



ANNUAL FINANCIAL REPORT

JUNE 30, 2014

SWEETWATER UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on the Financial Statements

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 (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, 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 the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the Sweetwater Union High School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 16 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 5 through 13 and budgetary comparison and other postemployment benefit information on pages 61 and 62, respectively, be presented to supplement the basic financial statements. Such information, although not a 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 an 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.

Other Information

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 accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the 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* in considering Sweetwater Union High School District's internal control over financial reporting and compliance.

Vavrinck, Irino, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2014

This section of Sweetwater Union High School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Sweetwater Union High School District.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, all of the District's activities are classified as follows:

Governmental Activities – The District reports all of its services in this category. This includes the education of grade seven through grade twelve students, adult education students, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$566.3 million for the fiscal year ended June 30, 2014, reflecting an increase of 1.20 percent from prior year. Of this amount, (\$14.6) million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2014	2013 As restated
Assets		
Current and other assets	\$ 272,893,419	\$ 310,714,403
Capital assets	949,826,159	915,642,456
Total Assets	1,222,719,578	1,226,356,859
Deferred Outflows of Resources	983,326	-
Liabilities		
Current liabilities	27,159,423	26,976,549
Long-term obligations	630,267,314	639,810,793
Total Liabilities	657,426,737	666,787,342
Net Position		
Net investment in capital assets	539,494,593	518,671,981
Restricted	41,423,908	49,431,357
Unrestricted	(14,642,334)	(8,533,821)
Total Net Position	\$ 566,276,167	\$ 559,569,517

The (\$14.6) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by 71.6 percent ((\$14.6) million compared to (\$8.5) million).

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 3,216,150	\$ 3,567,185
Operating grants and contributions	74,625,403	67,489,004
Capital grants and contributions	52,559	117,187
General revenues:		
Federal and State aid not restricted	239,518,968	217,008,322
Property taxes	111,794,193	111,103,686
Other general revenues	10,510,832	16,962,037
Total Revenues	439,718,105	416,247,421
Expenses		
Instruction	238,199,531	223,358,779
Instruction-related	59,499,786	54,279,411
Student support services	45,145,313	43,263,844
Administration	19,327,720	18,475,704
Plant services	35,655,967	33,839,277
Interest on long-term obligations	25,150,595	20,022,249
Other	10,032,543	10,247,945
Total Expenses	433,011,455	403,487,209
Change in Net Position	\$ 6,706,650	\$ 12,760,212

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$433.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$111.8 million because the cost was paid by those who benefited from the programs (\$3.2 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$74.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$250.0 million in State funds, and with other revenues, like interest and general entitlements.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction-related programs, student support services, administration, plant services, interest on long-term obligations, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	\$ 238,199,531	\$ 223,358,779	\$ 193,209,400	\$ 184,272,391
Instruction-related	59,499,786	54,279,411	49,957,992	42,464,772
Student support services	45,145,313	43,263,844	28,713,881	27,461,029
Administration	19,327,720	18,475,704	18,221,253	16,827,802
Plant services	35,655,967	33,839,277	35,368,660	33,582,172
Interest on long-term obligations	25,150,595	20,022,249	25,150,595	20,022,249
Other	10,032,543	10,247,945	4,495,562	7,683,418
Total	\$ 433,011,455	\$ 403,487,209	\$ 355,117,343	\$ 332,313,833

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$254.0 million, which is a decrease of \$38.3 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 29,461,568	\$ 364,061,494	\$ 364,971,921	\$ 28,551,141
Capital Project Fund for Blended Component Units	128,956,739	105,491,320	100,786,217	133,661,842
Non-Major Governmental Funds	133,945,089	164,454,372	206,601,362	91,798,099
Total	\$ 292,363,396	\$ 634,007,186	\$ 672,359,500	\$ 254,011,082

The primary reasons for these decreases are:

- The General Fund showed a decrease of \$0.9 million.
- The Capital Project Fund for Blended Component Units showed an increase of \$4.7 million.
- The Non-Major Governmental Funds showed a decrease of approximately \$42.1 million.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on May 28, 2014. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 61.)

The key differences between the original budget, final budget and actual results is attributable to:

- Re-allocation of categorical program carryover from the prior year, and final entitlements for categorical programs.

As has been the practice of the District, Sweetwater Union High School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical carryover, while the final budget and actual results reflects these carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$949.8 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$34.2 million, or 3.7 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2014	2013
Land and construction in progress	\$ 507,735,601	\$ 463,280,114
Buildings and improvements	437,307,447	447,901,773
Furniture and equipment	4,783,111	4,460,569
Total	\$ 949,826,159	\$ 915,642,456

This year's additions of \$50.4 million (see Note 4) included several completed construction projects for critically over-crowded schools, modernization, new construction, vehicles and classroom equipment. The District will use the general obligation bond proceeds for construction and modernization of existing school facilities.

Several capital projects are planned for the 2014-2015 year. We anticipate capital additions to be \$37.4 million for the 2014-2015 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Long-Term Obligations

At the end of this year, the District had \$630.3 million in long-term obligations versus \$639.8 million last year, an decrease of 1.5 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2014	2013
General obligation bonds (including accreted interest and premium)	\$ 347,379,755	\$ 351,839,070
General obligation bond anticipation notes (including premium)	36,349,357	37,290,519
Certificates of participation	11,625,000	97,480,000
Special tax revenue bonds (including premium)	145,338,996	69,425,339
Demand revenue bonds	33,650,000	33,650,000
Qualified zone academy bonds	8,825,000	9,125,000
Capitalized lease obligations	6,532,119	4,838,828
Compensated absences	7,431,873	6,254,454
Early retirement incentive	2,720,513	3,477,960
Other postemployment benefits	30,414,701	26,429,623
Total	\$ 630,267,314	\$ 639,810,793

The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt is below this statutorily-imposed limit.

Other obligations include certificates of participation, qualified zone academy bonds, revenue bonds, compensated absences payable, capital leases, early retirement incentive, and other postemployment benefits. We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

- Six of Sweetwater's comprehensive high schools were named Silver Medal winners in 2014 by the U.S. News & World Report, placing them among the top 12 percent of schools in the nation in the annual ranking of schools. Olympian High was named a Gold Medal Winner, placing them among the top three percent of all schools in the U.S.
- Sweetwater District graduation rate is higher than the state and county averages while the dropout rate is below the state and county rates. The graduation rate increased from 79.5 percent in 2011 to 83 percent in 2013 and dropouts decreased from 8.3 percent in 2011 to 6.4 percent in 2013.
- In the 2014-2015 school year, every 7th, 8th and 9th grade student in the Sweetwater District was assigned an iPad tablet computer (approximately 20,000 devices) as their primary learning tool allowing students to take tests, do homework and communicate with their teachers.
- Since 2013, 12 Sweetwater District graduates have received Gates Millennium Scholarships. The scholarship pays 100 percent of a student's undergraduate and graduate degrees. Only 1,000 scholarships are distributed annually in the entire nation.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2014-2015 year, the governing board and management used the following criteria:

The key revenue forecast assumptions are as follows:

- (1) The budget was initially based on the "May Revise", which represents the Governor's final recommended budget to our State Legislature and later revised based on the State adopted budget. The key components of the State Adopted Budget include:
 - (a) Local Control Funding Formula Gap percentage is 28.05 percent;
 - (b) Deferral is fully funded;
 - (c) Funding for mandate claims is at \$66 per ADA.
- (2) The District's major source of income is from the Local Control Funding Formula. For 2014-2015, the District is projecting a slight increase in student enrollment of 67 students based on the most recent student enrollment projections.

Expenditures were based on the following:

- (1) Staffing ratios:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades six through eight	30 to 1	11,550
Grades nine through twelve	30 to 1	28,597

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 Chief Financial Officer, Ms. Karen Michel, 1130 Fifth Avenue, Chula Vista, California, 91911, or e-mail at karenmichel@sweetwaterschools.org.

