

S&P – “AA” (Insured Rating)

Moody’s – “A1” (Underlying Rating)

S&P – “A+” (Underlying Rating)

(See “MISCELLANEOUS – Ratings” herein.)

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject, however, to certain qualifications described herein, and based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (“Code”). In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations; however Bond Counsel observes that such interest is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liabilities. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxation. Bond Counsel expresses no opinion regarding or concerning any other tax consequences related to the ownership or disposition of the accrual or receipt of interest on the Bonds. See “TAX MATTERS – Opinion of Bond Counsel” herein.

**\$82,270,000**

**SWEETWATER UNION HIGH SCHOOL DISTRICT
2014 GENERAL OBLIGATION REFUNDING BONDS**

Dated: Date of Delivery**Due: August 1, 2029 (see inside cover page)**

The Sweetwater Union High School District 2014 General Obligation Refunding Bonds (the “Bonds”) are being issued by the Sweetwater Union High School District (the “District”) pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Government Code”), other applicable law and a Resolution of the Board of Trustees of the District (Resolution No. 4307) adopted on June 30, 2014 (the “Bond Resolution”). The Bonds are being issued to provide funds to refund and redeem the Sweetwater Union High School District Election of 2000 General Obligation Bonds, Series B (“2000-B Bonds”) and the current interest bonds of the Sweetwater Union High School District Election of 2000 General Obligation Bonds, Series C (“2000-C Bonds” and, together with the 2000-B Bonds, the “Prior Bonds”) and to pay certain costs of issuing the Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The interest and principal on the Bonds shall be payable on February 1 and August 1 of each year, commencing on February 1, 2015 (each a “Bond Payment Date”) to their maturity. Pursuant to the Bond Resolution, the San Diego County Treasurer’s Office is appointed as initial paying agent and registrar (the “Paying Agent”) for the Bonds.

The Bonds are subject to optional redemption prior to maturity.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



The Bonds will be issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in denominations of \$5,000 principal amount and any integral multiple thereof. The principal amount of, and interest on, the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See “THE BONDS” and APPENDIX C – “BOOK-ENTRY ONLY SYSTEM” herein.

This cover page contains information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriter by Nossaman LLP, as counsel to the Underwriter. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC, on or about July 30, 2014.



MATURITY SCHEDULE

\$82,270,000

SWEETWATER UNION HIGH SCHOOL DISTRICT
2014 GENERAL OBLIGATION REFUNDING BONDS

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP No. †
2015	\$ 1,120,000	3.000%	0.250%	102.752%	870462 QX9
2016	1,260,000	3.000	0.480	105.016	870462 QY7
2017	1,400,000	3.000	0.810	106.483	870462 QZ4
2018	1,550,000	4.000	1.160	111.076	870462 RA8
2019	1,730,000	4.000	1.530	111.852	870462 RB6
2020	1,910,000	4.000	1.840	112.222	870462 RC4
2021	2,115,000	5.000	2.140	118.507	870462 RD2
2022	2,340,000	5.000	2.390	118.908	870462 RE0
2023	2,585,000	5.000	2.610	119.065	870462 RF7
2024	2,840,000	5.000	2.810	118.981	870462 RG5
2025	3,110,000	5.000	3.010	117.078*	870462 RH3
2026	12,080,000	5.000	3.200	115.304*	870462 RJ9
2027	15,050,000	5.000	3.320	114.199*	870462 RK6
2028	16,375,000	5.000	3.410	113.380*	870462 RL4
2029	16,805,000	5.000	3.490	112.657*	870462 RM2

† CUSIP data included herein is subject to Copyright 2014, American Bankers Association. CUSIP data included herein is provided by the Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and is provided for convenience of reference only. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

* Price reflects a par call on August 1, 2024.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and APPENDIX G - “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

The District maintains a website. However, the information presented on that website is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act.

CUSIP® data included herein is subject to Copyright 2014, American Bankers Association. CUSIP data included herein is provided by the Standard & Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and is provided for convenience of reference only. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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**SWEETWATER UNION HIGH SCHOOL DISTRICT
(County of San Diego, California)**

BOARD OF TRUSTEES

John McCann, *Board President*

Trustees appointed to serve by the San Diego County Office of Education:

Susan Hartley, *Vice President*
Mark Anderson, *Board Member*
Sharon C. Jones, *Board Member*
Lyn Neylon, *Board Member*

DISTRICT ADMINISTRATORS

Dr. Timothy D. Glover, *Interim Superintendent*
Karen Michel, *Chief Financial Officer*

SPECIAL SERVICES

District Counsel

Daniel R. Shinoff
Stutz, Artiano, Shinoff & Holtz
San Diego, California

Bond Counsel

Bowie, Arneson, Wiles & Giannone
Newport Beach, California

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor

Springsted Incorporated
Woodland Hills, California

Paying Agent

San Diego County Treasurer's Office

Escrow Agent

MUFG Union Bank, N.A.
Los Angeles, California

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OFFICIAL STATEMENT

\$82,270,000

SWEETWATER UNION HIGH SCHOOL DISTRICT 2014 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

The purpose of this Official Statement, including the cover page, inside cover page, table of contents and the Appendices, is to provide certain information concerning the issuance of and sale by the Sweetwater Union High School District (the "District") of \$82,270,000 aggregate initial principal amount of its Sweetwater Union High School District 2014 General Obligation Refunding Bonds (the "Bonds"), as described more fully herein. This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside cover page and Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement.

The Bonds are being issued pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Government Code"), other applicable law and a Resolution of the Board of Trustees of the District (Resolution No. 4307) adopted on June 30, 2014 (the "Bond Resolution"). Pursuant to the Bond Resolution, the San Diego County Treasurer's Office is appointed as initial paying agent and registrar (the "Paying Agent") for the Bonds. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Bond Resolution. The Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County of San Diego (the "County") is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. On November 7, 2000, the District received authorization from not less than two-thirds of the voters within the District to issue not to exceed \$187,000,000 of general obligation bonds pursuant to a bond measure known as "Proposition BB." Three series of general obligation bonds (the "Proposition BB Bonds") were issued under the Authorization (as defined below) consisting of \$153,570,000 in serial bonds and \$33,429,415 in capital appreciation bonds, with interest rates ranging from 3.44% to 5.27%. There is no remaining additional bonding capacity under the Authorization. As of June 30, 2013, \$166,070,908 principal amount of the issued Proposition BB bonds was outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The Bonds are being issued to provide funds, together with other funds on deposit, to refund and redeem the Sweetwater Union High School District Election of 2000 General Obligation Bonds, Series B ("2000-B Bonds") and the current interest bonds of the Sweetwater Union High School District Election of 2000 General Obligation Bonds, Series C ("2000-C Bonds" and, together with the 2000-B Bonds, the "Prior Bonds") and to pay certain costs of issuing the Bonds. The Prior Bonds being refunded are, in certain cases, referred to herein as the "Refunded Bonds." See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Bonds will be issued as fully registered Bonds in denominations of \$5,000 principal amount and any integral multiple thereof. The interest and principal on the Bonds shall be payable on February 1

and August 1 of each year, commencing on February 1, 2015 (each a “Bond Payment Date”) to their maturity. See “THE BONDS.”

The District was established in 1920 and consists of approximately 153 square miles. The District provides education for grades 7 through 12 and is currently operating 14 high schools, 12 middle schools, five adult education programs and four alternative education schools. Two charter schools also operate within the district boundaries. As of Fiscal Year 2013-14, the District serves approximately 40,183 students in grades 7 to 12 and approximately 22,522 adult learners in the communities of Bonita, Chula Vista, Eastlake, Imperial Beach, National City, Otay Mesa, South San Diego and San Ysidro. The District’s estimated average daily attendance for Fiscal Year 2013-14 is 38,312.44 and taxable property within the District has a Fiscal Year 2013-14 assessed valuation of \$35,663,322,686. The District has budgeted Fiscal Year 2013-14 general fund expenditures of approximately \$337,570,332 million. For additional information about the District’s operations and finances, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET.”

Brief descriptions of the Bonds, the Bond Resolution, the security for the Bonds, the District, the tax base of the District and certain other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Bond Resolution and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Bond Resolution and other documents. Copies of such documents may be obtained for inspection during the period of initial offering on the Bonds through the Underwriter. Thereafter, copies of such documents may be obtained for inspection and for reproduction upon payment of applicable fees at the office of the Superintendent, Sweetwater Union High School District, 1130 Fifth Avenue, Chula Vista, California 91911.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to Article 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, other applicable law and the Bond Resolution. The issuance of the Bonds and the execution and delivery of the Bond Resolution was authorized by the Board of Trustees of the District pursuant to a resolution adopted on June 30, 2014. At an election duly called and regularly held in the District on November 7, 2000, the District received authorization from not less than two-thirds of the voters within the District to issue not to exceed \$187,000,000 of general obligation bonds pursuant to a bond measure known as “Proposition BB” (the “Authorization”). Three series of general obligation bonds were issued under that Authorization consisting of \$153,570,000 in serial bonds and \$33,429,415 in capital appreciation bonds, with interest rates ranging from 3.44% to 5.27%. There is no remaining additional bonding capacity under that Authorization. As of June 30, 2013, \$166,070,908 principal amount of the issued Proposition BB bonds was outstanding.

Purpose

The Bonds are being issued to provide funds, together with other funds on deposit with respect to the Refunded Bonds, to refund and redeem the Refunded Bonds and to pay certain costs of issuing the Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Form and Registration

The Bonds will be issued in fully registered book-entry form only, in denominations of \$5,000 principal amount and any integral multiple thereof. The Bonds will initially be registered in the name of

Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Bonds. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds or any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners (“Beneficial Owners”) will not receive physical certificates representing their ownership interests. See APPENDIX C – “BOOK-ENTRY ONLY SYSTEM.”

Payment of the Bonds

Payment of Bonds. The Bonds will be issued as fully registered bonds in the denomination of \$5,000 principal amount, or any integral multiple thereof. The Bonds shall be dated the Date of Issuance (as defined in the Bond Resolution), and shall bear interest at the rates set forth on the inside cover page hereof payable on each February 1 and August 1 of each year, commencing on February 1, 2015 (each a “Bond Payment Date”) to their maturity. Interest on the Bonds shall be calculated on a daily basis based on a 360-day year, to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date (as defined herein). The principal on the Bonds shall be payable on August 1 of each year, commencing on February 1, 2015. The Bonds will be due and payable on and prior to August 1, 2029.

Interest will be paid by check of the Paying Agent mailed by first class mail, postage prepaid, on each Interest Payment Date to the registered owners (the “Owners”) of the Bonds at their respective addresses shown on the registration books maintained by the Paying Agent as of the close of business on the preceding Record Date; provided, however, that so long as the Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer. See APPENDIX C – “BOOK-ENTRY ONLY SYSTEM.” Principal of and interest (if any) on the Bonds shall be payable in lawful money of the United States of America.

The principal of, and interest on, the Bonds shall be payable in lawful money of the United States of America without deduction for the services of the Paying Agent. Interest on the Bonds shall be paid on each Bond Payment Date by check mailed by first class mail to the person in whose name the Bond is registered, and to that person’s address appearing on the Bond Register (as described in the Bond Resolution) on the Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of the Bonds may request, in writing, prior to the close of business on the fifteenth (15th) day of the month preceding each Bond Payment Date (each, a “Record Date”), to the Paying Agent that such Owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date.

