game ticket sales. The amount of tickets sold did not reconcile, and was short by \$89, with the amount of cash received by the ASB.

San Ysidro High School

- 3 out of 20 cash disbursements tested did not obtained prior approval before an expense was made (Check #'s 7505 to Pioneer Drama Services, #7568 to Fireworks & State, and #7591 to Sweetwater Union HSD).
- 2 out of 20 cash receipts did not obtained adequate supporting documentation. These items included donations and fundraisers.

San Ysidro Adult Education

- 3 of 3 cash receipts were not deposited in a timely manner. This includes cap and gown income, scholarship income, and vending machine income.

Sweetwater High School

- 1 out of 20 cash disbursements were questionable or inappropriate (Check #3554 District employee was paid out of the ASB funds for officiating a swimming activity).
- 5 out of 20 cash receipts selections had sales/fundraising activity that could not be reconciled to receipts due to lack of supporting documentation (i.e. tally sheets, individualized receipts, etc.). These items included donations and fundraisers.
- 1 out of 20 cash receipts selections was not documented with check copies to support checks received.

Hilltop High School

- 1 out of 13 cash receipts selected did not have inventory or tally sheet to reconcile actual proceeds to cash collected and deposited.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-1: ASSOCIATED STUDENT BODY (30000) (continued)

Palomar High School

- 3 of 6 cash receipts tested did not have adequate support to reconcile actual proceeds to cash turned in for deposit.
- Bank reconciliations are not prepared timely. Last reconciliation prepared was for December 2011.

Otay Ranch High School

- 1 out of 15 cash disbursements tested did not have evidence of receipt on file.
- 2 out of 14 cash receipts tested did not have adequate supporting documentation (copy of check or tally sheets) to reconcile actual proceeds to cash collected and deposited.
- 1 out of 14 deposits cannot be reconciled to cash receipts. \$27,672.94 was deposited on 3/7/12 when total cash receipts per Bluebear report was \$27,862.94.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Perspective: We audited 27 ASBs at the school sites selected for testing in fiscal year 2011-12. Our audit included an evaluation of internal control procedures over: cash disbursements, cash receipts, and ASB organization. A detailed report of our findings by individual school site has been provided to the District for necessary follow-up.

Recommendation: The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

District Response:

- The District agrees and recognizes the value of strengthening internal controls for cash receipts and cash disbursements. In addition, the majority of findings relate to “club” and “athletic” cash receipts and disbursements. Club advisors and athletic team coaches frequently change, therefore at the beginning of each school year ASB or when there is a change in staff, ASB personnel will review and distribute the District’s “club advisor handbook”. The club advisors handbook specifically details sound business practices in relation to the receipt and disbursement of cash.
- The District agrees that ASB funds must be spent to benefit students. The Department of Internal Audit as well as staff responsible for ASB Accounting will reinforce this with ASB site personnel. In regards to repair and equipment items, the Board of Trustees has requested that those ASB’s with large general fund balances spend down the excess funds on items that provide a long-term benefit to students such as campus beautification.
- The District agrees that games of chances (raffles) are unallowable and has reinforced this with ASB personnel, who in turn have reminded club advisors/coaches that “gambling” is in violation of the Education Code.

The District appreciates and has reinforced all recommendations to personnel involved in the day to day operations of an ASB. The District is aware that the strengthening of internal controls is used to protect and safeguard assets as well as to provide the student body with exceptional experiences.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-2: AUDIT AND AUDIT COMMITTEE (30000)

Criteria: The internal auditor should report directly to the Board or Board approved audit committee and/or the Superintendent thus providing independence from the business functions. Areas of internal audit focus would typically include: compliance monitoring, audits of high fraud risks, special financial audits and performance audits.

Condition: The internal audit function in the District does not appear to be operating at full capacity due to other staffing constraints within the District. However, in a large district, such as Sweetwater Union High School District, these functions are an important part of the internal control structure and should be properly organized, functional and staffed appropriately.

Cause: Staffing constraints within the District.

Effect: Potential for mistakes, fraudulent behavior or misuse of District funds due to lack of proper checks and balances.