SWEETWATER UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 220,311,821
Restricted assets, investments	
Receivables	52,255,922
Stores inventories	325,676
Capital assets	
Land and construction in process	507,735,601
Other capital assets	581,623,459
Less: accumulated depreciation	<u>(139,532,901)</u>
Total Capital Assets	<u>949,826,159</u>
Total Assets	<u>1,222,719,578</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	<u>983,326</u>
LIABILITIES	
Accounts payable	17,718,969
Accrued interest	8,277,086
Unearned revenue	1,163,368
Long-term obligations	
Current portion of long-term obligations	19,853,650
Noncurrent portion of long-term obligations	<u>610,413,664</u>
Total Long-Term Liabilities	<u>630,267,314</u>
Total Liabilities	<u>657,426,737</u>
NET POSITION	
Net investment in capital assets	539,494,593
Restricted for:	
Debt service	8,495,962
Capital projects	25,917,301
Educational programs	7,008,908
Other activities	1,737
Unrestricted	<u>(14,642,334)</u>
Total Net Position	<u>\$ 566,276,167</u>

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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 238,199,531	\$ 1,283,560	\$ 43,654,012	\$ 52,559	\$ (193,209,400)
Instruction-related activities:					
Supervision of instruction	19,062,753	193,627	8,924,526	-	(9,944,600)
Instructional library, media, and technology	4,886,079	-	54,871	-	(4,831,208)
School site administration	35,550,954	3,843	364,927	-	(35,182,184)
Pupil services:					
Home-to-school transportation	7,885,204	-	50,468	-	(7,834,736)
Food services	12,977,408	1,050,264	11,044,800	-	(882,344)
All other pupil services	24,282,701	123	4,285,777	-	(19,996,801)
Administration:					
Data processing	6,249,423	-	-	-	(6,249,423)
All other administration	13,078,297	79,172	1,027,295	-	(11,971,830)
Plant services	35,655,967	23,270	264,037	-	(35,368,660)
Ancillary services	9,117,193	582,291	2,848,811	-	(5,686,091)
Community services	275,796	-	-	-	(275,796)
Interest on long-term obligations	25,150,595	-	-	-	(25,150,595)
Other outgo	639,554	-	2,105,879	-	1,466,325
Total Governmental Activities	\$ 433,011,455	\$ 3,216,150	\$ 74,625,403	\$ 52,559	(355,117,343)
General revenues and subventions:					
					62,621,238
					22,272,612
					26,900,343
					239,518,968
					638,045
					9,872,787
					361,823,993
					6,706,650
					559,569,517
					\$ 566,276,167

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 16,745,329	\$ 111,034,669	\$ 92,531,823	\$ 220,311,821
Receivables	50,518,918	94,511	1,642,493	52,255,922
Due from other funds	787,233	22,895,636	3,864,709	27,547,578
Stores inventories	203,512	-	122,164	325,676
Total Assets	\$ 68,254,992	\$ 134,024,816	\$ 98,161,189	\$ 300,440,997
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 14,819,571	\$ 183,983	\$ 2,715,415	\$ 17,718,969
Due to other funds	23,726,484	178,991	3,642,103	27,547,578
Unearned revenue	1,157,796	-	5,572	1,163,368
Total Liabilities	39,703,851	362,974	6,363,090	46,429,915
Fund Balances:				
Nonspendable	228,506	-	123,814	352,320
Restricted	6,994,378	133,661,842	68,134,330	208,790,550
Committed	-	-	8,818,789	8,818,789
Assigned	2,337,384	-	14,721,166	17,058,550
Unassigned	18,990,873	-	-	18,990,873
Total Fund Balances	28,551,141	133,661,842	91,798,099	254,011,082
Total Liabilities and Fund Balances	\$ 68,254,992	\$ 134,024,816	\$ 98,161,189	\$ 300,440,997

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 POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Funds **\$ 254,011,082**
**Amounts Reported for Governmental Activities in the Statement of
 Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 1,089,359,060	
Accumulated depreciation is	<u>(139,532,901)</u>	
Net Capital Assets		949,826,159

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (8,277,086)

This represents the deferred charge on refunding as a result of refunding of bonds. The difference between the amount that was sent to the escrow agent for the repayment of the old debt and the actual remaining debt obligation will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This represents the unamortized balance as of year-end. 983,326

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

General obligation bonds	321,584,415
Premium on general obligation bonds	5,516,235
General obligation bond anticipation notes	32,820,000
Premium on bond anticipation notes	3,529,357
Certificates of participation	11,625,000
Special tax revenue bonds	135,710,000
Premium on special tax revenue bonds	9,628,996
Demand revenue bonds	33,650,000
Qualified zone academy bonds	8,825,000
Capital leases payable	6,532,119
Compensated absences (vacations)	7,431,873
Early retirement incentive	2,720,513
Other postemployment benefits (net OPEB obligation)	30,414,701

In addition, the District has issued "capital appreciation" bonds.

The accretion of interest on those bonds to date is as follows: 20,279,105

Total Long-Term Obligations	<u>(630,267,314)</u>
Total Net Position - Governmental Activities	<u><u>\$ 566,276,167</u></u>

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, 2014

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 275,516,394	\$ -	\$ 13,253,800	\$ 288,770,194
Federal sources	23,531,297	-	12,934,154	36,465,451
Other State sources	31,116,949	-	1,772,171	32,889,120
Other local sources	28,621,713	26,472,463	26,631,989	81,726,165
Total Revenues	358,786,353	26,472,463	54,592,114	439,850,930
EXPENDITURES				
Current				
Instruction	215,989,116	-	8,005,038	223,994,154
Instruction-related activities:				
Supervision of instruction	17,460,300	-	1,347,960	18,808,260
Instructional library, media and technology	4,534,918	-	271,112	4,806,030
School site administration	31,495,432	-	2,778,649	34,274,081
Pupil services:				
Home-to-school transportation	8,637,276	-	-	8,637,276
Food services	615	-	12,824,658	12,825,273
All other pupil services	22,641,073	-	678,702	23,319,775
Administration:				
Data processing	6,126,150	-	-	6,126,150
All other administration	12,759,969	-	614,812	13,374,781
Plant services	29,245,363	746,501	5,228,057	35,219,921
Facility acquisition and construction	2,500	2,292,190	44,172,780	46,467,470
Ancillary services	9,010,635	-	-	9,010,635
Community services	268,978	-	-	268,978
Other outgo	639,554	-	-	639,554
Debt service				
Principal	3,812,579	-	18,359,271	22,171,850
Interest and other	205,406	1,948,972	22,317,052	24,471,430
Total Expenditures	362,829,864	4,987,663	116,598,091	484,415,618
Excess (Deficiency) of Revenues Over Expenditures	(4,043,511)	21,484,800	(62,005,977)	(44,564,688)
Other Financing Sources (Uses)				
Transfers in	-	55,455	108,821,089	108,876,544
Other sources - proceeds from issuance of debt	5,275,141	78,963,402	-	84,238,543
Transfers out	(2,142,057)	(95,798,554)	(10,935,933)	(108,876,544)
Other uses - payment to refunded bond escrow agent	-	-	(78,026,169)	(78,026,169)
Net Financing Sources (Uses)	3,133,084	(16,779,697)	19,858,987	6,212,374
NET CHANGE IN FUND BALANCES	(910,427)	4,705,103	(42,146,990)	(38,352,314)
Fund Balances - Beginning	29,461,568	128,956,739	133,945,089	292,363,396
Fund Balances - Ending	\$ 28,551,141	\$ 133,661,842	\$ 91,798,099	\$ 254,011,082

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, 2014

Total Net Change in Fund Balances - Governmental Funds **\$ (38,352,314)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 47,936,254	
Depreciation expense	<u>(13,619,726)</u>	
Net Expense Adjustment		34,316,528

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the Statement of Activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (132,825)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Assets. (5,275,141)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were special termination benefits paid in the amount of \$757,447. Vacation earned was more than the amounts paid by \$1,177,419. (419,972)

Other postemployment benefits (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: (3,985,078)

Proceeds received from issuance of special tax revenue bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities. (72,140,000)

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 (Continued) FOR THE YEAR ENDED JUNE 30, 2014

Governmental funds report the effect of the deferred charge on a refunding when debt is first issued, whereas the amounts are deferred and amortized on the Statement of Activities. This amount reflects the deferred charge as a result of refunding certificates of participation in the current year. \$ 1,041,169

Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Premium on issuance of special tax revenue bonds	\$ (6,823,402)	
Amortization of debt premium	1,717,834	
Amortization of deferred charge on refunding	<u>(57,843)</u>	(5,163,411)

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	6,895,000
Certificates of participation	85,855,000
Special tax revenue bonds	2,525,000
Qualified zone academy bonds	300,000
Capital lease obligations	3,581,850

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds, special tax bonds, and certificates of participation decreased by \$348,456, and second, \$2,687,612 of additional interest was accreted on the District's capital appreciation general obligation bonds. (2,339,156)

Change in Net Position of Governmental Activities \$ 6,706,650

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 12,551	\$ 4,682,854
Receivables	12	65,353
Prepaid expenses	-	90,176
Stores inventories	-	230,188
Total Assets	<u>12,563</u>	<u>\$ 5,068,571</u>
LIABILITIES		
Accounts payable	-	\$ 124,753
Due to student groups	-	4,943,818
Total Liabilities	<u>-</u>	<u>\$ 5,068,571</u>
NET POSITION		
Unreserved	<u>12,563</u>	
Total Net Position	<u>\$ 12,563</u>	

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2014**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 43</u>
Change in Net Position	43
Net Position - Beginning	12,520
Net Position - Ending	<u><u>\$ 12,563</u></u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Sweetwater Union High School District (the District) was organized in 1921 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades seven through twelfth as mandated by the State and/or Federal agencies. The District operates eleven middle schools, twelve high schools, one continuation high school, four adult schools, and four alternative education schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Sweetwater Union High School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

Both the Sweetwater Union High School District Financing Corporation (the Corporation) and the Sweetwater Union High School District Public Financing Authority (the Authority) are nonprofits, public benefit corporations incorporated under the laws of the State of California and recorded by the Secretary of State. The entities were formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations (certificates of participation). The District is required under certain lease agreements issued by the Corporation and special tax bonds issued by the Authority to make payments solely from Special Taxes levied in and collected from various Community Facilities Districts.