Payments of principal and redemption premiums, if any, with respect to the Bonds, shall be payable at maturity or redemption upon surrender at the Office of the Paying Agent (as defined in the Bond Resolution). In the event the Paying Agent shall provide written notice of a change in the location for payment of principal, redemption premiums and interest on the Bonds, the Paying Agent shall thereafter provide notice of such change to the Informational Services and Securities Depositories (each as defined in the Bond Resolution) of such change. The Paying Agent is hereby authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof.

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the first Record Date in which event it shall bear interest from the Date of Issuance, computed using a year of 360 days, comprised of twelve 30-day months; provided, however, that if at the time of authentication of any

Bond, interest is then in default on the Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The foregoing terms shall be subject to the terms of the Purchase Agreement.

Municipal Bond Insurance

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY (the “Insurer”). See “BOND INSURANCE.”

Redemption of the Bonds

Optional Redemption. The Bonds maturing on or before August 1, 2024, are not subject to optional redemption prior to maturity. The Bonds maturing on or after August 1, 2025, are subject to redemption prior to maturity from any funds legally available therefore, in whole or in part on any date, on or after August 1, 2024, at the principal amount of the Bonds to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Selection of Bonds for Redemption. Whenever less than all Bonds are to be redeemed, the Paying Agent, upon written direction from the District shall select the Bonds to be redeemed as so directed, and if not so directed in inverse order of maturity, and within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof. The Paying Agent shall promptly notify the District of the Bonds so selected for redemption on such date.

Notice of Redemption. The Paying Agent shall give notice of each designated redemption (“Redemption Notice”) of the Bonds at the expense of the District. Such Redemption Notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed; (b) if less than all of the then outstanding Bonds are to be called for redemption, shall designate the numbers (or state that all Bonds between two stated numbers both inclusive have been called for redemption) and CUSIP® numbers, if any, of the Bonds to be redeemed; (c) the date of notice and the date of redemption; (d) the place or places where the redemption will be made; and (e) descriptive information regarding the Bonds and the specific Bonds to be redeemed, including the dated date, interest rate and stated maturity date of each. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to the date of redemption, and redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue or accrete, as applicable.

Any Redemption Notice shall be mailed, first class postage, to the registered owners of the Bonds, to a Securities Depository and to a national Information Service, and by first class mail, postage prepaid, to the District and the respective Owners of any registered Bonds designated for redemption at their addresses appearing on the Bond registration books, in every case at least thirty (30) days, but not more than sixty (60) days, prior to the designated redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds nor entitle the Owner thereof to interest beyond the date given for redemption. A certificate provided by the Paying Agent that notice of such redemption has been given as herein provided shall be conclusive as against all parties, and it shall not be open to a Bond Owner to show that he or she failed to receive notice of such redemption. In case of the redemption as permitted herein of all the outstanding Bonds of any one maturity, notice of redemption shall be given by mailing as herein

provided, except that the notice of redemption need not specify the serial numbers of the Bonds of such maturity.

Neither failure to receive or failure to send, to the Securities Depositories or Informational Services, any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds. Neither the failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of accrual or accretion of interest, as applicable, represented thereby from and after the redemption date.

Contingent Redemption; Rescission of Redemption. Any Redemption Notice may specify that redemption of the Bonds designated for redemption on the specified date will be subject to the receipt by the District of monies sufficient to cause such redemption (and will specify the proposed source of such monies), and neither the District or the County will have any liability to the Owners of any Bonds, or any other party, as a result of the District's failure to redeem the Bonds designated for redemption as a result of insufficient monies therefor.

Additionally, the District may rescind any optional redemption of the Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission. Neither the District nor the Paying Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the District's decision to rescind a redemption of any Bonds pursuant to the provisions of this subsection.

Payment of Redeemed Bonds. When a Redemption Notice has been given substantially as provided for in the Bond Resolution and, when the amount necessary for the redemption of the Bonds called for redemption (principal amount, interest and premium, if any) is set aside for that purpose in the Debt Service Fund, as provided herein, the Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof and upon presentation and surrender of said Bonds at the place specified in the Redemption Notice, said Bonds shall be redeemed and paid at the redemption price from funds held in the Debt Service Fund.

Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds shall bear or include the CUSIP® number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

If on such redemption date, money for the redemption of all the Bonds to be redeemed as provided in the Bond Resolution, together with interest to such redemption date, shall be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid (and not rescinded), then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue or accrete, as applicable. All money held for the redemption of Bonds shall be held in trust for the account of the registered Owners of the Bonds so to be redeemed. All unpaid interest payable at or prior to the designated redemption date shall continue to be payable to the respective Owners, but without interest thereon.

Effect of Notice of Redemption. Notice having been given as aforesaid (and not rescinded), and the monies for the redemption (including the interest to the applicable date of redemption) having been set

aside in the Debt Service Fund, the Bonds to be redeemed shall become due and payable on such date of redemption.

Purchase in Lieu of Redemption. In lieu of, or partially in lieu of, any redemption of Bonds pursuant to the terms hereof, monies in the Debt Service Fund may be used to purchase the outstanding Bonds that were to be redeemed with such funds in the manner hereinafter provided. Purchases of outstanding Bonds may be made by the District or the County through the Paying Agent prior to the selection of Bonds for redemption at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest. Any accrued interest payable upon the purchase of Bonds may be paid from the Debt Service Fund for payment of interest on the next following Interest Payment Date. Any Bond purchased in lieu of redemption shall be transmitted to the Paying Agent and shall be canceled by the Paying Agent upon surrender thereof, as provided for in the Bond Resolution and shall not be reissued or resold.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Paying Agent shall authenticate and deliver to the Owner thereof a new Bond or Bond of like tenor and maturity and of authorized denominations equal in Transfer Amounts to the unredeemed portion of the Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Cancellation of Redeemed Bonds. All Bonds paid at maturity or redeemed prior to maturity shall be canceled upon surrender thereof and be delivered to or upon the order of the County and the District. All or any portion of a Bond purchased by the County or the District pursuant to subsection (j) above shall be canceled by the Paying Agent and the Paying Agent shall provide a written certification of such cancellation and destruction to the District.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity under the provisions of the Bond Resolution, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient monies shall be held by the Paying Agent irrevocably in trust, or for its benefit in escrow, for the payment of the redemption price of such Bonds or portions thereof, and, in the case of Bonds, accrued interest with respect thereto to the date fixed for redemption, all as provided in the Bond Resolution, then such Bonds shall no longer be deemed outstanding, and shall be surrendered to the Paying Agent for cancellation upon the respective redemption date(s).

Registration of Exchange or Transfer

So long as the Bonds remain in book-entry form, transfer and exchange of any of the Bonds will be accomplished in accordance with the provisions of such book-entry system. In the event and only in the event of termination of such book-entry system with respect to the Bonds, the Bonds may be transferred and exchanged in accordance with the terms of the Bond Resolution. See APPENDIX C – “BOOK-ENTRY ONLY SYSTEM.”

Debt Service

Debt service on the Bonds is as shown in the following table:

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
February 1, 2015	--	\$ 2,004,072.22	\$ 2,004,072.22
August 1, 2015	\$ 1,120,000	1,993,000.00	3,113,000.00
February 1, 2016	--	1,976,200.00	1,976,200.00
August 1, 2016	1,260,000	1,976,200.00	3,236,200.00
February 1, 2017	--	1,957,300.00	1,957,300.00
August 1, 2017	1,400,000	1,957,300.00	3,357,300.00
February 1, 2018	--	1,936,300.00	1,936,300.00
August 1, 2018	1,550,000	1,936,300.00	3,486,300.00
February 1, 2019	--	1,905,300.00	1,905,300.00
August 1, 2019	1,730,000	1,905,300.00	3,635,300.00
February 1, 2020	--	1,870,700.00	1,870,700.00
August 1, 2020	1,910,000	1,870,700.00	3,780,700.00
February 1, 2021	--	1,832,500.00	1,832,500.00
August 1, 2021	2,115,000	1,832,500.00	3,947,500.00
February 1, 2022	--	1,779,625.00	1,779,625.00
August 1, 2022	2,340,000	1,779,625.00	4,119,625.00
February 1, 2023	--	1,721,125.00	1,721,125.00
August 1, 2023	2,585,000	1,721,125.00	4,306,125.00
February 1, 2024	--	1,656,500.00	1,656,500.00
August 1, 2024	2,840,000	1,656,500.00	4,496,500.00
February 1, 2025	--	1,585,500.00	1,585,500.00
August 1, 2025	3,110,000	1,585,500.00	4,695,500.00
February 1, 2026	--	1,507,750.00	1,507,750.00
August 1, 2026	12,080,000	1,507,750.00	13,587,750.00
February 1, 2027	--	1,205,750.00	1,205,750.00
August 1, 2027	15,050,000	1,205,750.00	16,255,750.00
February 1, 2028	--	829,500.00	829,500.00
August 1, 2028	16,375,000	829,500.00	17,204,500.00
February 1, 2029	--	420,125.00	420,125.00
August 1, 2029	16,805,000	420,125.00	17,225,125.00
Total	\$82,270,000	\$48,365,422.22	\$130,635,422.22

PLAN OF REFUNDING

Net proceeds of the Bonds will be applied to refund and redeem the Refunded Bonds. The Prior Bonds were issued and sold pursuant to those resolutions of the District adopted on May 20, 2003, and September 27, 2004, respectively, and resolutions of the County adopted on June 10, 2003, and October 19, 2004, respectively.

Net proceeds of the sale of the Bonds together with other funds on deposit with respect to the Refunded Bonds in an aggregate amount sufficient to refund and redeem the Refunded Bonds will be deposited in an irrevocable escrow fund (the "Escrow Fund") established by the School District with MUFG Union Bank, N.A. (the "Escrow Bank"), pursuant to an Escrow Agreement dated as of the Closing Date (the "Escrow Agreement"), by and between the School District and the Escrow Bank. Amounts in the Escrow Fund (and the accounts thereof) will be held uninvested and applied to pay the

interest on the Refunded Bonds on August 1, 2014, and to pay the redemption price thereof on August 1, 2014, as verified by Grant Thornton LLP (the “Verification Agent”), an independent firm of certified public accountants. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The monies held under the Escrow Agreement are pledged to the payment of the Refunded Bonds to be paid upon the redemption thereof are not available for the payment of principal and interest on the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the Bonds, and other funds on deposit with respect to the Refunded Bonds, are set forth in the following table:

Sources of Funds

Principal Amount of Bonds	\$82,270,000.00
Original Issue Premium	11,495,487.05
Transfer Attributed to Refunded Bonds	2,120,138.75
Total Sources	\$95,885,625.80

Uses of Funds

Escrow Fund	\$94,955,138.75
Bond Insurance Premium	182,889.59
Underwriter’s Discount	468,675.00
Other Costs of Issuance ⁽¹⁾	278,922.46
Total Uses	\$95,885,625.80

⁽¹⁾ Includes legal fees and other consultant fees, rating agency fees, printing fees and other miscellaneous fees and expenses.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are general obligations of the District secured by *ad valorem* tax revenues levied and collected pursuant to the California Constitution, the Act, the Authorization and State law, and do not constitute an obligation of the County except as provided in the Bond Resolution. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

The District, through the County, has under two separate general obligation bond authorizations previously issued \$367 million aggregate initial principal amount of general obligation bonds payable from ad valorem property taxes levied and collected by the County on taxable property within the District of which approximately \$346 million is currently outstanding.