Perspective: Through inquiry with high level management.

Recommendation: We recommend that the District consider reviving and restructuring the internal audit function to effectively monitor compliance and internal controls.

District Response: The District agrees with this finding. Audit committee meetings had not taken place due to changes in administration. On July 9, 2012 the audit committee consisting of the two appointed Board Members, the Interim Chief Financial Officer and the Internal Auditor met to discuss the internal audit calendar. The next meeting of the audit committee is scheduled for January 2013.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-3: FIXED ASSET INVENTORY (20000)

Criteria: An inventory of fixed assets should be performed on a yearly basis to ensure that assets are still at the location documented in the fixed asset module at the time the asset was tagged/barcoded.

Condition: It appears that the District has a policy of performing a fixed asset inventory, however there appears to be a lack of proper follow and reconciliation between the items scanned at various locations to what is reported in the fixed asset module.

Cause: The District's budget cuts have caused constraints on the resources available to perform this function.

Effect: Potential for misappropriation of assets and overstatement of the fixed asset inventory.

Perspective: Through inquiry with management and personnel responsible for tracking fixed assets.

Recommendation: We recommend that the District enforce the current inventory policy by requiring personnel to perform a fixed asset inventory and reconcile the items with the reported assets in the fixed asset module.

District Response: During the last two school years, staff at the District level has been greatly reduced due to statewide educational budget reductions. During the 2011/2012 school year, an inventory of fixed asset equipment was performed but not reconciled. Currently, for the 2012/2013 school year, an inventory of fixed asset equipment is in process. If any variances are noted an analysis and reconciliation will be performed.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-4: HUMAN RESOURCES (30000)

Criteria: The Human Resources department should have adequate internal controls over the functions involved in hiring employees and determining their proper classification, compensation and ensuring the confidentiality and physical security of payroll and personnel information.

Condition: In auditing internal controls over the Human Resources department we found that seventeen (17) out of twenty (20) personnel files selected did not contain an I9 form, copy of driver's license, and/or SSN. Six (6) out of twenty (20) employees did not have proof of fingerprint clearance on file and one (1) out of twenty (20) employee personnel files could not be located. Human Resources has a current policy of destroying I9 forms after 3 years which is inconsistent with Title 8 of the Code of Federal Regulations Section 2741.2 which require I9 forms to be kept by the employer for three years after the date of the hire or one year after the date the individual's employment is terminated, whichever is later. We also noted that one terminated employee was never removed from the payroll system and kept active.

Cause: Turnover and staffing constraints within the District.

Effect: Potential for mistakes, fraudulent behavior or misuse of District funds due to lack of proper checks and balances within the Human Resource department.

Perspective: Through testing internal controls related to the human resource department.

Recommendation: We recommend that the District implement and enforce proper procedures related to the new hire and termination process which includes maintaining adequate and complete personnel file information and timely removal of terminated employees. We also recommend that the District implement a new policy regarding I9 form retention.

District Response: The District agrees that processes and procedures must be followed in regards to maintaining personnel files. The Department of Human Resources has undergone a great deal of staff turnover (approximately 50% of the department) due to the offering of an early retirement incentive as well as due to statewide budget reductions. The Department of Human Resources has revised the record retention policy and has developed a "check list" to ensure personnel files are organized in a manner that provides ready access to and the maintenance of personnel required documentation

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
JUNE 30, 2012**

FINDING #2012-5: CASH IN COUNTY (30000)

Criteria: The District should reconcile cash in county reported in the general ledger (GL) to the cash in county reported by the San Diego County Treasury on a monthly basis, noting any all differences or reconciling items between the GL and the county treasury's records.

Condition: In auditing cash in county balances for all funds we noted that there were differences noted in General Fund, the Adult Education Fund, the Building Fund and the County Schools Facilities Fund. The differences appear to be from transfers that were omitted or not recorded by the county treasury due to the District never contacting the county treasury to let them know these transfers were made. Due to this omission, the District's cash in county for the General Fund was understated by \$417,234, the Adult Education Fund understated by \$26, the Building Fund understated by \$17,758,946, and the County School Facilities Fund overstated by \$18,188,182.