The Corporation and the Authority's financial activity is presented in the financial statements in the Capital Project Fund for Blended Component Units and in the Debt Service Fund for Blended Component Units. Certificates of participation issued by the Corporation and special tax bonds issued by the Authority are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation or the Authority.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Other Related Entities

Charter School The District has approved charters for The Metropolitan Area Advisory Committee Community Charter School, Stephen Hawking Charter School, and Stephen W. Hawking II, Science, Technology, Engineering, Art and Math Charter School, pursuant to *Education Code* Section 47605. The Charter Schools are not operated by the District, and their financial activities are not presented in the District's financial statements. The Charter Schools are operated by separate governing boards and are not considered component units of the District. The Charter Schools receive State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

Basis of Presentation Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units 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 The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is 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 The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund The Building 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.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities 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), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) 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 The Special Reserve Capital Outlay Projects Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Debt Service Fund for Blended Component Units This fund is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under GAAP.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. 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.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust fund is the Scholarship Trust Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. 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 the 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. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position 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 position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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 is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2014, 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 investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. 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, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 25 to 50 years; furniture and equipment, 5 to 15; years, and vehicles, eight years.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental columns of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. 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 resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund 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 governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental 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.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net Position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets 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 position is 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. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$41,423,908 of restricted net position, which is restricted by enabling legislation.

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 and after non-operating revenues/expenses in proprietary 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 column of the statement of activities.

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.

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 1st 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 budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$2,327,937. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 220,311,821
Fiduciary funds	4,695,405
Total Deposits and Investments	<u>\$ 225,007,226</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 34,253,695
Cash in revolving	26,644
Investments	190,726,887
Total Deposits and Investments	<u>\$ 225,007,226</u>

Policies and Practices

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Amount Reported	Fair Value	Average Maturity in Days/ Maturity Date
San Diego County Investment Pool	\$ 185,052,362	\$ 185,072,706	366 days
Blackrock Institutional Funds Money Market Funds	1,636	1,636	43 days
First American Government Obligation Fund Class D	1,833,046	1,833,046	40 days
Fortis Funding LLC Commercial Paper	3,839,843	3,906,241	09/29/14
Total	<u>\$ 190,726,887</u>	<u>\$ 190,813,629</u>	

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. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the San Diego County Investment Pool has been rated AAf/S1 by Standard and Poor's Investor Service as of June 30, 2014. The investment in First American Government Obligation Fund Class D and the investment in Blackrock Institutional Money Market Funds have been rated AAAM by Standard and Poor's Investor Service as of June 30, 2014. The investment in Fortis LLC Commercial Paper has been rated A-1 by Standard and Poor's Investor Service as of June 30, 2014.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. Investments in any one issuer that represent five percent or more of the total investments are in either an external investment pool or mutual funds and are therefore exempt.

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 (unless so waived by the governmental unit). 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 agency. 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, 2014, the District's bank balance of \$7,594,419 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in Fortis Funding LLC Commercial Paper of \$3,839,843 (fair market value of \$3,906,241), the District has a custodial credit risk exposure of \$3,839,843 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government					
Categorical aid	\$ 5,953,347	\$ -	\$ 1,327,025	\$ 7,280,372	\$ -
State Government					
State principal apportionment	33,117,206	-	-	33,117,206	-
Categorical aid	366,639	-	86,853	453,492	-
Lottery	3,474,443	-	-	3,474,443	-
Special education	4,244,667	-	-	4,244,667	-
Local Government					
Interest	18,574	94,511	61,298	174,383	12
Charter school	1,342,371	-	137,713	1,480,084	-
Regional occupational program	943,270	-	-	943,270	-
Other Local Sources	1,058,401	-	29,604	1,088,005	65,353
Total	<u>\$ 50,518,918</u>	<u>\$ 94,511</u>	<u>\$ 1,642,493</u>	<u>\$ 52,255,922</u>	<u>\$ 65,365</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 144,894,678	\$ -	\$ -	\$ 144,894,678
Construction in progress	318,385,436	46,877,720	2,422,233	362,840,923
Depreciated	463,280,114	46,877,720	2,422,233	507,735,601
Capital Assets Being Depreciated:				
Land improvements	6,831,171	136,000	-	6,967,171
Buildings and improvements	551,597,623	2,279,445	617,000	553,260,068
Furniture and equipment	21,242,376	1,058,533	904,689	21,396,220
Total Capital Assets Being Depreciated	579,671,170	3,473,978	1,521,689	581,623,459
Total Capital Assets	1,042,951,284	50,351,698	3,943,922	1,089,359,060
Less Accumulated Depreciation:				
Land improvements	5,643,305	245,327	-	5,888,632
Buildings and improvements	104,883,716	12,652,499	505,055	117,031,160
Furniture and equipment	16,781,807	721,900	890,598	16,613,109
Total Accumulated Depreciation	127,308,828	13,619,726	1,395,653	139,532,901
Governmental Activities Capital Assets, Net	\$ 915,642,456	\$ 36,731,972	\$ 2,548,269	\$ 949,826,159

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 12,257,754
Supervision of instruction	680,986
All other pupil services	680,986
Total Depreciation Expenses Governmental Activities	<u>\$ 13,619,726</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From			Total
	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ 29,397	\$ 757,836	\$ 787,233
Capital Project Fund for Blended Component Units	20,011,369	-	2,884,267	22,895,636
Non-Major Governmental Funds	3,715,115	149,594	-	3,864,709
Total	\$ 23,726,484	\$ 178,991	\$ 3,642,103	\$ 27,547,578

The balance of \$29,397 due to the General Fund from the Capital Project Fund for Blended Component Units resulted from the reimbursement of operating costs.

A balance of \$688,250 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from the reimbursement of benefits, indirect costs and other operating costs.

A balance of \$60,094 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from the reimbursement of benefits, indirect costs and other operating costs.

A balance of \$20,011,369 due to the Capital Project Fund for Blended Component Units from the General Fund resulted from a temporary loan plus interest to be repaid.

A balance of \$2,800,000 due to the Capital Project Fund for Blended Component Units from the Cafeteria Non-Major Governmental Fund resulted from a temporary loan.

A balance of \$91,147 due to the Cafeteria Non-Major Governmental Fund from the General Fund is for program contributions and reimbursement of operating costs.

A balance of \$3,616,973 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from the reimbursement of project costs and program contribution.

A balance of \$126,952 due to the Deferred Maintenance Non-Major Governmental Fund from the Capital Projects Fund for Blended Component Units resulted from the reimbursement of project costs.

A balance of \$19,500 due to the Building Non-Major Governmental Fund from the Capital Projects Fund for Blended Component Units resulted from the reimbursement of project costs.

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Fund	
Capital Project Fund for Blended Component Units	\$ 54,477	\$ -	\$ 978	\$ 55,455
Non-Major Governmental Funds	2,087,580	95,798,554	10,934,955	108,821,089
Total	<u>\$ 2,142,057</u>	<u>\$ 95,798,554</u>	<u>\$ 10,935,933</u>	<u>\$ 108,876,544</u>

The General Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	\$ 54,477
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for program costs contribution.	87,580
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for a contribution to deferred maintenance projects.	2,000,000
The Capital Project Fund for Blended Component Units transferred to the Debt Service Fund for Blended Component Units Non-Major Governmental Fund for debt service payments.	95,798,554
The Adult Education Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	978
The County School Facilities Non-Major Governmental Fund transferred to the Building Non-Major Governmental Fund for project match costs.	10,934,955
Total	<u>\$ 108,876,544</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Vendor payables	\$ 450,297	\$ -	\$ 2,006	\$ 452,303	\$ 124,753
State principal apportionment	2,412,205	-	-	2,412,205	-
Salaries and benefits	4,414,251	344	322,235	4,736,830	-
Materials and supplies	3,713,104	-	311,619	4,024,723	-
Construction	-	22,278	655,109	677,387	-
Charter school	1,228,624	-	-	1,228,624	-
Services and other operating payables	2,601,090	161,361	1,424,446	4,186,897	-
Total	<u>\$ 14,819,571</u>	<u>\$ 183,983</u>	<u>\$ 2,715,415</u>	<u>\$ 17,718,969</u>	<u>\$ 124,753</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 659,134	\$ -	\$ 659,134
State categorical aid	288,978	-	288,978
Other local	209,684	5,572	215,256
Total	<u>\$ 1,157,796</u>	<u>\$ 5,572</u>	<u>\$ 1,163,368</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 346,070,908	\$ 2,687,612	\$ 6,895,000	\$ 341,863,520	\$ 7,720,000
Premium on general obligation bonds	5,768,162	-	251,927	5,516,235	-
General obligation bond anticipation notes	32,820,000	-	-	32,820,000	-
Premium on bond anticipation notes	4,470,519	-	941,162	3,529,357	-
Certificates of participation	97,480,000	-	85,855,000	11,625,000	1,100,000
Special tax revenue bonds	66,095,000	72,140,000	2,525,000	135,710,000	6,850,000
Premium on special tax revenue bonds	3,330,339	6,823,402	524,745	9,628,996	-
Demand revenue bonds	33,650,000	-	-	33,650,000	-
2005 Qualified zone academy bonds	5,000,000	-	-	5,000,000	-
2010 Qualified zone academy bonds	4,125,000	-	300,000	3,825,000	310,000
Capital leases	4,838,828	5,275,141	3,581,850	6,532,119	3,156,296
Compensated absences	6,254,454	1,177,419	-	7,431,873	-
Early retirement incentive	3,477,960	-	757,447	2,720,513	717,354
Other postemployment benefits (OPEB)	26,429,623	5,733,667	1,748,589	30,414,701	-
	<u>\$ 639,810,793</u>	<u>\$ 93,837,241</u>	<u>\$ 103,380,720</u>	<u>\$ 630,267,314</u>	<u>\$ 19,853,650</u>