On November 7, 2000, the District received authorization from not less than two-thirds of the voters within the District to issue not to exceed \$187,000,000 of general obligation bonds pursuant to the Authorization. Three series of general obligation bonds were issued under that Authorization consisting of \$153,570,000 in serial bonds and \$33,429,415 in capital appreciation bonds, with interest rates ranging from 3.44% to 5.27%. There is no remaining additional bonding capacity under that Authorization. As of June 30, 2013, \$166,070,908 principal amount of the issued Proposition BB bonds was outstanding.

Pursuant to the California Constitution, the Act, the Authorization, the Government Code and, Sections 15250 *et seq.* of the California Education Code (the “Education Code”), the County shall cause to be levied on all the taxable property in the District, in addition to all other taxes, a continuing direct *ad valorem* tax annually during the period the Bonds are Outstanding in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds when due, which monies when collected will be placed in the Debt Service Fund (as described in the Bond Resolution), which fund is irrevocably pledged for the payment of the principal of, premium, if any, and interest on the Bonds when and as the same fall due along with administrative costs and expenses for the Bonds including fees and expenses of the Paying Agent.

The monies in the Debt Service Fund, to the extent necessary to pay the principal of, and interest on, the Bonds as the same become due and payable, shall be transferred by the Paying Agent, or his or her designee or deputy, to the Paying Agent who in turn, shall pay such monies to DTC to pay the principal of, and interest on, the Bonds when due. DTC will thereupon make payments of principal of, and interest on, the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the beneficial owners of the Bonds. Any monies remaining in the Debt Service Fund after the Bonds and the interest thereon have been paid, or provision for such payment has been made, shall be transferred to the General Fund of the District pursuant to Education Code Section 15235 or any successor section thereto.

The Bonds are obligations of the District, secured by *ad valorem* taxes levied and collected pursuant to State law or other sources as set forth above. The Bonds do not constitute an obligation of the County except to provide for the levy and collection of the *ad valorem* taxes as provided under State law. No part of any fund of the County is pledged or obligated to the payment of the Bonds. There is no debt service reserve fund established for the Bonds.

In addition to the Authorization, on November 7, 2006, the District received authorization from the qualified electors of the District authorized, in compliance with Proposition 39, to issue not to exceed \$644,000,000 aggregate principal amount of general obligation bonds (the “2006 Bond Authorization”). As of the date hereof, one series of general obligation bonds, the District’s General Obligation Bonds, Election of 2006, Series 2008A (the “Series 2008A Bonds”) in the aggregate principal amount of \$180,000,000, and one series of bond anticipation notes, the District’s 2013 General Obligation Bond Anticipation Notes (the “2013 BANS”), in the aggregate principal amount of \$32,820,000, are the only issues under the 2006 Bond Authorization. Principal and interest payments on the Series 2008A Bonds are being paid from *ad valorem* property taxes levied and collected by the County on taxable property within the District for that purpose. The District has a remaining \$464,000,000 aggregate principal amount of the general obligation bonds authorized by the 2006 Bond Authorization not yet issued.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under Section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM. BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$478.6 million, \$12.7 million and \$465.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE."

Additional Information Available from BAM.

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditsights/.

Obligor Disclosure Briefs. Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at buildamerica.com/obligor/.

Disclaimers. The Obligor Disclosure Briefs and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Obligor Disclosure Briefs and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Obligor Disclosure Briefs and Credit Insight videos are prepared by BAM and have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and they assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

CERTAIN INFORMATION REGARDING DISTRICT PROPERTY TAX BASE

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector, as *ex officio* treasurer of each school district located in the county, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

Assessed Valuation of Property Within the District

All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property

include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. However, some special classes of property are assessed by the State Board of Equalization.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed.

Under the Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property. California law requires that the assessment roll be finalized by August 20 of each year.

Until 2011, California law provided that a city or county could create a redevelopment agency in territory within one or more school districts. In general terms, upon formation of a "project area" of a redevelopment agency, most property tax revenues thereafter attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") would belong to the redevelopment agency, causing a loss of potential tax revenues to other local taxing agencies, including school districts, from that time forward. For "revenue limit" districts, like the District, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit was

reached. (For basic aid districts, unlike the District, the loss of tax revenues is not reimbursed by the State.) In neither case are taxes collected for payment of debt service on school bonds affected or diverted. As an offset to this allocation of property tax revenues, school districts were permitted to enter into “pass-through agreements” with their local redevelopment agencies, or otherwise allocated similar pass-through payments by statute, in order to provide for a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on obligations of the redevelopment agency). With the enactment of ABX1 26 and ABX1 27, and pending California Supreme Court review of such legislation, the status of California redevelopment agencies and certain existing obligations are uncertain. Pursuant to the terms of ABX1 26 as enacted, the school districts that have entered into “pass-through agreements” or otherwise received pass-through revenues by statute before the enactment of ABX1 26 and ABX1 27 would continue to receive such portion of the tax increment revenues. Such matters are currently before the California Supreme Court and subject to further litigation and judicial determination and the District cannot make any assurances as to the availability of such pass-through revenues. A purpose of ABX1 26, however, was to dissolve California redevelopment agencies and eliminate the ability of redevelopment agencies to collect such tax increment and, therefore, to allow such revenues to flow to local taxing entities including the District.

Economic and other factors beyond the District’s control could cause reductions in the assessed value of taxable property within the District and changes in such property tax base. Historical assessed valuations, historical rates of increase or decline in such valuations and historical tax base characteristics are not necessarily reliable indicators of future valuations, rates and characteristics. No assurance can be given that the assessed valuation of property within the District and/or the property tax base in the District will not change in the future.

TAX BASE FOR REPAYMENT OF THE BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds will be payable solely from ad valorem taxes levied and collected by the County.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a “floating lien date”). For assessment and collection purposes, property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee’s fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee’s fee ownership of land are transferred to the unsecured roll and are then subject to the County Treasurer’s enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the

time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – Constitutional and Statutory Provisions Affecting District Revenues and Appropriations.”

The State-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies. In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following tables reflect assessed valuations in the geographical area covered by the District, generally, by jurisdiction and by land use. Equalized assessed valuations for Fiscal Year 2014-15 are expected to be available by September 15, 2014.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2009-10 Through 2013-14**

Fiscal Year	Local Secured	Utility	Unsecured	Total
2009-10	\$34,550,698,701	\$398,564,818	\$1,112,318,735	\$36,061,582,254
2010-11	33,452,565,044	509,107,818	1,076,921,988	35,038,594,850
2011-12	33,284,178,482	474,035,562	1,137,543,619	34,895,757,663
2012-13	33,181,516,963	413,594,818	1,057,857,704	34,652,969,485
2013-14	34,183,445,875	387,523,100	1,092,353,711	35,663,322,686

Source: California Municipal Statistics, Inc.

SWEETWATER UNION HIGH SCHOOL DISTRICT
2013-14 Assessed Valuation By Jurisdiction⁽¹⁾

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Chula Vista	\$21,646,268,909	60.70%	\$ 21,646,268,909	100.00%
City of Coronado	613,631	0.00	6,927,300,017	0.01
City of Imperial Beach	1,477,376,315	4.14	1,477,376,315	100.00
City of National City	3,259,350,929	9.14	3,259,350,929	100.00
City of San Diego	7,053,633,604	19.78	185,285,798,987	3.81
Unincorporated San Diego County	2,226,079,298	6.24	58,187,218,349	3.83
Total District	\$35,663,322,686	100.00%		
 San Diego County	 \$35,663,322,686	 100.00%	 \$395,049,338,313	 9.03%

⁽¹⁾ Before deduction of redevelopment incremental valuation.
Source: California Municipal Statistics, Inc.

SWEETWATER UNION HIGH SCHOOL DISTRICT
2013-14 Secured Assessed Valuation and Parcels By Land Use

	2013-14 Secured Assessed Valuation⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	\$ 224,037,803	0.66%	482	0.46%
Commercial	4,108,346,575	12.02	2,499	2.40
Vacant Commercial	196,585,127	0.58	464	0.45
Industrial	2,410,189,835	7.05	1,362	1.31
Vacant Industrial	436,040,354	1.28	629	0.60
Recreational/Golf	144,743,087	0.42	130	0.12
Government/Social/Institutional	122,846,336	0.36	1,974	1.90
Miscellaneous	22,533,717	0.07	279	0.27
Subtotal Non-Residential	\$ 7,665,322,834	22.42%	7,819	7.51%
Residential:				
Single Family Residence	\$18,621,928,503	54.48%	67,058	64.45%
Condominium/Townhouse	3,661,361,215	10.71	19,525	18.77
Mobile Home	124,318,888	0.36	1,998	1.92
Mobile Home Park	166,315,063	0.49	97	0.09
2-4 Residential Units	1,064,882,801	3.12	4,311	4.14
5+ Residential Units/Apartments	2,502,089,152	7.32	1,169	1.12
Miscellaneous Residential	4,711,719	0.01	188	0.18
Vacant Residential	372,515,700	1.09	1,883	1.81
Subtotal Residential	\$26,518,123,041	77.58%	96,229	92.49%
Total	\$34,183,445,875	100.00%	104,048	100.00%

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Residential Properties. The following table shows the assessed valuation of single-family residential properties only in the District for Fiscal Year 2013-14.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
Per Parcel 2013-14 Assessed Valuation of Single Family Homes**

	<u>No. of Parcels</u>	<u>2013-14 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential	67,058	\$18,621,928,503	\$277,699	\$270,000

<u>2013-14 Assessed Valuation</u>	<u>No. of Parcels⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	1,795	2.677%	2.677%	\$ 75,593,918	0.406%	0.406%
\$50,000 - \$99,999	7,866	11.730	14.407	554,221,285	2.976	3.382
\$100,000 - \$149,999	5,168	7.707	22.114	653,084,947	3.507	6.889
\$150,000 - \$199,999	6,635	9.894	32.008	1,170,473,958	6.285	13.175
\$200,000 - \$249,999	8,190	12.213	44.221	1,846,078,130	9.913	23.088
\$250,000 - \$299,999	8,708	12.986	57.207	2,382,158,513	12.792	35.880
\$300,000 - \$349,999	8,707	12.984	70.191	2,818,374,555	15.135	51.015
\$350,000 - \$399,999	7,599	11.332	81.523	2,826,561,292	15.179	66.194
\$400,000 - \$449,999	5,171	7.711	89.235	2,184,182,383	11.729	77.923
\$450,000 - \$499,999	2,973	4.433	93.668	1,400,871,566	7.523	85.446
\$500,000 - \$549,999	1,497	2.232	95.901	777,919,646	4.177	89.623
\$550,000 - \$599,999	909	1.356	97.256	520,042,039	2.793	92.416
\$600,000 - \$649,999	622	0.928	98.184	385,753,340	2.072	94.487
\$650,000 - \$699,999	416	0.620	98.804	278,189,491	1.494	95.981
\$700,000 - \$749,999	224	0.334	99.138	161,447,456	0.867	96.848
\$750,000 - \$799,999	148	0.221	99.359	114,099,549	0.613	97.461
\$800,000 - \$849,999	121	0.180	99.539	99,297,442	0.533	97.994
\$850,000 - \$899,999	64	0.095	99.635	55,494,077	0.298	98.292
\$900,000 - \$949,999	52	0.078	99.712	48,007,109	0.258	98.550
\$950,000 - \$999,999	26	0.039	99.751	25,183,419	0.135	98.685
\$1,000,000 and greater	167	0.249	100.000	244,894,388	1.315	100.000
Total	<u>67,058</u>	<u>100.000%</u>		<u>\$18,621,928,503</u>	<u>100.000%</u>	

⁽¹⁾ Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined ownership of taxable property on the 2013-14 tax roll, and the assessed valuation of property of all property owned by those taxpayers in all taxing jurisdictions within the District, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer’s financial situation and ability or willingness to pay property taxes. As shown below, no single taxpayer owned more than 0.75% of the total taxable property in the District. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control.