Cause: Turnover and staffing constraints within the District.

Effect: Potential for mistakes, fraudulent behavior or misuse of District funds due to lack of proper cash reconciliations for cash in county.

Perspective: Through testing transactions and account balances related to the cash in county treasury.

Recommendation: We recommend that the District implement and enforce procedures to ensure that cash accounts are being reconciled on a monthly basis by all responsible parties. This will ensure that accurate balances are being reported by the District as well as the San Diego County Treasury.

District Response: The error noted was a classification error between funds which has been corrected. The District is reviewing the appropriateness of where this function should reside.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

FINDING #2012-6: MEDI-CAL ADMINISTRATIVE ACTIVITIES TIME SURVEYS (50000)

Federal Program: Medi-Cal Cluster (CFDA 93.778) U.S. Department of Health and Human Services passed through the California Department of Health and Human Services.

Criteria: Employees performing and submitting time surveys should be attending annual training per OMB Circular A-133 and the Medicaid Cluster Audit Program.

Condition: In 2009-10, the district submitted time survey hours for approved reimbursement. However, upon examination of employee submitted time surveys, auditor noted that employees did not have proof of attending any type of training for which they charged.

Context: Eight (8) of 25 employees tested did not have any proof of attending any type of training.

Cause: It appears that a lack of controls exists for the District regarding trainings. The District was unable to provide documentation that employees who submit time surveys had attended any training.

Effect: The District is not in full compliance with the federal regulations as they pertain to the Medicaid Cluster. We believe that the revenues received in 2011-12 relating to submissions in the second and third quarter of 2009-10 are overstated.

Questioned Costs: Based upon testing, auditor projected that 32% of employees were not in compliance. Upon this projection, \$225,944 of revenues received for the 2011-12 year was overstated.

Recommendation: We recommend that the District adopt controls to ensure that employees who are performing time surveys receive the appropriate training. The District should retain sign in sheets for these employees and file them in a safe location for reference.

District Response: The District recognizes the importance of retaining source documentation to support all District activities. The sample selected included employees whose training was provided at school sites. The employees did receive the appropriate training however the time surveys were unable to be located. In addition, the amount of hours for the sign-in sheets unable to be located amounts to 3% of the total hours claimed for the second and third quarter of 2009/2010. The District has centralized source documentation retention and is in the process of reviewing the appropriate staffing for supervising this activity.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
41000	CalSTRS
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2012-7: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (ASES) (40000)

Criteria: Per Education Code 8483(a)(2), it is the intent of the Legislature that pupils in middle school or junior high school attend a minimum of nine hours a week and three days a week to accomplish program goals. Also, per Education Code 8483.1(a)(1), every before school program component established pursuant to this article shall in no instance operate for less than one and one-half hours per regular school day. Every program shall establish a policy regarding reasonable late daily arrival of pupils to the program.

Condition: We sampled and tested the Before School and After School Education Safety Program at four school sites with the following results:

Chula Vista Middle School

Before School

In testing Before School ASES at Chula Vista Middle School, we found that 6 out of 50 total student days tested were overstated.

- A student that did not have a Late Arrival Policy on file and the student arrived to the program more than 15 minutes following the commencement of the day (4 days).
- Two students were recorded as valid on the attendance report but did not appear on the sign in sheets (2 days).

We noted that 3 out of 50 total student days tested were understated. This exception was noted because students that were marked as invalid or absent on the attendance report were in fact present and valid per review of sign in sheets.

Granger Junior High School

Before School

In testing Before School ASES at Granger Junior High School, we found that 14 out of 50 total student days tested were overstated.

- Students had a Late Arrival Policy on file but the policy did not note a late arrival time. The students with this exception arrived to the program more than 15 minutes following the commencement of the day (14 days).

**SWEETWATER UNION HIGH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
JUNE 30, 2012**

FINDING #2012-7: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (ASES) (40000) (continued)

Granger Junior High School

Before School (continued)

We noted that 2 out of 50 total student days tested were understated. This exception was noted because students that were marked as invalid or absent on the attendance report were in fact present and valid per review of sign in sheets.