Payments made on the general obligation bonds and bond anticipation notes are made by the Bond Interest and Redemption Fund with local revenues. Payments for the certificates of participation, capital leases and special tax revenue bonds are made by the General Fund, Special Reserve Fund for Capital Outlay Projects, Deferred Maintenance Fund, and the Debt Service Fund for Blended Component Units. Qualified zone academy bonds are paid from the General Fund. The accrued vacation will be paid by the fund for which the employees worked. Supplemental early retirement plan will be paid by the General Fund. Other postemployment benefits are generally paid by the General Fund.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding June 30, 2014
				July 1, 2013 as Restated	Accreted	Redeemed	
06/25/03	08/01/28	3.00-4.75%	\$ 52,000,000	\$ 48,235,000	\$ -	\$ 1,130,000	\$ 47,105,000
10/21/04	08/01/29	2.50-5.27%	96,999,415	105,360,908	2,687,612	3,395,000	104,653,520
03/12/08	08/01/47	3.00-5.50%	180,000,000	170,275,000	-	970,000	169,305,000
12//14/11	08/01/25	3.22%	23,835,000	22,200,000	-	1,400,000	20,800,000
				<u>\$ 346,070,908</u>	<u>\$ 2,687,612</u>	<u>\$ 6,895,000</u>	<u>\$ 341,863,520</u>

General Obligation Bonds Election 2000, Series B

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. On June 25, 2003, the District issued \$52,000,000 in General Obligation Bonds for the continued remodeling, new construction, and renovations detailed in the Facilities Improvement Plan. The issue, Series B of the total District voter authorized \$187 million, consists of serial bonds with a stated interest rate ranging between 3.0 to 4.75 percent, and fully maturing on August 1, 2028. At June 30, 2014, the principal balance outstanding of the general obligation bonds was \$47,105,000. Unamortized premium received on issuance of the bonds amounted to \$122,010 as of June 30, 2014.

General Obligation Bonds Election 2000, Series C

On October 21, 2004, the District issued \$96,999,415 aggregate original principal amount of General Obligation Bonds, Election of 2000, Series C. The bond issues are part of a \$187 million authorization as approved pursuant to an election of District voters on November 7, 2000. The bonds were issued to finance modernization projects at 19 schools, including planning, design, and construction costs for the facilities to be completed at all schools. The bonds mature through August 1, 2029, with interest yields from 2.50 to 5.27 percent. At June 30, 2014, the principal balance outstanding of the general obligation bonds was \$104,653,520. Unamortized premium received on issuance of the bonds amounted to \$2,256,387 as of June 30, 2014.

General Obligation Bonds Election 2006, Series 2008A

In November 2006, the District voters approved Proposition O, which authorized \$644 million in general obligation bonds. On March 12, 2008, the District issued \$180,000,000 Series A bonds consisting of \$17,265,000 in serial bonds, and \$162,735,000 in term bonds. The bonds were issued for the construction, reconstruction, and equipping schools as described in the Long Range Facilities Plan. The bonds mature through August 1, 2047, with interest yields from 3.00 to 5.50 percent. At June 30, 2014, the principal balance outstanding of the general obligation bonds was \$169,305,000. Unamortized premium received on issuance of the bonds amounted to \$3,137,838 as of June 30, 2014.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

General Obligation Refunding Bonds, Series 2011

On December 14, 2011, the District issued \$23,835,000 Series 2011 Refunding Bonds pursuant to a Placement Agreement between the District and Capital One Public Funding, LLC. The bonds were issued for the purpose of defeasing and refunding the District's \$38,000,000 Election of 2000 General Obligation Bonds, Series A and paying the related financing costs with the issuance. The bonds mature through August 1, 2025, with a stated interest yield of 3.22 percent. At June 30, 2014, the principal balance outstanding of the general obligation bonds was \$20,800,000.

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Compound Interest Paid at Maturity	Total
2015	\$ 7,720,000	\$ -	\$ 14,035,646	\$ 21,755,646
2016	8,245,193	289,807	13,798,602	22,333,602
2017	8,770,738	559,262	13,645,419	22,975,419
2018	9,087,533	922,467	13,481,326	23,491,326
2019	9,457,586	1,257,414	13,300,030	24,015,030
2020-2024	47,558,225	12,116,775	63,889,124	123,564,124
2025-2029	70,129,245	8,595,755	56,876,564	135,601,564
2030-2034	42,710,000	-	41,880,406	84,590,406
2035-2039	38,260,000	-	33,072,656	71,332,656
2040-2044	49,425,000	-	21,457,266	70,882,266
2045-2048	50,500,000	-	5,875,283	56,375,283
Total	<u>\$ 341,863,520</u>	<u>\$ 23,741,480</u>	<u>\$ 291,312,322</u>	<u>\$ 656,917,322</u>

2013 General Obligation Bond Anticipation Notes

On March 14, 2013, the District issued \$32,820,000 in 2013 General Obligation Bond Anticipation Notes pursuant to Section 15150 of the *California Education Code*, and an agreement between the District and Union Bank, N.A. The notes are being issued in anticipation of the sale of bonds of the District as authorized under and pursuant to a bond authorization approved by the voters of the District at an election held on November 7, 2006. The notes were issued to provide a portion of the funds necessary to finance the acquisition and construction of facilities authorized to be financed with General Obligation Bonds including, without limitation, the Montgomery High School Gymnasium Project and the National City Middle School Project. The notes mature on January 1, 2018, with interest yields from 3.00 to 5.50 percent. At June 30, 2014, the principal balance outstanding of the general obligation bonds was \$32,820,000. Unamortized premium received on issuance of the bonds amounted to \$3,529,357 as of June 30, 2014.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Debt Service Requirements to Maturity

The notes mature through 2018 as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ -	\$ 1,499,000	\$ 1,499,000
2016	-	1,499,000	1,499,000
2017	-	1,499,000	1,499,000
2018	32,820,000	1,499,000	34,319,000
Total	<u>\$ 32,820,000</u>	<u>\$ 5,996,000</u>	<u>\$ 38,816,000</u>

Certificates of Participation (COPs)

The outstanding certificates of participation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	COPs		COPs
				Outstanding July 1, 2013	Redeemed	Outstanding June 30, 2014
03/27/01	09/01/25	3.20-5.00%	\$ 42,875,000	\$ 35,960,000	\$ 35,960,000	\$ -
12/19/02	09/01/27	3.00-5.00%	55,940,000	44,190,000	44,190,000	-
06/04/03	09/01/15	2.00-3.40%	23,700,000	4,505,000	4,505,000	-
12/01/05	09/01/22	2.90-5.00%	18,330,000	12,825,000	1,200,000	11,625,000
				<u>\$ 97,480,000</u>	<u>\$ 85,855,000</u>	<u>\$ 11,625,000</u>

Certificates of Participation, Series 2001

On March 27, 2001, the District issued \$42,875,000 in Certificates of Participation, Series 2001 under the terms of a lease agreement with the Corporation. The Certificates are payable from lease payments made by the District to the Corporation as rental for certain school facilities pursuant to a lease agreement. The District is required under the lease agreement to make payments from certain Special Taxes levied in and collected from various Community Facilities Districts. The certificates are due to mature through September 1, 2025 with interest rates ranging from 3.20 to 5.00 percent. During the year, the remaining balance of the certificates outstanding was refunded with the Public Financing Authority issuance of the 2013 Special Tax Refunding Revenue Bonds.

Certificates of Participation, Series 2002

On December 19, 2002, the District issued \$55,940,000 in Certificates of Participation, Series 2002 under the terms of a lease agreement with the Corporation. The Certificates are payable from lease payments made by the District to the Corporation as rental for certain school facilities pursuant to a lease agreement. The District is required under the lease agreement to make payments from certain Special Taxes levied in and collected from various Community Facilities Districts. The certificates are due to mature through September 1, 2027 with interest rates ranging from 3.00 to 5.00 percent. During the year, the remaining balance of the certificates outstanding was refunded with the Public Financing Authority issuance of the 2013 Special Tax Refunding Revenue Bonds.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Certificates of Participation, Series 2003 Refinancing

On June 4, 2003, the District issued \$23,700,000 in Certificates of Participation, Series 2003 Refinancing, under the terms of a lease agreement with the Corporation. The Certificates were issued to refinance certain District obligations with respect to the lease of the Eastlake High School site. The Certificates are payable from lease payments made by the District to the Corporation as rental for certain school facilities pursuant to a lease agreement. The District is required under the lease agreement to make payments from certain Special Taxes levied in and collected from various Community Facilities Districts. The certificates are due to mature through September 1, 2015 with interest rates ranging from 2.00 to 3.40 percent. During the year, the District fulfilled its obligation and did not have an outstanding balance.