The following table shows the 20 largest secured taxpayers within the District, as determined by the secured assessed valuation in Fiscal Year 2013-14.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
2013-14 TWENTY LARGEST SECURED TAXPAYERS**

	Property Owner	Primary Land Use	2013-14 Assessed Valuation	% of Total ⁽¹⁾
1.	Rohr Inc.	Industrial	\$ 250,647,215	0.73%
2.	Chelsea San Diego Finance LLC	Shopping Center	211,193,459	0.62
3.	Plaza Bonita LLC	Shopping Center	138,241,002	0.40
4.	Centermark Properties Inc.	Shopping Center	134,769,411	0.39
5.	GGP-Otay Ranch LP	Shopping Center	118,866,673	0.35
6.	Otay Greenfield Developers LLC	Apartments	114,100,197	0.33
7.	Pasha Automotive Services	Industrial	95,908,228	0.28
8.	Regulo Place Apartments Investors LLC	Apartments	92,415,852	0.27
9.	Wal-Mart Real Estate Business Trust	Commercial	86,359,305	0.25
10.	Corrections Corp. of America	Correctional Facility	79,740,133	0.23
11.	EQR-Missions at Sunbow LLC	Apartments	77,585,000	0.23
12.	Chula Vista Center LLC	Shopping Center	70,554,229	0.21
13.	Camden USA Inc.	Apartments	65,411,407	0.19
14.	Costco Wholesale Corporation	Commercial	64,717,584	0.19
15.	EQR-Teresina LP	Apartments	60,000,000	0.18
16.	Casoleil LP	Apartments	57,000,000	0.17
17.	Home Depot USA Inc.	Commercial	55,154,055	0.16
18.	PVHR LLC	Assisted Living Facility	54,274,656	0.16
19.	SSBTLCREV LLC	Undeveloped	51,485,601	0.15
20.	BRE-FMCA LLC	Apartments	51,478,982	0.15
			\$1,929,902,989	5.65%

⁽¹⁾ 2013-14 Local Secured Assessed Valuation: \$34,183,445,875.
Source: California Municipal Statistics, Inc.

Tax Rates

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are

specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

The following table sets forth *ad valorem* tax rates levied by all taxing entities within representative tax rate areas within the District, Tax Rate Area 1-245 and 1-265, and Tax Rate Area 1-000, for fiscal years 2009-10 through 2013-14.

Typical Tax Rates per \$100 Assessed Valuation (TRAs 1-245 and 1-265)

	2009-10	2010-11	2011-12	2012-13	2013-14
General Tax Rate	1.00000	1.00000	1.00000	1.00000	1.00000
Southwestern Community College District	.03442	.03635	.03308	.03753	.03675
Chula Vista Elementary School District	.02507	.02611	.02594	.02526	.02259
Sweetwater Union High School District	.05580	.05517	.06079	.05862	.05823
Otay Water District	.00500	.00500	.00500	.00500	.00500
Metropolitan Water District	.00430	.00370	.00370	.00350	.00350
Total Tax Rate	1.12459	1.12633	1.12851	1.12991	1.12607

Typical Tax Rates per \$100 Assessed Valuation (TRA 1-000)

	2009-10	2010-11	2011-12	2012-13	2013-14
General Tax Rate	1.00000	1.00000	1.00000	1.00000	1.00000
Southwestern Community College District	.03442	.03635	.03308	.03753	.03675
Chula Vista Elementary School District	.02507	.02611	.02594	.02526	.02259
Chula Vista Elementary School District SFID No. 2012-1	--	--	--	--	.02372
Sweetwater Union High School District	.05580	.05517	.06079	.05862	.05823
Metropolitan Water District	.00430	.00370	.00370	.00350	.00350
Total Tax Rate	1.11959	1.12133	1.12351	1.12491	1.14479

2013-14 Assessed Valuation of TRA 1-245 is \$2,100,721,433 which is 5.89% of the District's total assessed valuation.
 2013-14 Assessed Valuation of TRA 1-265 is \$3,579,413,206 which is 10.04% of the District's total assessed valuation.
 2013-14 Assessed Valuation of TRA 1-000 is \$2,030,457,710 which is 5.69% of the District's total assessed valuation.
 Source: California Municipal Statistics, Inc.

Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain local debt, including bonded indebtedness incurred by a school district, such as the District, for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, including debt approved by 55% or more of the votes under the provisions of Proposition 39. The levy required for the repayment of the Proposition BB Bonds, and the outstanding Series 2008A Bonds, is similarly exempt from the 1% tax limitation.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained for inspection and for reproduction upon payment of applicable fees by contacting the District.

As a high school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any such bonds or Bonds is included when calculating the District's bonding capacity. Based on the District's Fiscal Year 2013-14 assessed valuation of \$35.66 billion, its gross bonding capacity (also commonly referred to as the "bonding limit")

or “debt limit”) is currently estimated at \$446 million and its net bonding capacity is approximately \$112 million (taking into account current outstanding debt as of the date of issuance of the Bonds, less the amount of the Refunded Bonds). Economic and other factors beyond the District’s control could cause a reduction in the assessed value of taxable property within the District.

Tax Collections and Delinquencies

A school district’s share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in Fiscal Year 1978-79, as adjusted according to a complicated statutory scheme enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$23 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The following table shows real property tax charges with respect to property located in the District for the fiscal years 2007-08 through 2012-13. San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest. See “Teeter Plan” below.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
Fiscal Years 2008-09 through 2012-13**

Fiscal Year	Secured Tax Charge⁽¹⁾
2008-09	\$66,854,249.42
2009-10	60,281,897.97
2010-11	58,535,025.77
2011-12	57,870,992.46
2012-13	58,025,045.59

⁽¹⁾ 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

Teeter Plan. The County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the “Teeter Plan.” The Teeter Plan provisions are now set

forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as “bank” and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The County Board of Supervisors adopted the Teeter Plan on June 29, 1993. The County’s Teeter Plan applies to the District and to its outstanding general obligation bonds.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a *pro rata* adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The County has never discontinued the Teeter Plan with respect to any levying agency.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and dated as of May 1, 2014. The Debt Report is included for general information purposes only and excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The Debt Report generally includes long term obligations sold in the public credit markets by public entities whose boundaries overlap the District’s service area. Such long term obligations are not payable from revenues of the District (except as indicted) nor are they necessarily secured by land within the District. In many cases, such obligations are payable from the general fund of the issuing agency. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

**SWEETWATER UNION HIGH SCHOOL DISTRICT
DIRECT AND OVERLAPPING BONDED INDEBTEDNESS**

2013-14 Assessed Valuation: \$35,663,322,606

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/14</u>
Metropolitan Water District	1.560%	\$2,063,490
Otay Municipal Water District, Improvement District No. 27	100.000	5,700,000
San Diego Community College District	0.003	38,893
Southwestern Community College District	83.735	193,083,988
Sweetwater Union High School District	100.000	354,404,415⁽¹⁾
Chula Vista City School District and School Facilities Improvement District No. 2012-1	100.000	91,585,000
San Ysidro School District	100.000	123,382,611
South Bay Union School District	100.000	35,534,526
City of National City	100.000	4,650,000
Sweetwater Union High School District Community Facilities Districts	100.000	147,335,000
Y/S School Facilities Financing Authority Chula Vista School Project	100.000	4,440,000
City of Chula Vista Community Facilities Districts	100.000	186,220,000
City of Chula Vista 1915 Act Bonds	100.000	19,637,996
Other Cities and Special District 1915 Act Bonds	100.000	8,866,515
TOTAL DIRECT & OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,176,942,434
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/14</u>
San Diego County General Fund Obligations	9.028%	\$ 34,291,504
San Diego County Pension Obligations	9.028	65,078,813
San Diego County Superintendent of Schools Certificates of Participation	9.028	1,455,765
Otay Municipal Water District Certificates of Participation	73.556	34,343,296
Southwestern Community College District General Fund Obligations	83.735	971,326
Sweetwater Union High School District Certificates of Participation	100.000	42,475,000
Chula Vista City School District Certificates of Participation	100.000	141,895,000
San Ysidro School District Certificates of Participation	100.000	42,013,755
City of Chula Vista Certificates of Participation	100.000	121,650,000
City of National City Certificates of Participation	100.000	2,300,000
City of San Diego General Fund Obligations	3.807	20,821,625
San Miguel Consolidated Fire Protection District Certificates of Participation	0.254	11,621
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 507,307,705
Less: Otay Municipal Water District Certificates of Participation		34,343,296
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 472,964,409
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Chula Vista Redevelopment Agency	100.000%	\$ 40,920,000
Imperial Beach Redevelopment Agency	100.000	38,725,000
National City Redevelopment Agency	100.000	63,040,000
San Diego Redevelopment Agency Housing Bonds	9.595	5,549,748
San Diego Redevelopment Agency San Ysidro Project Area	100.000	7,635,000
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$ 155,869,748
GROSS COMBINED TOTAL DEBT		\$1,840,119,887 ⁽²⁾
NET COMBINED TOTAL DEBT		\$1,805,776,591

(1) Excludes the Bonds.

(2) Excludes tax and revenue anticipation bonds, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:

Direct Debt (\$354,404,415)	0.99%
Total Direct Overlapping Tax and Assessment Debt.....	3.30%
Combined Direct Debt (\$396,879,415)	1.11%
Gross Combined Total Debt.....	5.16%
Net Combined Total Debt.....	5.06%

Ratios to Redevelopment Incremental Valuation (\$3,955,192,694):

Total Overlapping Tax Increment Debt.....	3.94%
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Source: California Municipal Statistics, Inc.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject, however, to certain qualifications described herein, and based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of Code. In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations; however Bond Counsel observes that such interest is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liabilities.

The opinions of Bond Counsel set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxation.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the recipient's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no other opinion regarding or concerning any other tax consequences related to the ownership or disposition of the accrual or receipt of interest on the Bonds.

Certain requirements and procedures contained or referred to in the Bond Resolution and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to the effect on any Bond or the interest thereon if any such change occurs or action is taken upon advice or approval of bond counsel other than Bond Counsel.

The opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, Bond Counsel to the District, approving the validity of the Bonds, in substantially the form appearing in Appendix E hereto, will be supplied to the original purchasers of the Bonds without cost. See APPENDIX E – "PROPOSED FORM OF OPINION OF BOND COUNSEL" for the proposed form of the opinion of Bond Counsel. A copy of the legal opinion will be attached at the end of each Bond. The payment of fees of Bond Counsel is contingent upon the closing of the Bonds transaction.