After School

In testing After School ASES at Granger Junior High School, we found that 21 out of 50 total student days tested were overstated.

- Students had an Early Release Policy on file but the policy did not note an early release time. The students with this exception were released from the program 15 minutes or more before the end of the program (21 days).

Mar Vista Middle School

Before School

In testing Before School ASES at Mar Vista Middle School, we found that 4 out of 50 total student days tested were overstated.

- A student that did not have a Late Arrival Policy on file and the student arrived to the program more than 15 minutes following the commencement of the day (4 days).

After School

In testing After School ASES at Mar Vista Middle School, we found that 1 out of 50 total student days tested were overstated. One student was recorded as valid on the attendance report but did not appear on the sign in sheets.

National City Middle School

Before School

In testing Before School ASES at National City Middle School, we found that 15 out of 50 total student days tested were overstated.

- Students did not have a Late Arrival Policy on file and the student arrived to the program more than 15 minutes following the commencement of the day
- Students were recorded as valid on the attendance report but did not appear on the sign in sheets.
- Students were recorded as valid on the attendance report but there was no time noted next to the student's signature on the sign in sheet.

We noted that 3 out of 50 total student days tested were understated. This exception was noted because students that were marked as invalid or absent on the attendance report were in fact present and valid per review of sign in sheets.

SWEETWATER UNION HIGH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
JUNE 30, 2012

FINDING #2012-7: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (ASES) (40000) (continued)

National City Middle School (continued)

After School

In testing After School ASES at National City Middle School, we found that 4 out of 50 total student days tested were overstated.

- Students had an Early Release Policy on file but the policy did not note an early release time. The students with this exception were released from the program 15 minutes or more before the end of the program.

We noted that 2 out of 50 total student days tested were understated. This exception was noted because students that were marked as invalid or absent on the attendance report were in fact present and valid per review of sign in sheets.

Questioned Costs: \$2,688,092 was received for the ASES program in fiscal year 2011-12.

Cause: Inadequate supervision of students signing-in and out, as well as not maintaining accurate attendance records which may in part be due to computer system limitations.

Context: Attendance records at four of four school sites tested.

Effect: The District may not be accurately reporting the number of pupils served by the ASES program.

Recommendation: A standardized automated system and procedures is needed District wide and/or retooling of the CitySpan system to overcome the need for manual corrections. We also recommend that the District provide more oversight and training to staff responsible for running the ASES program to ensure accurate recordkeeping throughout the District. As needed, the annual ASES reports should be revised for any reporting errors.

District Response: The District hired an internal auditor in January 2012, dedicated to overseeing the After School Education & Safety (ASES) program. In addition, the District developed a district-wide early release/late arrival form for each site to use based upon the recommendations of the San Diego County Office of Education (SDCOE) After School Division. The District has instructed the sites to reconcile the program attendance daily from City Span to the sign-in/out sheets and the newly hired internal auditor is reviewing these records during site visits.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
JUNE 30, 2012**

FINDING #2012-8: INSTRUCTIONAL MATERIALS PUBLIC HEARING (70000)

Criteria: Pursuant to Education Code 60119, the District is required to hold a public hearing regarding the sufficiency of textbooks or other instructional materials on or before the eighth week from the first day pupils attended school for that year.

Condition: The District was found to be out of compliance with regard to when the public hearing for instructional materials was held. The District held the hearing on Monday October 17, 2011 and the first day of school was held on July 20, 2011.

Cause: Turnover in staff caused oversight of applicable compliance requirements.

Effect: A public hearing, as required by Education Code, was not held within 8 weeks from the first day of school year.

Questioned Cost: 2011-12 Instructional Materials funding of \$2,331,137

Recommendation: We recommend the District properly monitor and oversee employees responsible for making sure the public hearing is held within 8 weeks from the start of the school year, as outlined in Education Code 600119.