Certificates of Participation, Series 2005 Refinancing

On December 1, 2005, the District issued \$18,330,000 in Certificates of Participation, Series 2005 Refinancing, under the terms of a lease agreement with the Corporation. The Certificates were issued to refinance certain District obligations with respect to the existing Rancho Del Rey Middle School site. The Certificates are payable from lease payments made by the District to the Corporation as rental for certain school facilities pursuant to a lease agreement. The District is required under the lease agreement to make payments from certain Special Taxes levied in and collected from various Community Facilities Districts. The certificates are due to mature through September 1, 2022 with interest rates ranging from 2.90 to 5.00 percent. At June 30, 2014, the principal balance outstanding of the certificates was \$11,625,000.

Debt Service Requirements to Maturity

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,100,000	\$ 475,225	\$ 1,575,225
2016	1,230,000	428,625	1,658,625
2017	1,960,000	364,825	2,324,825
2018	1,930,000	287,025	2,217,025
2019	1,625,000	214,909	1,839,909
2020-2023	3,780,000	291,909	4,071,909
Total	<u>\$ 11,625,000</u>	<u>\$ 2,062,518</u>	<u>\$ 13,687,518</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Special Tax Revenue Bonds

The outstanding special tax revenue bond debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Special Tax Bonds			Special Tax Bonds
				Outstanding July 1, 2013	Issued	Redeemed	Outstanding June 30, 2014
02/24/05	09/01/29	3.00-5.00%	\$ 66,385,000	\$ 54,860,000	-	\$ 1,880,000	\$ 52,980,000
02/24/05	09/01/29	3.50-4.75%	15,180,000	11,235,000	-	645,000	10,590,000
10/30/13	09/01/27	3.00-5.00%	72,140,000	-	72,140,000	-	72,140,000
				<u>\$ 66,095,000</u>	<u>\$ 72,140,000</u>	<u>\$ 2,525,000</u>	<u>\$ 135,710,000</u>

Special Tax Revenue Bonds, Series 2005A

On February 24, 2005, the District issued \$66,385,000 in Special Tax Revenue Bonds, Series 2005A pursuant to an agreement between the District and the Authority. The bonds are payable from the revenue pledged, consisting primarily of installment payments made by the District for the acquisition and construction of certain school facilities. The District's obligation to make installment payments is payable solely from Special Taxes levied in and collected from various Community Facilities Districts. The bonds are due to mature through September 1, 2029 with interest rates ranging from 3.00 to 5.00 percent. At June 30, 2014, the principal balance outstanding of the certificates was \$52,980,000.

Special Tax Revenue Bonds, Series 2005B

On February 24, 2005, the District issued \$15,180,000 in Special Tax Revenue Bonds, Series 2005B pursuant to an agreement between the District and the Authority. The bonds are payable from the revenue pledged, consisting primarily of installment payments made by the District for the acquisition and construction of certain school facilities. The District's obligation to make installment payments is payable solely from Special Taxes levied in and collected from various Community Facilities Districts. The bonds are due to mature through September 1, 2029 with interest rates ranging from 3.50 to 4.75 percent. At June 30, 2014, the principal balance outstanding of the certificates was \$10,590,000.

Unamortized premium received on issuance of the 2005A and 2005B special tax revenue bonds amounted to \$3,130,518 as of June 30, 2014.

2013 Special Tax Refunding Revenue Bonds

On October 30, 2013, the District issued \$72,140,000 in 2013 Special Tax Refunding Revenue Bonds, pursuant to an agreement between the District and the Authority. The bonds, together with other available funds, were issued to refund certain outstanding certificates of participation. The bonds are payable from the revenue pledged, consisting primarily of installment payments made by the District for the acquisition and construction of certain school facilities. The District's obligation to make installment payments is payable solely from Special Taxes levied in and collected from various Community Facilities Districts. The bonds are due to mature through September 1, 2027 with interest rates ranging from 3.00 to 5.00 percent. At June 30, 2014, the principal balance outstanding of the certificates was \$72,140,000. Unamortized premium received on issuance of the 2013 special tax refunding revenue bonds amounted to \$6,498,478 as of June 30, 2014.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Service Requirement to Maturity

The special tax revenue bonds mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 6,850,000	\$ 6,310,636	\$ 13,160,636
2016	6,740,000	6,059,359	12,799,359
2017	7,415,000	5,774,886	13,189,886
2018	7,475,000	5,442,866	12,917,866
2019	8,040,000	5,071,486	13,111,486
2020-2024	50,450,000	18,386,759	68,836,759
2025-2029	44,590,000	5,798,381	50,388,381
2030	4,150,000	103,394	4,253,394
Total	<u>\$ 135,710,000</u>	<u>\$ 52,947,767</u>	<u>\$ 188,657,767</u>

Demand Revenue Bonds

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 in the amount of \$34,129,962. The letter of credit was renewed on June 1, 2012 for an additional two-year term. The proceeds were used to purchase a 23.82 acre parcel of land in the city of Chula Vista, California (which is included in the District's capital assets as land, see Note 4). 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, 2014 is \$33,650,000 as only interest payments have been made to date.

Qualified Zone Academy Bonds

2005 Qualified Zone Academy Bonds

On August 1, 2005, the District, pursuant to a sublease agreement with the Corporation, issued \$5,000,000 Certificates of Participation, 2005 Series A (Qualified Zone Academy Bonds). The District has been granted authorization from the State Superintendent of Public Instruction to issue securities in an aggregate principal amount not to exceed \$5,000,000 in accordance with the qualified zone academy bonds tax credit program found in Section 1397E of the Internal Revenue Code of 1986 and State regulations, to finance certain projects at qualified zone academies within the District. The District and the Corporation, in order to facilitate the financing of projects qualified under the QZAB Program, entered into a lease arrangement by which the District will lease to the Corporation those certain parcels of real property located within the District and pursuant to a sublease, the Corporation will sublease the property to the District, with the District required to pay base rental to the Corporation. The annual base rental payment of \$312,500 to begin September 29, 2006, will be deposited with US Bank into an interest generating investment to produce sufficient income to repay the \$5,000,000 certificates upon maturity on September 29, 2021. At June 30, 2014, the principal balance outstanding was \$5,000,000.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2010 Qualified Zone Academy Bonds

On April 1, 2010, the District entered into a Trust Agreement, 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 Bonds), 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, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 310,000	\$ 87,975	\$ 397,975
2016	315,000	80,956	395,956
2017	325,000	73,499	398,499
2018	330,000	66,125	396,125
2019	340,000	58,535	398,535
2020-2024	1,815,000	172,075	1,987,075
2025	390,000	8,958	398,958
Total	<u>\$ 3,825,000</u>	<u>\$ 548,123</u>	<u>\$ 4,373,123</u>

Capital Leases

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

	Equipment	Vehicles	Total
Balance, July 1, 2013	\$ 3,664,662	\$ 1,430,115	\$ 5,094,777
Additions	5,352,923	-	5,352,923
Payments	(3,279,883)	(415,359)	(3,695,242)
Balance, July 1, 2014	<u>\$ 5,737,702</u>	<u>\$ 1,014,756</u>	<u>\$ 6,752,458</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 3,262,164
2016	1,646,372
2017	1,503,417
2018	340,505
Total	<u>6,752,458</u>
Less: Amount Representing Interest	(220,339)
Present Value of Minimum Lease Payments	<u>\$ 6,532,119</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2014, amounted to \$7,431,873.

Early Retirement Incentive

In 2010-2011, the District offered an early retirement incentive plan at a cost of \$17,875,534. The outstanding balance will be paid in accordance with the schedule below:

Year Ending June 30,	Total
2015	\$ 717,354
2016	694,272
2017	671,191
2018	334,681
2019	303,015
Total	<u>\$ 2,720,513</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$6,367,635, and contributions made by the District during the year were \$1,748,589. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$1,189,333 and (\$1,823,301), respectively, which resulted in an increase to the net OPEB obligation of \$3,985,078. As of June 30, 2014, the net OPEB obligation was \$30,414,701. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 24,994	\$ -	\$ 1,650	\$ 26,644
Stores inventories	203,512	-	122,164	325,676
Total Nonspendable	228,506	-	123,814	352,320
Restricted				
Legally restricted programs	6,994,378	-	16,267	7,010,645
Capital projects	-	133,661,842	51,345,015	185,006,857
Debt services	-	-	16,773,048	16,773,048
Total Restricted	6,994,378	133,661,842	68,134,330	208,790,550
Committed				
Deferred maintenance program	-	-	8,818,789	8,818,789
Total Committed	-	-	8,818,789	8,818,789
Assigned				
Restoration cuts	-	-	-	-
Capital projects	-	-	13,958,510	13,958,510
Other program balances	2,337,384	-	762,656	3,100,040
Total Assigned	2,337,384	-	14,721,166	17,058,550
Unassigned				
Reserve for economic uncertainties	10,657,929	-	-	10,657,929
Remaining unassigned	8,332,944	-	-	8,332,944
Total Unassigned	18,990,873	-	-	18,990,873
Total	\$ 28,551,141	\$ 133,661,842	\$ 91,798,099	\$ 254,011,082

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Sweetwater Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 363 retirees and beneficiaries currently receiving benefits and 3,527 active plan members.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013-2014, the District contributed \$1,748,589 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (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	\$ 6,367,635
Interest on net OPEB obligation	1,189,333
Adjustment to annual required contribution	(1,823,301)
Annual OPEB cost (expense)	<u>5,733,667</u>
Contributions made	<u>(1,748,589)</u>
Increase in net OPEB obligation	3,985,078
Net OPEB obligation, beginning of year as restated	<u>26,429,623</u>
Net OPEB obligation, end of year	<u><u>\$ 30,414,701</u></u>

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 5,915,875	\$ 2,413,172	41%	\$ 22,239,308
2013	5,884,998	1,694,683	29%	26,429,623
2014	5,733,667	1,748,589	30%	30,414,701

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c]
July 1, 2012	\$ -	\$ 49,364,140	\$ 49,364,140	0%	\$ 240,305,962	21%

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 the 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.