Bond Counsel's employment is limited to a review of the legal proceedings required for authorization of the Bonds and to rendering an opinion as to the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest on the Bonds. Bond Counsel has

undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and expresses no opinion relating thereto.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the Internal Revenue Service. Under current procedures, parties other than the District and its appointed counsel, including the Owners, would have little, if any, right to participate in such an Internal Revenue Service audit examination process. Moreover, because achieving judicial review in connection with an Internal Revenue Service audit examination of tax-exempt bonds is difficult, obtaining an independent review of Internal Revenue Service positions with which the District legitimately disagrees may not be practicable. Any action of the Internal Revenue Service, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of Bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Owners to incur significant expense.

Original Issue Discount; Premium Bonds

The initial public offering price of the Bonds may be less than the amount payable with respect to such Bonds at maturity. An amount not less than the difference between the initial public offering price of a Bond and the amount payable at the maturity of such Bond constitutes original issue discount. Original issue discount on a tax-exempt obligation, such as the Bonds, accrues on a compounded basis. The amount of original issue discount that accrues to the owner of a Bond issued with original issue discount will be excludable from such owner's gross income and will increase the owner's adjusted basis in such Bond potentially affecting the amount of gain or loss realized upon the owner's sale or other disposition of such Bond. The amount of original issue discount that accrues in each year is not included as a tax preference for purposes of calculating alternative minimum taxable income and may therefore affect a taxpayer's alternative minimum tax liability. Consequently, taxpayers owning the Bonds issued with original issue discount should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability although the taxpayer has not received cash attributable to such original issue discount in such year.

Purchasers should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount properly accruable with respect to the Bonds, other federal income tax consequences of owning tax-exempt obligations with original issue discount and any state and local consequences of owning the Bonds.

The Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners of the Bonds from

realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. In 2011 through 2014, legislative changes were proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt State or local obligations, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.

Internal Revenue Service Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and target audits. In 2013, the Internal Revenue Service completed an audit of the Series 2008A Bonds with no change to the excludability of the interest on the Series 2008A Bonds from gross income for federal income tax purposes.

It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds or securities).

Information Reporting and Backup Withholding

Information reporting requirements apply to interest (including original issue discount) paid after March 31, 2007, on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an Owner purchasing Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the Owner's federal income tax once the required information is furnished to the Internal Revenue Service.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX E – "PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than nine months after the end of the District’s fiscal year (which due date shall be April 1 of each year, so long as the fiscal year ends on June 30), commencing with the report for the 2013-14 Fiscal Year (which is due not later than April 1, 2015) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

In the preceding five years, the District and the Sweetwater Union High School District Public Financing Authority failed to timely comply in certain material respects with its previous undertakings with regard to said Rule to provide annual reports or notices of Notice Events in limited instances and has attributed these failures to the receipt of information from, and to be disseminated through, third-parties. These failures include, without limitation, with respect to its General Obligation Bonds, that the District did not include specified summary overlapping debt and land use information for fiscal years 2008-09 through 2012-13 in its corresponding annual reports, with respect to its Certificates of Participation (1997 Capital Improvements Financing) (“1997 Certificates”), that it did not file its annual report for the 2008-09 fiscal year, which 1997 Certificates had their final maturity in April 2010 and, as concerning certain rating changes, failed to timely provide notices of Notice Events. The District has undertaken a review of its continuing disclosure obligations and filings as part of this process and has taken steps to implement procedures to better meet its obligations under the Rule, including consolidating its dissemination agent responsibilities with Special District Financing & Administration, as dissemination agent. Previously omitted material information has been posted to the EMMA System.

No Litigation

The District is routinely subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District. No litigation is pending or, to the knowledge of the District, threatened against the District: (i) in any way affecting the existence of the District or affecting the validity of the officers in power at the time of the adoption of the Resolution approving the issuance of the Bonds; or (ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Bonds, the application of the proceeds of the sale of the Bonds, or the payment of the Bonds as contemplated by the Bond Resolution, or in any way contesting or affecting the validity or enforceability of the Bonds or the Bond Resolution or contesting the powers of the District or its authority with respect to the Bonds or the Bond Resolution or (iii) in which a final adverse decision could (a) result in any material adverse change in excess of \$1,000,000 relating to the financial condition of the District, (b) materially adversely affect the consummation of the transactions contemplated by Bond Resolution and related documents, (c) declare the District Documents to be invalid or unenforceable in whole or in material part, or (d) adversely affect the exclusion of the interest paid on the Bonds from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation.

The District will furnish a certificate at the time of the original delivery of the Bonds that (i) no litigation is pending concerning the validity of the Bonds; and (ii) the District is not aware of any

litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds.

MISCELLANEOUS

Ratings

Standard & Poor's Ratings Services LLC ("S&P") has assigned its rating on the Bonds of "AA" assuming the issuance of the Policy by the Insurer (See "BOND INSURANCE" herein). S&P and Moody's Investors Service ("Moody's") have assigned their underlying ratings on the Bonds of "A+" and "A1" respectively. Certain information not included in this Official Statement was supplied by the District to the above-referenced rating agencies to be considered in evaluating the Bonds. Such ratings reflect only the views of S&P and Moody's and does not constitute a recommendation to buy, sell or hold the Bonds and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance that any rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such rating may have an effect on the market price of the Bonds.

Professionals Involved in the Offering

Bowie, Arneson, Wiles & Giannone, Newport Beach, California is acting as Bond Counsel to the District with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed on for the District by Stutz, Artiano, Shinoff & Holtz, San Diego, California, as General Counsel to the District and Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District and for the Underwriter by Nossaman LLP, as Counsel to the Underwriter. The payment of the fees and expenses of Disclosure Counsel is also contingent upon the issuance and delivery of the Bonds.

Financial Advisor

Springsted Incorporated, Woodland Hills, California, served as financial advisor to the District (the "Financial Advisor") with respect to the issuance and sale of the Bonds. The Financial Advisor has not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. The Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

Underwriting

The Bonds are being purchased for reoffering by Mitsubishi UFJ Securities (USA), Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds pursuant to a Bond Purchase Agreement between the District and the Underwriter (the "Purchase Agreement") at a net purchase price of \$93,296,812.05 (representing the par amount of the Bonds, plus original issue premium of \$11,495,487.05 less an underwriter's discount of \$468,675.00). The Bond Purchase Agreement sets forth certain representations and agreements of both the District and the Underwriter, and certain conditions to closing. The Underwriter has certified to the District that the Bonds have been offered to the public and that a representative portion of the Bonds has been actually sold at the initial offering prices or yields

stated on the inside cover page hereof. The District takes no responsibility for the accuracy of these prices or yields. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into an agreement with UnionBanc Investment Services LLC (“UBIS”) pursuant to which UBIS may distribute certain municipal securities offerings underwritten by Mitsubishi UFJ Securities (USA), Inc., including the Bonds. Pursuant to this agreement, Mitsubishi UFJ Securities (USA), Inc. will share a portion of its underwriting compensation with UBIS with respect to the Bonds.

From time to time, Mitsubishi UFJ Securities (USA), Inc. and its affiliate, MUFG Union Bank, N.A. (formerly Union Bank, N.A.), provide various services to District including commercial banking and other services for which they receive customary compensation.

Additional Information

Reference is also made herein to certain documents or information relating to the District, including District audited financials. Such references are also brief summaries and do not purport to be complete or definitive. Quotations from and summaries and explanations of the Bonds, the Bond Resolution and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of such documents may be obtained for inspection during the period of initial offering on the Bonds through the Underwriter. Thereafter, copies of such documents may be obtained for inspection and for reproduction upon payment of applicable fees at the office of the office of the Superintendent of the Sweetwater Union High School District, 1130 Fifth Avenue, Chula Vista, California 91911.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

All data contained herein have been taken or constructed from the District’s records and other sources, as indicated. This Official Statement and its distribution have been duly authorized and approved by the District.

SWEETWATER UNION HIGH SCHOOL DISTRICT

By: Timothy D. Glover, Ed.D.
Interim Superintendent

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this Appendix concerning the operations of the Sweetwater Union High School District (the "District"), the District's finances and State of California (the "State") funding of education is provided as supplementary information. It should not be inferred from the inclusion of this information in the Official Statement that the Bonds will be payable from the general fund of the District or from State revenues or that the District is in any way obligated to repay the Bonds from such funds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the front portion of this Official Statement.

THE DISTRICT

Introduction

The Sweetwater Union High School District was established in 1920 and is located in the southern portion of San Diego County. The District consists of approximately 153 square miles. The District provides education for grades 7 through 12 and is currently operating 14 high schools, 12 middle schools, five adult education programs and four alternative education schools. Two charter schools also operate within the District boundaries.

As of Fiscal Year 2013-14, the District serves approximately 40,183 students in grades 7 to 12 and approximately 22,522 adult learners in the communities of Bonita, Chula Vista, Eastlake, Imperial Beach, National City, Otay Mesa, South San Diego and San Ysidro. The District's estimated average daily attendance for Fiscal Year 2013-14 is \$38,312.44 and taxable property within the District has a Fiscal Year 2013-14 assessed valuation of \$35,663,322,686. The District has budgeted Fiscal Year 2013-14 general fund expenditures of approximately \$337,570,332 million.

The District is governed by a Board of Trustees (the "Board"). The Board consists of five members who are elected at-large to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board Members or by a special election. The current members of the Board are set forth below:

Name	Office	End of Current Term
John McCann	President	December 2014

Trustees appointed to serve by the San Diego County Office of Education:

Susan Hartley	Vice President	December 2014
Mark Anderson	Board Member	December 2014
Sharon C. Jones	Board Member	December 2014
Lyn Neylon	Board Member	December 2014

Certain former Board members have been the subject of investigation, indictment and conviction in a probe by the San Diego District Attorney's Office into a "pay for play" culture between contractors and officials from three school districts including, but not limited to, the District. The San Diego District Attorney has alleged that for years, public officials regularly accepted what amounted to bribes in

exchange for their votes on multimillion-dollar construction projects. The investigation has involved not less than 15 suspects and subjects of investigation.

Several defendants have entered guilty pleas in the case. As of the date hereof, former Board President Jim Cartmill and former Board Member Bertha Lopez pleaded each guilty to the misdemeanor accepting gifts charge. Former Board Member Pearl Quinones, pleaded guilty to a felony conspiracy charge and admitted to a misdemeanor count of accepting gifts above the State limit. Former Board Members Arlie Ricasa and Greg Sandoval, and former Superintendent Jesus Gandara have also pleaded guilty to a felony conspiracy charge and a misdemeanor count of failing to report gifts they received, as has a construction company executive who admitted to a misdemeanor for providing gifts to school board members to influence their votes.

At a hearing on May 16, 2014 the California Superior Court granted the District's request for an order directing the president of the San Diego County Board of Education to appoint trustees to temporarily serve as members of the Board. On May 19, 2014, the president of the San Diego County Board of Education appointed four County Board of Education members to serve as trustees to the Board in a temporary capacity, allowing for governance of the District while suspended Board members resolved their respective legal issues. The current Board members have full authority under applicable law to act in the interests of the District. The trustee appointments to the Board will continue until such time elections or appointments occur in accordance with California law.

The District expects that replacements members will be voted into open positions at an election in November 2014 and a new Board of Trustees to be seated on or before December 31, 2014.

District Administrators

The Interim Superintendent of the District, appointed by the Board on July 2, 2014, Dr. Timothy D. Glover, is responsible for the administration of the affairs of the District. Other senior administrators include, Karen Michel, Chief Financial Officer. The District's prior Superintendent was placed on administrative leave by the Board last month after announcing his plans to retire upon the expiration of his contract in October 2014.