District Response: In fact, the required annual public hearing for instructional materials/textbooks as noted in education code 60119 (1) (A) was put on the board agenda within the required eight weeks from the first day that pupils attend school, however due to the length of the board meeting held on September 19, 2011, the meeting was adjourned before the item was considered. As required, the public notice was reposted ten days prior to the next board meeting and the public hearing was held and the adoption was approved on October 17, 2011.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-1: CAFETERIA PROGRAM CASH HANDLING (30000)

Criteria: There should be adequate internal controls and segregation of duties among employees within the District.

Condition: It was discovered that potentially fraudulent transactions had occurred and the District is currently investigating those allegations. Lack of adequate supervision was a notable internal control deficiency that provided an opportunity for the potential improper use of district funds.

Cause: Inadequate internal control structure within the Cafeteria department.

Effect: Potentially fraudulent behavior can occur within the District.

Recommendation: We recommend that the District provide adequate supervision and internal control procedures to prevent the opportunity for fraud or irregularities occurring in the cafeteria program.

District Response: The District disclosed this information during the final audit phase for the 2010/2011 school year. Results of a third party investigation are pending. The District has identified areas of internal control weaknesses and has implemented procedures to strengthen these processes.

Current Status: *Implemented*

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-2: ASSOCIATED STUDENT BODY FUNDS (30000)

Criteria: Our audit of Associated Student Body accounts at 9 selected school sites found no exceptions at Eastlake Middle, Montgomery Adult and Southwest Middle. At the remaining sites we had the following types of findings. A detailed report of findings by schoolsite has been provided to district staff.

Condition: We found instances wherein expenditures did not contain purchase requisition forms indicating pre-approval for payments aggregating to \$1,224 at the following school site ASBs:

- Hilltop Middle School
- Palomar High School

We found supporting documentation lacking for cash receipting activities, including in some cases: fundraisers; carwash proceeds; food sales; and, athletic events gate sales. In our sample the exceptions aggregated to approximately \$14,381 in cash deposits lacking adequate backup. As a result, we were unable to determine whether or not all cash was deposited intact. The sites with exceptions included:

- Southwest Senior High School
- Bonita Vista High School
- Hilltop Middle School
- Montgomery Senior High School

Cause: Possible lack of information communicated with the ASB bookkeeper on proper accounting procedures.

Effect: Potential for mistakes, fraudulent behavior or misuse of student funds due to lack of proper accounting procedures.

Recommendation: We recommend the ASBs follow the District's ASB manual and procedures in the areas where deficiencies were found.

District Response: The District agrees with these findings and will direct all ASB staff to properly train all club advisors in regards to internal controls for cash collections and expenditures. Furthermore, the Department of Internal Audit will distribute the "ASB Procedures Manual" pertaining to clubs. On January 9th the District is having a staff development day for ASB Staff.

Current Status: *Not implemented. See finding #2012-1*

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-3: INTERNAL AUDIT AND AUDIT COMMITTEE (30000)

Criteria: The internal auditor should report directly to the Board or Board approved audit committee and/or the Superintendent thus providing independence from the business functions. Areas of internal audit focus would typically include: compliance monitoring, audits of high fraud risks, special financial audits and performance audits.

Condition: The internal audit function in the District does not appear to be operating at full capacity due to other staffing constraints within the District. However, in a large district, such as Sweetwater Union High School District, these functions are an important part of the internal control structure and should be properly organized, functional and staffed appropriately.

Cause: Staffing constraints within the District.

Effect: Potential for mistakes, fraudulent behavior or misuse of District funds due to lack of proper checks and balances.

Recommendation: We recommend that the District consider reviving and restructuring the internal audit function to effectively monitor compliance and internal controls.

District Response: The District's Internal Audit Department contains two staff members, an Internal Auditor and a Staff Auditor. The audit department underwent staff reductions due to budget constraints. The District will restructure an audit committee that will meet during the month of February 2012.

Current Status: *Not implemented. See finding #2012-2*

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-4: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: The Facility Inspection Tool (FIT) form for Hilltop Middle School was inconsistent with the School Accountability Report Card (SARC) that was published in the fiscal year 2010-11. The SARC showed that the interior and exterior conditions were rated as “Fair” while the FIT form indicated that these areas were “Good.”