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.

In the July 1, 2012, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial ten percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2014, was 24 years. The actuarial value of assets was not determined in this actuarial valuation.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. The District participates in the San Diego County Schools Risk Management JPA for health and welfare, workers' compensation, and for property and liability coverage. See Note 14 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 12 - 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).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. 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 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$14,634,594, \$14,244,855, and \$14,457,279, respectively, and equal 100 percent of the required contributions for each year.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CalPERS

Plan Description

The District contributes to the School Employer Pool under 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 survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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, California 95811.

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$7,211,576, \$7,039,283, and \$6,555,780, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$9,707,612 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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, 2014.

Litigation

The District is involved in various litigation arising from the normal course of business. Specifically, there is one case pending regarding Title IX. 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, 2014.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Otay Ranch High School	\$ 24,363	07/18/14
Montgomery High Phase 2	11,701	07/20/14
East Hills Academy	373,753	08/12/14
Fire Alarm Upgrades - Group 3	548,591	10/22/14
National City Middle Phase 2	3,889,991	11/15/14
Fire Alarm Upgrades - Group 4	573,625	11/30/14
Sweetwater High Career Tech Welding Building	56,370	12/01/14
Bonita Vista Middle School Modernization	79,568	12/31/14
Eastlake High School Amphitheater	768,105	12/31/14
Eastlake High School Observatory	570,261	12/31/14
Long Range Facilities Master Plan	177,682	02/01/15
Technology Infrastructure	2,325	03/01/15
Sweetwater High Project 1 New Construction	967,141	06/30/15
Montgomery High Gym Structural Upgrade	6,110	06/30/15
Chula Vista High Title IX	30,989	07/01/15
Southwest Middle Project 1 Modernization Phase 2	844,358	08/01/15
Mar Vista High Project 2	151,167	08/01/15
Relocatable Classrooms - Multiple Sites	76,828	08/30/15
Sweetwater High Relocatables	8,560	10/15/15
Sweetwater High Food Services Facilities	6,015	12/31/15
Roof Defects	8,108	12/31/15
Southwest High Title IX	1,471	02/01/16
	<u>\$ 9,177,082</u>	

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the San Diego County Schools Risk Management Joint Powers Authority public entity risk pool. The District pays an annual premium to the entity for its workers' compensation, health and welfare, and property and liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

This entity has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2014, the District made payments totaling \$35,378,261 for annual premiums.

NOTE 15 - SUBSEQUENT EVENTS

On July 16, 2014, the District issued the 2014 General Obligation Refunding Bonds in the amount of \$82,270,000. The bonds were issued for the purpose of refunding the District's General Obligation Bonds Series B and Series C. The bonds have a final maturity date to occur on August 1, 2029 with interest rates ranging between 3.00 to 5.00 percent.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 561,897,454
Restatement/cost of issuance	(2,327,937)
Net Position - Beginning as Restated	<u>\$ 559,569,517</u>

REQUIRED SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final
				to Actual
REVENUES				
Local Control Funding Formula	\$ 249,128,920	\$ 273,331,562	\$ 275,516,394	\$ 2,184,832
Federal sources	19,867,048	25,880,632	23,531,297	(2,349,335)
Other State sources	51,077,843	21,297,858	31,116,949	9,819,091
Other local sources	25,515,665	31,496,317	28,621,713	(2,874,604)
Total Revenues ¹	345,589,476	352,006,369	358,786,353	6,779,984
EXPENDITURES				
Current				
Certificated salaries	168,786,134	172,453,419	173,974,114	(1,520,695)
Classified salaries	60,510,019	58,583,376	58,983,253	(399,877)
Employee benefits	56,987,007	60,146,720	70,450,936	(10,304,216)
Books and supplies	16,855,564	24,781,332	18,616,732	6,164,600
Services and operating expenditures	30,346,091	37,641,056	30,876,126	6,764,930
Other outgo	(268,709)	(268,709)	30,680	(299,389)
Capital outlay	1,710,205	3,670,848	5,880,038	(2,209,190)
Debt service - principal	2,438,612	2,581,569	3,812,579	(1,231,010)
Debt service - interest	205,409	205,409	205,406	3
Total Expenditures ¹	337,570,332	359,795,020	362,829,864	(3,034,844)
Excess (Deficiency) of Revenues				
Over Expenditures	8,019,144	(7,788,651)	(4,043,511)	3,745,140
Other Financing Sources (Uses)				
Transfers in	-	140,956	-	(140,956)
Other sources	-	-	5,275,141	5,275,141
Transfers out	(11,253,800)	(56,361)	(2,142,057)	(2,085,696)
Net Financing Sources (Uses)	(11,253,800)	84,595	3,133,084	3,048,489
NET CHANGE IN FUND BALANCES	(3,234,656)	(7,704,056)	(910,427)	6,793,629
Fund Balances - Beginning	29,461,568	29,461,568	29,461,568	-
Fund Balances - Ending	\$ 26,226,912	\$ 21,757,512	\$ 28,551,141	\$ 6,793,629

¹ On behalf payments of \$9,707,612 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2008	\$ -	\$ 48,086,562	\$ 48,086,562	0%	\$ 231,175,000	21%
July 1, 2010	-	48,702,607	48,702,607	0%	234,255,640	21%
July 1, 2012	-	49,364,140	49,364,140	0%	240,305,962	21%

SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Basic Education Grants Cluster			
Adult Basic Education & ESL	84.002A	14508	\$ 908,418
Adult Secondary Education	84.002	13978	532,848
Adult Education: English Literacy and Civics Education	84.002A	14109	246,066
Total Adult Basic Education Grants Cluster			<u>1,687,332</u>
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected	84.010	14329	8,976,949
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	431,363
Title II, Part A Cluster:			
Title II, Part A - Improving Teacher Quality	84.367	14341	2,236,519
Title II, Part A - Administrator Training	84.367	14344	892
Total Title II, Part A Cluster			<u>2,237,411</u>
English Language Acquisition Grants			
Title III - Immigrant Education Program	84.365	14346	36,200
Title III - Limited English Proficient Student Program	84.365	10084	1,033,366
Total English Language Acquisition Grants			<u>1,069,566</u>
Title IV, Part A - Drug-Free Schools Formula Grant	84.186	14347	1,581
Title IV, Part B, 21st Century Community Learning Centers	84.287	14788	1,800,441
Special Education (IDEA) Cluster:			
Local Assistance	84.027A	13379	6,569,941
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	446,337
Total Special Education (IDEA) Cluster			<u>7,016,278</u>
Carl D. Perkins Vocational and Technical Education Act			
Career and Technical Education Cluster			
Career and Technical Education - Secondary Education	84.048	14894	599,835
Career and Technical Education - Adult, Section 132	84.048	14893	545,358
Total Career and Technical Education Cluster			<u>1,145,193</u>
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	164,655
Total U.S. Department of Education			<u>24,530,769</u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	\$ 6,458,699
Especially Needy Breakfast Program	10.553	13526	2,729,004
Basic Breakfast Program	10.553	13390	17,398
Sunland Peanut Butter Recall	10.555	03042	2,572
Commodities	10.555	13396	635,968
Total Child Nutrition Cluster			<u>9,843,641</u>
Farm to School Program	10.575	CN-F2S-PLAN-14-CA-02	45,000
Child and Adult Care Food Program	10.558	13393	812,823
Total U.S. Department of Agriculture			<u>10,701,464</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medical Billing Option	93.778	10013	635,087
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps	12.000	[1]	231,179
U.S. DEPARTMENT OF INTERIOR FISH AND WILDLIFE SERVICES			
Tijuana Slough Funds	15.000	[1]	8,440
Total Expenditures of Federal Awards			<u><u>\$ 36,106,939</u></u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

The Sweetwater Union High School District was organized in 1921, and consists of an area comprising approximately 153 square miles. The District operates eleven middle schools, twelve high schools, one continuation high school, four adult schools, and four alternative education schools.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
John McCann	President	2014
Susan Hartley	Vice President	2014
Mark Anderson	Member	2014
Sharon Jones	Member	2014
Lyn Neylon	Member	2014

ADMINISTRATION

Dr. Edward Brand	Superintendent
Sandra Huevo	Assistant Superintendent, Human Resources
Karen Michel	Chief Financial Officer