Dr. Timothy D. Glover, *Interim Superintendent*. Dr. Timothy D. Glover was appointed by the Board as Interim Superintendent on July 2, 2014. Dr. Glover returns to the Sweetwater District after serving as the Assistant Superintendent of the Student Services and Programs Division at the San Diego County Office of Education. Dr. Glover served for three years as senior director of the East County SELPA, coordinating special education services for the 10 East County School Districts and the Barona Indian Charter School. He was honored by the Association of California School Administrators as the Special Education Administrator of the Year. Previously, Dr. Glover spent years in the classroom and worked as an administrator in the Chula Vista Elementary School and Sweetwater Union High School Districts. Dr. Glover was principal of Salt Creek, Greg Rogers and Olympic View elementary schools, and assistant principal of Hilltop Middle and High schools in the District. Also at the District, Dr. Glover served as Assistant Director (2000-2002) and Director (2004-2006) of Special Support Services (2000-2002) and program manager of Special Support Services (1998-2000), as well as his time at Castle Park High School (1991-1993). His general education and special education teaching assignments included Southwest Junior High School, Mar Vista Middle School, Hilltop High School and Chula Vista High School. Dr. Glover attended UCLA for his undergraduate studies, earned a MS in Educational Administration from National University and a doctorate of education in organizational management from the University of La Verne. He also holds several professional credentials (Professional Clear Administrative Services Credential, Specialist Credential – Special Education, and Single Subject Teaching Credential – Social Sciences).

Karen Michel, *Chief Financial Officer*. Karen Michel was appointed Interim Chief Financial Officer in December 2013 and has served as the District’s Chief Financial Officer since June 3, 2014, and prior to that position, was the District’s Director of Fiscal Services since August 2007. Ms. Michel has worked with the District’s financial services department since 1996, having served as Budget Analyst from June 2000 to July 2007 and as an Accountant from November 1996 to May 2000. Ms. Michel is involved in several professional service organizations including the California Association of School Business Officials (CASBO) and its Finance Research and Development Committee, and the Business and Professional Women’s Club. Ms. Michel earned a Bachelor of Science, Business Administration from California State University, Sacramento. Ms. Michel has completed advanced training in California through the Chief Business Officials Academy and the Chief Business Officials Certification Training Program.

District Employees

The District currently employs 2,076 certificated and 1,503 classified employees. The table below sets forth historical employee information for the District for the last five (and current) fiscal years.

DISTRICT EMPLOYEES

Fiscal Year	Certificated	Classified	Total
2008-09	2,553	1,690	4,243
2009-10	2,397	1,680	4,077
2010-11	2,346	1,634	3,980
2011-12	2,248	1,515	3,763
2012-13	2,213	1,540	3,753
2013-14	2,076	1,503	3,579

District employees are represented by 3 labor associations. Currently, 99% of all District employees are covered by negotiation agreements, as follows: The District has completed negotiations with each labor association for extensions of these agreements.

Bargaining Unit	Agent	Expiration Date
Certificated employees	California Teachers Ass’n/National Education Association	June 30, 2016
Classified employees	California School Employees Association	June 30, 2016
Supervisors	National Association of Government Employees	June 30, 2016

Student Enrollment

Most school districts in the State receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the State to school districts. Like other school districts, one major revenue source for the District is its State of California funds entitlement, which is based upon student attendance. See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process” below.

Approximately 66.56% of the District’s 2011-12 general fund revenues was derived from anticipated State funds determined by student attendance. Approximately 69.74% of the District’s 2013-14 general fund revenue was derived from anticipated State funds determined by student attendance. As budgeted, approximately 72.09% of the District’s 2014-15 general fund revenue will be derived from anticipated State funds determined by student attendance. The table below sets forth the enrollment for Average Daily Attendance (“ADA”) for the District for the Fiscal Years ending June 30, 2004 through June 30, 2014 (preliminary).

**SWEETWATER UNION HIGH SCHOOL DISTRICT
ENROLLMENT AND AVERAGE DAILY ATTENDANCE
Fiscal Years 2003-04 through 2013-14**

Fiscal Year	Enrollment	ADA	ADA Change From Prior Year	Revenue Limit/ Base Grant
2003-04	38,710	36,309	2.7%	\$5,527
2004-05	40,688	37,949	4.5	5,691
2005-06	41,926	38,620	1.8	5,934
2006-07	42,101	38,891	0.7	6,369
2007-08	42,288	39,568	2.5	6,660
2008-09	42,443	39,814	3.1	6,486
2009-10	41,909	39,359	1.9	5,793
2010-11	41,129	38,806	(0.2)	5,997
2011-12	40,619	38,556	(0.6)	5,998
2012-13 ¹⁾	40,925	38,704	0.4	6,028
2013-14 ⁽¹⁾	40,183	38,312	(1.01)	6,380

(1) Local Control Funding Formula Base Grant. Preliminary.
Source: The District.

Budgetary Process

State law requires the District to maintain a balanced budget in each fiscal year, which means that the sum of expenditures for a given year cannot exceed the revenues for that fiscal year plus the carryover balance from the previous fiscal year. The Board is committed to sound fiscal management and practices. The Board typically adopts a proposed budget prior to June 30 and adopts budget revisions on or prior to October 31 and January 31 of each Fiscal Year. The revised budgets take into account the adoption of the State budget and State apportionment amounts.

California Assembly Bill 1200 (“AB 1200”), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents’ offices and established guidelines for emergency State aid apportionments. Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections. The District currently holds a positive certification from the San Diego County Office of Education for its budget submissions.

The District categorizes its general fund revenues into four sources: (i) Local Control Funding Formula Base Grant sources (consisting of a mix of State and local revenues); (ii) federal sources; (iii) other State sources; and (iv) other local sources, each is further discussed below.

Local Control Funding Formula Sources. In general, the Local Control Funding Formula is calculated for each school district by multiplying (i) its ADA by (ii) a base grant per unit of ADA. Such calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all State school districts of the same type. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process” below. The District’s local control funding formula base per student for Fiscal Year 2012-13 is 6,028. The District’s local control funding formula per student for Fiscal Year 2013-14 is 6,380.33.

Federal Sources. The federal government provides funding for several District programs, including but not limited to special education programs and other specialized programs. The federal revenues, most of which are restricted, were approximately 5.71% of the District’s general fund revenues in Fiscal Year 2012-13. The federal revenues, most of which are restricted, are budgeted to equal approximately 6.79% of the District’s general fund revenues in Fiscal Year 2013-14.

Other State Sources. In addition to apportionment revenues, the District receives substantial State revenues from other State sources, including State Lottery (as defined below) revenues. The District’s 2012-13 revenues from other State sources were approximately 15.21% of its total general fund Revenues. The funds from other State sources are primarily restricted. The District’s 2013-14 budget assumes that revenues from other State sources will be approximately 14.78% of its total general fund Revenues. The funds from other State sources are primarily restricted.

In the November 1984 general election, the voters of the State approved a Constitutional amendment establishing a California State Lottery (the “State Lottery”), the net revenues (revenues less expenses and prizes) of which will be used to supplement other moneys allocated to public education. The legislation further requires that the funds will be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2011-12, the District received \$7,002,099 in State Lottery aid. In 2012-13, the District received \$7,352,454 for in State Lottery aid and has budgeted \$5,888,838 for such aid in 2013-14. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

Other Local Sources. In addition to property taxes, the District receives revenues from items such as the leasing of property owned by the District and interest earnings. These revenues accounted for 7.9% of the total general fund revenues for Fiscal Year 2012-13. These revenues are budgeted at 7.38% of the total general fund revenues for Fiscal Year 2013-14.

Developer Fees. The District receives statutory school fees, collected pursuant to Education Code Section 17620 and Government Code provisions, commencing with Section 65995. Pursuant to provisions of the Government Code, commencing with Section 66000, the District makes available an annual report of statutory school fees and mitigation payments collected during each fiscal year. Developer fees are restricted funds.

District Investments

State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County’s Investment Pool. All money held in any of the funds or accounts established pursuant to the Bond Resolution will be held in the County Investment Pool and disbursed in accordance with the Bond Resolution. The composition and

value of investments under management in the County Investment Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally. For a further discussion of the County Investment Pool, see the caption “SAN DIEGO COUNTY INVESTMENT POOL” herein.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District’s operating income consists primarily of two components: a State portion funded from the State’s general fund and a local portion derived from the District’s share of the 1% local *ad valorem* tax authorized by the State Constitution. In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District received approximately 15.21% of its general fund revenues from State funds. The District’s 2013-14 budget assumes that revenues from other State sources will be approximately 14.78% of its total general fund revenues. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations. The funds from other State sources are primarily restricted.

The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, most school districts in the State receive a significant portion of their funding from State appropriations. Annual State apportionments of general purpose revenues to school districts are computed up to a local control funding formula base per unit of average daily attendance (ADA). Such apportionments will, generally speaking, amount to the difference between the district’s local control funding formula base and the district’s local property tax allocation. Historically, approximately 77% of the District’s annual general fund revenues have consisted of a combination of payments from the State of California from Local Control Funding Formula sources and other State programs and the District’s local property taxes and local revenues sources. Local Control Funding Formula calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of school districts in the State (e.g., elementary, high school or unified).

Under Proposition 98, a constitutional and statutory amendment adopted by the State’s voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State’s general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

Allocation of State Funding to School Districts - Local Control Funding Formula. Under Education Code Section 42238 and following, each school district is determined to have a target funding level. The Local Control Funding Formula replaced the previously existing revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base revenue limit funding grant (“Base Grant”) per unit of A.D.A. with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners, students

from low-income families and foster youth, beginning in fiscal year 2013-14. The Local Control Funding Formula has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The Local Control Funding Formula includes the following components:

- A Base Grant for each local education agency, equivalent to \$7,643 per unit of A.D.A. in fiscal year 2013-14. Such Base Grant per unit of A.D.A., adjusted by grade span variation and to be adjusted annually for cost-of-living, is as follows: \$6,845 for grades K-3, \$6,947 for grades 4-6, \$7,154 for grades 7-8 and \$8,289 for grades 9-12. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.
- A 20% supplemental grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5% of a local education agency's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the local education agency that comprise more than 55% of enrollment.
- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the Local Control Funding Formula. Upon full implementation, local education agencies would receive the greater of the Base Grant or the ERT.

Of the projected \$25 billion in new funding to be invested through the Local Control Funding Formula over the next eight years, the vast majority of new funding will be provided for Base Grants. Specifically, of every dollar invested through the Local Control Funding Formula, 84 cents will go to Base Grants, 10 cents will go to supplemental grants and 6 cents will go to concentration grants.

Under the new formula, for "basic aid districts" (as described below), local property tax revenues would be used to offset up to the entire allocation under the new formula. However, "basic aid districts" would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

All school districts, county offices of education and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement and school climate. Such local control and accountability plans are to be developed in accordance with a template to be provided by the State Board of Education. County superintendents will review and provide support to the school districts under their jurisdiction, while the Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition the 2013-14 State Budget creates the California Collaborate for Education Excellence (the "Collaborative") to advise and assist local education agencies in achieving the goals identified in their plans. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the Superintendent of Public Instruction would have authority to make changes to a local education agency's plan.