Condition: School facilities conditions assessments as indicated in a school’s annual School Accountability Report Card should match the information indicated in facility inspection tool (FIT) forms developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002.

Context: 1 of 6 school sites tested

Cause: School Accountability Report Cards were not filled out correctly based on the most recent FIT forms. Cause unknown.

Effect: The 2009-10 School Accountability Report Cards as tested in the 2010-11 fiscal year were not in compliance with Education Code.

Questioned Costs: Not applicable

Recommendation: Update the SARC and ensure it agrees to the Facility Inspection Tool for Hilltop Middle School and ensure future SARC’s posted to the District’s website are complete and in compliance with Education Code.

District Response: The District has updated its website with the correct information for the one site that noted conditions as “fair” instead of “good”. Furthermore, the department responsible for reporting the SARC’s on the website will review and compare “The Facility Inspection Tool (FIT) reports prior to publishing information on the District’s website.

Current Status: *Implemented*

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-5: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

Criteria: Per Education 8483(a)(2), it is the intent of the Legislature that that pupils in middle school or junior high school attend a minimum of nine hours a week and three days a week to accomplish program goals. Also, per Education Code 8483.1(a)(1) every before school program component established pursuant to this article shall in no instance operate for less than one and one-half hours per regular school day. Every program shall establish a policy regarding reasonable late daily arrival of pupils to the program.

Condition: We sampled and tested the Before School and After School Education and Safety Program at three school sites with the following results:

- Granger Junior High School - In testing Granger Junior High School we found that 2 out of 40 student attendance days were incorrectly coded as being valid, yet the students were unable to be located on the sign-in/sign-out documentation provided.
- Mar Vista Middle School - In testing Mar Vista Middle School we found that 1 out of 40 student attendance days were incorrectly coded as being valid, yet the students were unable to be located on the sign-in/sign-out documentation provided.
- National City Middle School - In testing National City Middle School we found that the before school program did not meet the minimum hours of operation requirement of 1.5 hours per day. The school is operating the before school program from 6:15 AM to 7:40 AM, or 1 hour and 25 minutes, which is 5 minutes short of the requirement.

Subsequent to the initial audit, we performed additional procedures at 5 sites at the direction of the District. Approximately 18% of the pupils tested could not be readily traced through the CitySpan system to the state report. However, this appears to be due in large part to manual correcting entries the district is making and these entries may well be valid. In conducting our work, we found that there were problems with invalid scans due to pupil's arriving late to the after school program and yet being eligible for inclusion in the attendance count since they met the minimum number of hours of participation requirement. The District, therefore, made correcting manual entries in these cases. The reason, it appears, that manual corrections are needed is because the CitySpan system does not allow for attendance to be changed/updated by site, day and student. The recordkeeping for the manual entries is voluminous and tedious to trace due to the large volume of paperwork filed by week, student and site.

Overall, there are internal control and computer system problems that create the need for a large number of manual adjustments to the records. And, there are other compliance problems (such as not operating the before school a minimum of 1.5 hours) and recordkeeping that is cumbersome and difficult to audit.

Questioned Costs: \$2,685,329 was received for the ASES program in fiscal year 2010-11

**SWEETWATER UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-5: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000) (continued)

Cause: Inadequate supervision of students signing-in and out, as well as not maintaining accurate attendance records which may in part be due to computer systems limitations.

Context: 8 of 8 school sites tested.

Effect: The District may not be accurately reporting the number pupils served.

Recommendation: A standardized automated system and procedures is needed district wide and/or retooling of the CitySpan system to overcome the need for manual corrections. We also recommend that the District provide more oversight and training to staff responsible for running the ASES program to ensure accurate recordkeeping throughout the District. As needed, the annual ASES reports should be revised for any reporting errors.

District Response: The District is updating and strengthening its procedures for students “signing in and out” for the After School Program. An Internal Auditor will be joining staff in January 2012 and will specifically focus on the After School Program. Furthermore, the District is looking into the option of using “palm scanners” to assist in accounting for attendance for the After School Program. All changes will be implemented to adhere to state requirements.

Current Status: *Not Implemented. See finding #2012-7*