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	Amended Second Period Report	Amended Annual Report
Regular ADA		
Seventh and eighth	11,202.37	11,166.08
Ninth through twelfth	26,899.20	26,520.52
Total Regular ADA	<u>38,101.57</u>	<u>37,686.60</u>
Extended Year Special Education		
Seventh and eighth	0.07	0.07
Ninth through twelfth	23.75	23.75
Total Extended Year Special Education	<u>23.82</u>	<u>23.82</u>
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	<u>61.95</u>	<u>62.46</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	<u>8.72</u>	<u>8.72</u>
Community Day School		
Seventh and eighth	6.13	6.19
Ninth through twelfth	68.43	68.06
Total Community Day School	<u>74.56</u>	<u>74.25</u>
Total ADA	<u><u>38,270.62</u></u>	<u><u>37,855.85</u></u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87	Reduced 1986-87	2013-14	Number of Days		Status
	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 7 - 8	54,000	52,500				
Grade 7			61,450	180	-	Complied
Grade 8			61,450	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			65,740	180	-	Complied
Grade 10			65,740	180	-	Complied
Grade 11			65,740	180	-	Complied
Grade 12			65,740	180	-	Complied

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, 2014

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>General Fund</u>
NET ASSETS	
Balance, June 30, 2014, Unaudited Actuals	\$ 30,454,950
Increase in:	
Accounts payable	<u>(1,903,809)</u>
Balance, June 30, 2014, Audited Financial Statement	<u>\$ 28,551,141</u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND				
Revenues	\$ 357,037,089	\$ 358,786,353	\$ 351,404,305	\$ 355,397,457
Other sources	-	5,275,141	4,716,664	-
Total Revenues and Other Sources	357,037,089	364,061,494	356,120,969	355,397,457
Expenditures	357,018,549	362,829,864	342,138,575	359,811,265
Other uses and transfers out	-	2,142,057	15,383,288	-
Total Expenditures and Other Uses	357,018,549	364,971,921	357,521,863	359,811,265
DECREASE IN FUND BALANCE	\$ 18,540	\$ (910,427)	\$ (1,400,894)	\$ (4,413,808)
ENDING FUND BALANCE	\$ 28,569,681	\$ 28,551,141	\$ 29,461,568	\$ 30,862,462
AVAILABLE RESERVES ²	\$ 20,444,160	\$ 18,990,873	\$ 18,503,237	\$ 16,739,639
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	5.73%	5.35%	5.32%	4.65%
LONG-TERM OBLIGATIONS	N/A	\$ 630,267,314	\$ 639,810,793	\$ 612,273,192
K-12 AVERAGE DAILY ATTENDANCE AT P-2	37,955	38,271	38,323	38,284

The General Fund balance has decreased by \$2,311,321 over the past two years. The fiscal year 2014-2015 budget projects an increase of \$18,540. For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in all of the past three years but anticipates incurring an operating surplus during the 2014-2015 fiscal year. Total long-term obligations have increased by \$17,994,122 over the past two years.

Average daily attendance has decreased by 13 over the past two years. Additional decline of 316 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$9,707,612, \$9,425,744, and \$7,176,779 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013, and 2012, respectively.

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

Name of Charter School	Included in Audit Report
The Metropolitan Area Advisory Committee Community Charter (MAAC) School (0303)	No
Stephen W. Hawking Charter School (1407)	No
Stephen W. Hawkings II Science, Technology, Engineering, Art and Math Charter School (1524)	No

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS				
Deposits and investments	\$ 800,907	\$ 2,602,169	\$ 5,452,565	\$ 26,888,733
Receivables	1,101,926	481,589	6,206	9,162
Due from other funds	6,343	91,147	3,743,924	19,500
Stores inventories	-	122,164	-	-
Total Assets	\$ 1,909,176	\$ 3,297,069	\$ 9,202,695	\$ 26,917,395
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 438,168	\$ 231,424	\$ 383,906	\$ 1,482,121
Due to other funds	688,250	2,940,094	-	7,560
Unearned revenue	5,572	-	-	-
Total Liabilities	1,131,990	3,171,518	383,906	1,489,681
Fund Balances:				
Nonspendable	-	123,814	-	-
Restricted	14,530	1,737	-	25,427,714
Committed	-	-	8,818,789	-
Assigned	762,656	-	-	-
Total Fund Balances	777,186	125,551	8,818,789	25,427,714
Total Liabilities and Fund Balances	\$ 1,909,176	\$ 3,297,069	\$ 9,202,695	\$ 26,917,395

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ 1,153,901	\$ 24,764,102	\$ 14,096,398	\$ 16,773,048	\$ -	\$ 92,531,823
873	29,468	13,269	-	-	1,642,493
3,143	-	652	-	-	3,864,709
-	-	-	-	-	122,164
<u>\$ 1,157,917</u>	<u>\$ 24,793,570</u>	<u>\$ 14,110,319</u>	<u>\$ 16,773,048</u>	<u>\$ -</u>	<u>\$ 98,161,189</u>
\$ 8,856	\$ 21,061	\$ 149,879	\$ -	\$ -	\$ 2,715,415
-	4,269	1,930	-	-	3,642,103
-	-	-	-	-	5,572
<u>8,856</u>	<u>25,330</u>	<u>151,809</u>	<u>-</u>	<u>-</u>	<u>6,363,090</u>
-	-	-	-	-	123,814
1,149,061	24,768,240	-	16,773,048	-	68,134,330
-	-	-	-	-	8,818,789
-	-	13,958,510	-	-	14,721,166
<u>1,149,061</u>	<u>24,768,240</u>	<u>13,958,510</u>	<u>16,773,048</u>	<u>-</u>	<u>91,798,099</u>
<u>\$ 1,157,917</u>	<u>\$ 24,793,570</u>	<u>\$ 14,110,319</u>	<u>\$ 16,773,048</u>	<u>\$ -</u>	<u>\$ 98,161,189</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES				
Local Control Funding Formula	\$ 11,650,000	\$ -	\$ 1,603,800	\$ -
Federal sources	2,232,690	10,701,464	-	-
Other State sources	223,224	775,179	-	-
Other local sources	956,225	1,428,499	23,995	178,937
Total Revenues	15,062,139	12,905,142	1,627,795	178,937
EXPENDITURES				
Current				
Instruction	8,005,038	-	-	-
Instruction-related activities:				
Supervision of instruction	1,347,960	-	-	-
Instructional library, media, and technology	271,112	-	-	-
School site administration	2,778,649	-	-	-
Pupil services:				
Food services	-	12,824,658	-	-
All other pupil services	678,702	-	-	-
Administration:				
All other administration	607,398	-	-	-
Plant services	1,196,704	113,295	917,910	2,116,511
Facility acquisition and construction	-	-	1,708,124	42,195,732
Debt service				
Principal	-	-	69,271	-
Interest and other	-	-	2,876	1,503,984
Total Expenditures	14,885,563	12,937,953	2,698,181	45,816,227
Excess (Deficiency) of				
Revenues Over Expenditures	176,576	(32,811)	(1,070,386)	(45,637,290)
Other Financing Sources (Uses)				
Transfers in	-	87,580	2,000,000	10,934,955
Transfers out	(978)	-	-	-
Other uses - payment to refunded bond escrow agent	-	-	-	-
Net Financing Sources (Uses)	(978)	87,580	2,000,000	10,934,955
NET CHANGE IN FUND BALANCES	175,598	54,769	929,614	(34,702,335)
Fund Balances - Beginning	601,588	70,782	7,889,175	60,130,049
Fund Balances - Ending	\$ 777,186	\$ 125,551	\$ 8,818,789	\$ 25,427,714

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,253,800
-	-	-	-	-	12,934,154
-	-	542,508	231,260	-	1,772,171
524,262	265,309	1,183,709	22,071,053	-	26,631,989
524,262	265,309	1,726,217	22,302,313	-	54,592,114
-	-	-	-	-	8,005,038
-	-	-	-	-	1,347,960
-	-	-	-	-	271,112
-	-	-	-	-	2,778,649
-	-	-	-	-	12,824,658
-	-	-	-	-	678,702
7,414	-	-	-	-	614,812
60,664	2,483	820,490	-	-	5,228,057
10	268,914	-	-	-	44,172,780
-	-	-	6,895,000	11,395,000	18,359,271
-	-	108,204	14,324,603	6,377,385	22,317,052
68,088	271,397	928,694	21,219,603	17,772,385	116,598,091
456,174	(6,088)	797,523	1,082,710	(17,772,385)	(62,005,977)
-	-	-	-	95,798,554	108,821,089
-	(10,934,955)	-	-	-	(10,935,933)
-	-	-	-	(78,026,169)	(78,026,169)
-	(10,934,955)	-	-	17,772,385	19,858,987
456,174	(10,941,043)	797,523	1,082,710	-	(42,146,990)
692,887	35,709,283	13,160,987	15,690,338	-	133,945,089
\$ 1,149,061	\$ 24,768,240	\$ 13,958,510	\$ 16,773,048	\$ -	\$ 91,798,099

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that had not been expended as of June 30, 2014. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 36,465,451
Medi-Cal Billing Option	93.778	(358,512)
Total Schedule of Expenditures of Federal Awards		<u>\$ 36,106,939</u>

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.