In its 2012-13 adopted budget, the District projected that it would receive approximately \$237,322,377 in aggregate local control funding formula base income in Fiscal Year 2012-13, or approximately 69.74% of its general fund revenues. State funds for special programs are currently budgeted to be \$45,875,082 for Fiscal Year 2012-13. The District also expects to receive a small portion

of its budget from State lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. In 2012-13, the District received \$7,352,454 for in State Lottery aid and has budgeted \$5,888,838 for such aid in 2013-14. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amends the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the State Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to

as “settle-up.” If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as “maintenance factor.”

In recent years, the State’s response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers’ unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years’ Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in Fiscal Year 2010-11, Fiscal Year 2011-12 and Fiscal Year 2012-13 (see “–State Cash Management Legislation” below); and by proposing to amend the State Constitution’s definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year’s budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2013-14 State Budget. The Governor signed the fiscal year 2013-14 State budget (the “2013-14 State Budget”) on June 27, 2013. The 2013-14 State Budget represents a multiyear plan that maintains a \$1.1 billion reserve and pays down certain budgetary debt. The 2013-14 State Budget provides for \$97.1 billion in revenues and transfers for fiscal year 2013-14 (down slightly from the \$98.2 billion estimated for fiscal year 2012-13), and \$96.3 billion in total expenditures for fiscal year 2013-14 (up slightly from the \$95.7 billion estimates for fiscal year 2012-13). However, unlike recent years, the State enters fiscal year 2013-14 with a positive prior year general fund balance, approximately \$872 million, as compared to a negative general fund balance of \$1.7 billion at the start of fiscal year 2012-13. The 2013-14 State Budget, accordingly, is able to set aside a \$1.1 billion reserve in a special fund for economic uncertainties.

The 2013-14 State Budget projects that budgetary debt, which was approximately \$35 billion at the end of fiscal year 2010-11 and \$27 billion at the end of fiscal year 2012-13, will be reduced to less than \$5 billion by the end of fiscal year 2016-17. Although the 2013-14 State Budget is a balanced budget, the 2013-14 State Budget notes that substantial risks, uncertainties and liabilities remain, including the pace of the economic recovery, the State's needs to address its other significant liabilities and the federal budget for federal fiscal year 2014.

With the passage of The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure") at the November 6, 2012 election, the 2013-14 State Budget reinvests in, rather than cuts, education funding. The Temporary Tax Measure increased the personal income tax rates on the State's highest income taxpayers by up to three percent for a period of seven years beginning with the 2012 tax year, and increased the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013. For kindergarten through twelfth grade ("K-12") education, the 2013-14 State Budget provides \$55.3 billion (or \$8,220 per student) in Proposition 98 funding in fiscal year 2013-14, which is slightly lower than the \$56.5 billion estimated in fiscal year 2012-13 but an increase of more than \$8 billion (or \$1,045 per student) from fiscal year 2011-12 levels. The 2013-14 State Budget projects \$67.1 billion (or \$10,010 per student) in Proposition 98 funding in fiscal year 2016-17. Total funding under the 2013-14 State Budget for all K-12 education in fiscal year 2013-14 is approximately \$70 billion.

The 2013-14 State Budget also contains a new formula for funding the school finance system (the "Local Control Funding Formula"). The Local Control Funding Formula is designed to increase local control and flexibility, reduce State bureaucracy and better allocate resources based on student needs. The Local Control Funding Formula would replace the existing revenue limit funding system and most categorical programs. See "– Allocation of State Funding to School Districts - Local Control Funding Formula" herein for more information.

Certain budget adjustments for K-12 programs include the following:

- *Local Control Funding Formula.* An increase of \$2.1 billion in Proposition 98 general funds for school districts and charter schools, and \$32 million in Proposition 98 general funds for county offices of education, to support first-year funding provided through the Local Control Funding Formula.
- *Common Core Implementation.* An increase of \$1.25 billion in one-time Proposition 98 general funds to support the implementation of the Common Core, which are new standards for evaluating student achievement in English-language arts and mathematics. Such funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials and technology. Local education agencies will be required to develop a plan to spend this money over the next two years and to hold a public hearing on such plan.
- *Career Technical Education Pathways Grant Program.* An increase of \$250 million in Proposition 98 general funds for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.
- *K-12 Mandates Block Grant.* An increase of \$50 million in Proposition 98 general funds to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.

- *K-12 Deferrals.* An increase of \$1.6 billion in Proposition 98 general funds in fiscal year 2012-13 and an increase of \$242.3 million in Proposition 98 general funds in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over such two-year period will reduce K-12 inter-year deferrals to \$5.6 billion by the end of fiscal year 2013-14.

- *Special Education Funding Reform.* The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

With respect to the implementation of Proposition 39 (The California Clean Energy Jobs Act), which was also approved at the November 6, 2012 election, the 2013-14 State Budget allocates \$381 million in Proposition 98 general funds to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85% will be distributed based on A.D.A. and 15% will be distributed based on free and reduced-price meal eligibility. The 2013-14 State Budget establishes minimum grant levels of \$15,000 and \$50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. Other local education agencies would receive the greater of \$100,000 or their weighted distribution amount. The 2013-14 State Budget also provides \$28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges.

The complete 2013-14 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Legal Challenge to State Funding Education. On May 20, 2010, a plaintiff class of numerous current California public school students and the Alameda Unified School District, the Alpine Union School District, the Del Norte County Unified School District, the Folsom Cordova Unified School District, the Hemet Unified School District, the Porterville Unified School District, the Riverside Unified School District, the San Francisco Unified School District and the Santa Ana Unified School District, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Robles-Wong, et al. v. State of California* (“Robles-Wong”), the plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school funding and replace it with a system that is based on what is needed to meet the State’s program requirements and the needs of individual students. After a demurrer was sustained with leave to amend on January 14, 2011, a first amended complaint was filed by the plaintiff class on March 16, 2011. A demurrer with leave to amend on the first amended complaint was sustained on July 26, 2011, however, the plaintiffs elected not to amend their complaint within the time provided by the court. Accordingly, the court dismissed all of the plaintiff’s claims and entered a judgment on November 3, 2011. The plaintiffs, on January 24, 2012, filed a notice of appeal to the Court of Appeal of the State of California, First Appellate District, from the judgment entered on November 3, 2011 dismissing the case in its entirety and all orders incorporated therein, including the order entered on July 26, 2011 sustaining the demurrer. The District cannot predict the likelihood of success of such appeal or how such appeal, if successful, could result in a change in how school funding of education is implemented in the State.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (“ERAF”) in each county. Local agencies,

objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see "– State Funding of Education; State Budget Process – Dissolution of Redevelopment Agencies" below). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years, such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

State Cash Management Legislation. On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permitted deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but depending on actual cash flow conditions at the time, and allowed the State Controller, Treasurer and Director of Finance to either accelerate or delay the deferrals up to 30 days or reduce the amounts deferred. The Cash Management Bill also permitted the State to move a deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provided that the deferral for March 2011 was required to be paid prior to April 30. The Cash Management Bill provided for exceptions to the deferrals for school districts that could demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation has been enacted for fiscal year 2011-12. The legislation, however, sets forth a specific deferral plan for K-12 education payments. In the legislation, both the July 2011 and August 2011 K-12 payments of \$1.4 billion are deferred and the October 2011 payment of \$2.4 billion is deferred. In September 2011, \$700 million of the July deferral is to be paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals are paid, and in March 2012, \$1.4 billion is to be deferred and paid in April 2012.

The State Legislature enacted similar legislation for fiscal year 2012-13 that provides for \$1.2 billion of K-12 payments to be deferred in July 2012, \$600 million to be deferred in August 2012, \$800 million to be deferred in October 2012 and \$900 million to be deferred in March 2013. Of such deferred amounts, \$700 million of the deferral made in July 2012 is to be paid in September 2012, the remaining \$1.9 billion deferred in July, August and October of 2012 is to be paid in January 2013, and the \$900 million deferred in March 2013 is to be repaid in April 2013. The District is authorized to borrow temporary funds to cover its annual cash flow deficits and, as a result of this or similar future legislation, the District might find it necessary to utilize cash flow borrowings or increase the size or frequency of its cash flow borrowings in fiscal year 2012-13 and in future years. The District cannot predict if additional deferrals will be made in fiscal year 2013-14 and in future years.

Dissolution of Redevelopment Agencies. The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) (“ABX1 26”) and Assembly Bill No. 27 (First Extraordinary Session) (“ABX1 27”), which the Governor signed on June 29, 2011. ABX1 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. ABX1 26 dissolves all redevelopment agencies in existence and designates “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of ABX1 26 are described further below. As signed by the Governor, ABX1 27 would have allowed a redevelopment agency to continue to exist, notwithstanding ABX1 26, upon the enactment by the city or county that created the redevelopment agency of an ordinance to comply with ABX1 27’s provisions and the satisfaction of certain other conditions.

In July of 2011, various parties filed an action before the Supreme Court of the State of California (the “Court”) challenging the validity of ABX1 26 and ABX1 27 on various grounds (*California Redevelopment Association v. Matosantos*). The Court subsequently stayed the implementation of a portion of ABX1 26 and all of ABX1 27 pending its decision in *Matosantos*. On December 29, 2011, the Court rendered its decision in *Matosantos* upholding virtually all of ABX1 26 and invalidating ABX1 27. In its decision, the Court also modified various deadlines for the implementation of ABX1 26. The deadlines for implementation of ABX1 26 below take into account the modifications made by the Court in *Matosantos*.

After *Matosantos*, ABX1 26 continues to suspend most redevelopment agency activities and continues to prohibit redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts. After redevelopment agencies were dissolved on February 1, 2012, ABX1 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its “enforceable obligations.” For this purpose, ABX1 26 defines “enforceable obligations” to include “bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency” and “any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy.” ABX1 26 specifies that only payments included on an “enforceable obligation payment schedule” adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution.

On February 1, 2012, and pursuant to *Matosantos*, ABX1 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be

transferred to the control of the successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various taxing agencies pursuant to ABX1 26.

ABX1 26 requires each successor agency to continue to make payments on enforceable obligations of the former redevelopment agencies. However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. The initial enforceable obligation payment schedule will be the enforceable obligation payment schedule adopted by the former redevelopment agency. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under ABX1 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in ABX1 26. ABX1 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;
 - To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
 - To the former redevelopment agency’s successor agency for payment of administrative costs;
- and
- Any remaining balance to school entities and local taxing agencies.

It is possible that there will be additional legislation proposed and/or enacted to “clean up” various inconsistencies contained in ABX1 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by ABX1 26. No assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Proposed 2014-15 State Budget. The Governor released his proposed fiscal year 2014-15 State budget (the “2014-15 Proposed State Budget”) on January 10, 2014. The 2014-15 Proposed State Budget proposes a multiyear plan that is balanced, while paying off budgetary debt from past years and setting aside reserves. The 2014-15 Proposed State Budget projects general fund revenues in the amount of \$100.1 billion in fiscal year 2013-14 and \$106.1 billion in fiscal year 2014-15, which is an additional \$3 billion and \$1.6 billion in revenues in fiscal years 2013-14 and 2014-15, respectively, as compared to projections from the 2013-14 State Budget. According to the 2014-15 Proposed State Budget, the primary reason for such additional revenues is the increased level of capital gains realizations for 2013 and 2014 and, accordingly, higher forecasts for personal income tax. Of the total State general fund revenues for fiscal year 2014-15, personal income taxes are expected to contribute \$69.8 billion (65.8%), sales and use taxes are expected to contribute \$24.1 billion (22.7%) and corporation taxes are expected to contribute

\$8.7 billion (8.2%). Under the 2014-15 Proposed State Budget, general fund expenditures for fiscal year 2014-15 are \$106.8 billion (an increase of \$8.3 billion from fiscal year 2013-14 general fund expenditures), of which \$45.3 billion (42.4%) is allocated to K-12 education.