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. The District neither met nor exceeded its target funding. 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 1986-87 requirements, as required by *Education Code* Section 46201.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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 Unaudited Actual Financial Report to the audited financial statements.

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.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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***

Governing Board
Sweetwater Union High School District
Chula Vista, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Sweetwater Union High School District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 16 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sweetwater Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sweetwater Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sweetwater Union High School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sweetwater Union High School District's financial statements are free from 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*.

We noted certain matters that we reported to management of Sweetwater Union High School District in a separate letter dated December 12, 2014.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinck, Irino, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on Compliance for Each Major Federal Program

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 Sweetwater Union High School District's (the District) major Federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sweetwater Union High School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Sweetwater Union High School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Sweetwater Union High School District complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of Sweetwater Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sweetwater Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 Sweetwater Union High School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck, Jino, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on State Compliance

We have audited Sweetwater Union High School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Sweetwater Union High School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Sweetwater Union High School District's State programs based on our audit of the types of compliance requirements referred to above. 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 Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. Our audit does not provide a legal determination of Sweetwater Union High School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Sweetwater Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
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:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for California Clean Energy Jobs Act because no expenditures were noted in the current year for the funds that were received.

Vavrinek, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A Low Income and Neglected</u>
	<u>Title IV, Part B - 21st Century</u>
<u>84.287</u>	<u>Community Learning Centers</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,083,208</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Award Findings

INSTRUCTIONAL MATERIALS PUBLIC HEARING

2013-1 70000

Criteria or Specific Requirements

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 September 24, 2012, which was not within the first eight weeks of the start of school.

Questioned Costs

There were no questioned costs associated with this condition. However, the 2012-2013 funding allocation of \$2,327,984 could be considered as inappropriately claimed by the District resulting in a decrease of funding.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the minutes of board meetings.

Effect

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

Cause

Turnover in staff caused oversight of applicable compliance requirements.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Recommendation

The District should make every effort to hold the public hearing before the eight weeks prior to the start of school. The District should designate a management employee with the responsibility for making sure the public hearing is identified on the board agenda before the eight weeks have passed. This non-compliance could result in loss of funding in the amount \$2,327,984.

Current Status

Implemented.



Governing Board
Sweetwater Union High School District
Chula Vista, California

In planning and performing our audit of the financial statements of Sweetwater Union High School District, for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2014 on the government-wide financial statements of the District.

INTERNAL ACCOUNTING CONTROL

Bank Reconciliations

Observation

The bank reconciliations for the District's clearing account, revolving cash fund account, and the Cafeteria account are not being reviewed by an independent person after prepared by the preparer. The bank reconciliations were not signed by two individuals indicating who completed and who reviewed the reconciliation.

Recommendation

The bank reconciliations should be prepared and reviewed on monthly basis and all records should be readily available for review. Procedures should require another individual other than the person completing the reconciliation to review the completed bank reconciliation and both should initial the bank reconciliation. The independent reviewer ensures that the bank reconciliations are prepared accurately. Without the review, the bank accounts are at a greater risk of not identifying erroneous or intentional discrepancies.

Disbursements

Observation

We noted four of the 40 purchase orders/purchase requisitions reviewed were dated after the date on the invoice. This would indicate that items are being purchased prior to being approved.

Recommendation

The District should take the necessary steps to ensure that all items have an authorized purchase order prior to the item being purchased to indicate the proper authorization of disbursements.

Observation

We noted four of the 40 disbursements reviewed for Travel & Conferences advances did not perform the reconciliation and/or submit receipts on a timely basis.

Recommendation

The District should enforce the current policy for travel advances indicating that receipts are required to be submitted for all expenses within fifteen days upon the conclusion of the event. Each employee is required to complete an expense log envelope with the valid receipts and proper signatures before returning the envelope to the Accounting Department.

Observation

We noted eight out of the 40 Direct-Pay disbursements selected were used for items that would normally be encumbered with an open/blanket Purchase Order. Legal fees, consulting contract fees, and other professional services were paid using a Direct-Pay.

Recommendation

The District should use Open Purchase Orders for items that could be estimated and or scheduled throughout the year. This includes consulting services, legal services, and other expenses that are consistently paid annually. The Open Purchase Order would increase the controls over preapproval and sufficiency of funds.

ASSOCIATED STUDENT BODY FUNDS

Castle Park High School ASB

Observations

During the audit of student body funds, we noted the following issues:

- Three checks were not deposited timely.
- The fundraising cash deposit forms were not signed by two individuals.
- Disbursements were not approved before the commitment was made with the vendor.
- One revenue potential form was not completed accurately.
- Four disbursements were made without explicit receiving documentation for goods being ordered (i.e. receiving signature/initial). As a result, vendor invoices were being paid without the direct knowledge of whether or not the goods being ordered have been received and/or reviewed.
- One payment was posted for a trust account that is not controlled by ASB student council.
- The bank reconciliations were not signed by two individuals indicating who completed and who reviewed the form.
- Disbursements and fundraising activities were not noted in ASB council minutes.

Recommendations

- At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit.
- Due to the high level of susceptibility to theft or loss, accountability of cash should be assigned throughout all steps of the cash receipting/depositing procedures. In order to ensure accountability of cash, the site should ensure that all deposit slips be signed by two individuals indicating the presence of two people during the deposit of ASB monies.
- In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
- In order to ensure profitability of a fundraiser, the revenue potential form must be completed accurately. The site should ensure that all totals are accurate and document any difference between estimated and actual sales totals.
- All goods being ordered should be documented with explicit receiving documentation and forwarded to the ASB Finance Tech. Documentation should indicate the date that the goods have been received and intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation has been received by the Bookkeeper.
- All ASB trusts transactions must require proper ASB disbursement procedures in order to ensure proper internal controls. Accounts held by ASB must be spent as determine by the student's decisions and only for the benefit of the sites students.
- The bank reconciliations should be prepared monthly and all records should be readily available for review. Procedures should also require the administrator to review and sign the completed bank reconciliation.
- All authorized ASB transactions must be noted in ASB Student Council minutes. Transactions include disbursements, fundraising activities, and any other relevant transaction that requires ASB participation. The site should implement procedures that require all approvals and significant events be documented in Council minutes.

Sweetwater Union High School ASB

Observations

During the audit of student body funds, we noted the following issues:

- We noted receipts were deposited over 10 days after receiving the monies and the initial receipt date. This may result in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.
- The fundraising and concessions cash deposits did not provide supporting documentation of items sold.
- Disbursements were not approved before the commitment was made with the vendor.
- There were insufficient records of expenses made for fundraisers.
- The cash on hand was over by \$30.

Recommendations

- At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit.
- Due to the high level of susceptibility to theft or loss, accountability of cash should be assigned throughout all steps during the cash receipting/depositing procedures. In order to ensure accountability of cash, the site should ensure that deposits are accompanied by all supporting documentation indicating the amount of items sold. This will allow a reconciliation to occur that would document monies collected compared to items sold.
- In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
- In order to ensure profitability and allow ability of a fundraiser, all estimated expenses must be documented before the activity occurs. This allows the site to determine whether funds are available for costs associated with fundraising activity. All monies collected from fundraising activity must be deposited intact.
- The Finance Tech must ensure that monies held by ASB are intact before the deposit is completed. Any variances should be investigated and documentation of discrepancy should be noted on the close out reports.

Castle Park Middle School

Observations

During the audit of student body funds, we noted the following issues:

- Three out of 33 receipts were not deposited on a timely basis. We noted receipts were deposited over 10 days after receiving the monies and the initial receipt date. This may result in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.
- One of 19 cash disbursements tested lacked documentation detailing who were the receivers of gift cards purchased with ASB funds.
- The site is not maintaining a ticket control log. In addition, ticket rolls used for lunch dances were not present during the audit, even though there was no dance held that day.

Recommendations

- At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
- It is recommended that ASB maintain documentation which indicates the gift card that was given away as well as the student who received it.
- A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. When ticket rolls are issued they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued to. In addition, ticket rolls should be safeguarded as if they were cash because lost tickets equate lost revenue for the ASB.

National City Middle School

Observations

During the audit of student body funds, we noted the following issues:

- One of 21 disbursements tested lacked two of the three required approval signatures on the purchase requisition/purchase order.
- All of the 21 disbursements tested lacked pre-approval within ASB council minutes (indicating disbursements took place prior to them being approved by the student council).

Recommendations

- Three signatures are required on all ASB disbursements, which should be a student representative, a site administrator, and a club advisor.
- Student council minutes should be taken and filed, which includes details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures. In addition, any motion which is presented and voted on must include the individual's name who presented the motion, the person who seconded it and the final vote on the motion.

Palomar Continuation High School

Observation

A dual count is not taking place when money is turned in to the secretary. Instead, cash is dropped off and the secretary reconciles the cash to supporting documentation after the fact. This increases the risk of not being able to identify the reason for the overages or shortages should they be discovered later.

Recommendation

We recommended that club advisors and the secretary perform a count of the money together when it is being turned in for deposit. In addition, both the secretary and club advisor should sign and date the cash collection form to indicate when the dual count took place.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2014