The 2014-15 Proposed State Budget proposes to reduce budgetary debt (totaling \$24.9 billion at the end of fiscal year 2013-14) by more than \$11 billion in fiscal year 2014-15 (which includes the payment of more than \$6 billion to eliminate the remaining deferred payments to school districts and community college districts), and to fully eliminate all budgetary debt by fiscal year 2017-18. Additionally, the 2014-15 Proposed State Budget sets aside \$2.3 billion in reserves, consisting of \$1.6 billion in a rainy day fund (the “Rainy Day Fund”) and \$693 million in the general fund traditional reserve. Such amount is \$700 million below the revised reserve level at the end of fiscal year 2013-14. The 2014-15 Proposed State Budget also proposes to the voters certain constitutional amendments relating to the Rainy Day Fund, which amendments are intended to increase the size of the Rainy Day Fund, base deposits on capital gains revenues, create a Proposition 98 reserve and require certain deposits therein, limit withdrawals and allow amounts otherwise required to be transferred to the Rainy Day Fund to be applied to pay down various budgetary liabilities.

Despite the recent budgetary improvements as compared to recent years, the 2014-15 Proposed State Budget acknowledges that the additional tax revenues from capital gains are temporary in nature and that the additional revenues from Proposition 30 will expire in 2016 and 2018. Further, the 2014-15 Proposed State Budget observes several risks that the State should plan for, including: the inevitable occurrence of another recession, ongoing fiscal challenges of the federal government, the budget’s heavy dependency on the performance of the stock market in fiscal year 2014-15, the high levels of State debts and liabilities, including unfunded retirement liabilities, and ongoing court involvement relating to the State’s prisons and dissolved redevelopment agencies. With respect to the State Teachers’ Retirement System (“CalSTRS”), the 2014-15 Proposed State Budget notes that there is an increasing unfunded liability (see “Retirement Benefits – CalSTRS” herein) and, absent any changes, CalSTRS is expected to exhaust its assets in approximately 30 years. As contributions to the CalSTRS pension fund were established in statute and can only be changed by the Legislature, the 2014-15 Proposed State Budget acknowledges that the Governor’s administration will need to begin working with the State Legislature, school districts, teachers and the pension system on a sustainable funding plan, which is expected to be adopted as part of the fiscal year 2015-16 budget.

As it relates to K-12 education, the 2014-15 Proposed State Budget provides Proposition 98 funding of \$61.6 billion for fiscal year 2014-15, as well as an additional \$1.5 billion and \$1.8 billion for fiscal years 2013-14 and 2012-13, respectively. This translates to K-12 Proposition 98 per-pupil expenditures of \$8,469 in fiscal year 2013-14 and \$9,194 in fiscal year 2014-15. Such amounts are significant increases when compared to recent years, such as the \$7,006 provided in fiscal year 2011-12. Total per-pupil expenditures from all sources are projected to be \$11,985 in fiscal year 2013-14 and \$12,833 in fiscal year 2014-15, including funds provided for prior year “settle-up” obligations. The 2014-15 Proposed State Budget notes that attendance in public schools began to decline in fiscal year 2012-13. For fiscal year 2013-14, K-12 A.D.A. is estimated to be 5,963,132, a slight increase of 702 from fiscal year 2012-13. K-12 A.D.A. is estimated to drop by 7,002 in fiscal year 2014-15 to 5,956,130.

The 2014-15 Proposed State Budget provides a second-year investment of \$4.5 billion in the LCFF, which is expected to eliminate more than 28% of the remaining funding gap between actual funding and the target level of funding (see “– Allocation of State Funding to School Districts; Local Control Funding Formula” herein). With respect to K-12 school facilities, the 2014-15 Proposed State Budget acknowledges the ongoing discussion of the State’s role, if any, in future school facilities funding and notes several problems with the current program that should be addressed in any future plan. While such discussion is ongoing, the 2014-15 Proposed State Budget transfers \$211 million of remaining bond

authority from the specialized programs to the core new construction and modernization programs to continue construction of new classrooms and modernization of existing classrooms, and dedicates \$188 million of one-time Proposition 98 general funds to an emergency repair program to provide funds to local educational agencies for costs of repairing or replacing building systems that pose a health and safety threat. The 2014-15 Proposed State Budget also includes reforms and investments relating to adult education, the implementation of Common Core standards, and energy efficiency (Proposition 39).

Certain workload adjustments for K-12 programs included in the 2014-15 Proposed State Budget include the following:

- *K-12 Deferrals.* An increase of more than \$2.2 billion in Proposition 98 general funds in fiscal year 2014-15 which, when combined with the \$3.3 billion in Proposition 98 general funds provided from fiscal years 2012-13 and 2013-14, will be applied to eliminate all remaining outstanding deferral debt for K-12 education.
- *School District Local Control Funding Formula.* Additional growth of approximately \$4.5 billion in Proposition 98 general funds for school districts and charter schools in fiscal year 2014-15.
- *Charter Schools.* An increase of \$74.3 million in Proposition 98 general funds to support projected charter school A.D.A. growth.
- *Special Education.* A decrease of \$16.2 million in Proposition 98 general funds to reflect a decline in Special Education A.D.A.
- *Cost-of-Living Adjustment Increases.* \$33.3 million to support a 0.86% cost-of-living adjustment (“C.O.L.A.”) for categorical programs that remain outside of the LCFF. C.O.L.A. for school districts and county offices of education are provided within the increases for school district and county office of education under the LCFF.
- *Emergency Repair Program.* An increase of \$188.1 million in one-time Proposition 98 general fund resources for the emergency repair program, as described above.
- *Local Property Tax Adjustments.* An increase of \$287.1 million in Proposition 98 general funds for school districts and county offices of education under the LCFF in fiscal year 2013-14 as a result of lower offsetting property tax revenues. A decrease of \$529.7 million in Proposition 98 general funds for school districts and county offices of education in fiscal year 2014-15 as a result of increased offsetting local property tax revenues.
- *A.D.A.* A decrease of \$214.5 million in fiscal year 2013-14 for school districts and county offices of education under the LCFF as a result of a decrease in projected A.D.A. from the 2013-14 State Budget. A decrease of \$42.9 million in fiscal year 2014-15 for school districts and county offices of education as a result of projected decline in A.D.A. for fiscal year 2014-15.

The complete 2014-15 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

May Revision to Proposed 2014-15 State Budget. On May 13, 2014, the Governor released the “Governor’s Budget May Revision 2014-15” (the “May Revise”), which outlines proposed revisions to the 2014-15 Proposed State Budget. The May Revise projects a net increase of \$2.4 billion in expected

revenues across fiscal years 2012-13 through 2014-15. More specifically, the May Revise projects \$513 million less in revenues in fiscal year 2012-13, and \$2 billion and \$843 million more in revenues in fiscal years 2013-14 and 2014-15, respectively. The significant bump in fiscal year 2013-14 is primarily a result of increased projections in personal income tax, much of which is associated with higher annual bonus payments and one-time shifts due to federal tax policy changes in 2012. Under the May Revise, total State general fund revenues are now projected to be \$102.2 billion and \$106.9 billion (including the amounts proposed to be transferred to the Rainy Day Fund) for fiscal years 2013-14 and 2014-15, respectively. Projected expenditures have also increased under the May Revise and offset, in part, the projected additional revenues. For example, total State general fund expenditures in fiscal year 2014-15 are now projected to be \$107.8 billion (as compared to \$106.8 billion under the 2014-15 Proposed State Budget). Although the May Revise projects a balanced budget and sets aside a reserve, it notes a number of major risks that threaten the State's fiscal stability, including fiscal debts, growing long-term liabilities and lingering uncertainties regarding the costs of the federal Affordable Care Act.

The May Revise maintains the principle of paying down debt (by more than \$11 billion in fiscal year 2014-15 and eliminating all budgetary debt by fiscal year 2017-2018) and includes an additional \$100 million to repay a portion of existing mandate reimbursement claims that have been owed to local governments since at least 2004. The May Revise also maintains the proposal to set aside \$1.6 billion in the Rainy Day Fund, but reduces the amount to be set aside in the general fund traditional reserve from \$693 million to \$528 million. The constitutional amendments for the Rainy Day Fund, as further described in the May Revise, are being submitted to the voters in November of 2014 and would take effect in fiscal year 2015-2016. No assurances can be provided that such constitutional amendments relating to the Rainy Day Fund would be approved by the voters.

Certain factors resulting in the increase in projected costs and expenditures under the May Revise include: (a) rising health care costs associated with the substantial increase in Covered California and Medi-Cal enrollment (projected to be \$1.2 billion more over two years than what was expected in the 2014-15 Proposed State Budget); (b) an additional \$121 million in general fund spending in fiscal year 2014-15 for drought-related expenditures; and (c) an additional \$430 million (of which \$254 million is general fund) in costs in fiscal year 2014-15 based on the new CalPERS (as defined herein) assumptions regarding longer life expectancy of retirees. The May Revise also proposes a plan built on shared responsibility among school and community college districts, the State and teachers to eliminate the CalSTRS (as defined herein) unfunded liability (estimated at \$74.4 billion) in just over 30 years. Such plan proposes payment of an additional \$450 million (of which \$73.2 million is general fund) in fiscal year 2014-15. Under the plan, school and community college districts would pay about 70% of costs, the State would pay about 20% of costs and teachers would pay the remaining 10% of costs. See "Retirement Benefits" herein).

With respect to K-12 Education, Proposition 98 funding obligations are projected to increase across fiscal years 2012-13 through 2014-15 driven by the changes in projected general fund revenues. Under the May Revise, as compared to the 2014-15 Proposed State Budget, Proposition 98 funding is projected to decrease by \$547 million in fiscal year 2012-13 due to a decrease in revenues in such fiscal year, increase by approximately \$1.5 billion in fiscal year 2013-14 due to higher revenues and enrollment growth in such fiscal year, and decrease by approximately \$700 million in fiscal year 2014-15 due to slower year-over-year general fund revenue growth and a decrease in local revenues. As a result of such changes, the revised Proposition 98 guarantee levels for fiscal years 2012-13, 2013-14 and 2014-15 are projected to be \$57.8 billion, \$58.3 billion and \$60.9 million, respectively. The May Revise continues the commitment from the 2014-15 Proposed State Budget to repay all existing inter-year budgetary deferrals for school districts, and provide a second-year investment of \$4.5 billion for implementing the LCFF.

Certain budget adjustments for K-12 programs under the May Revise include the following:

- *Independent Study.* A series of changes to the 2014-15 Proposed State Budget proposal to streamline and expand the instructional opportunities available through independent study.
- *K-12 High Speed Internet Access.* An increase of \$26.7 million in one-time Proposition 98 general funds to provide technical assistance and grants to local educational agencies, based on an assessment by the K-12 High Speed Network, to address the technology requirements necessary for successful implementation of the Common Core standards.
- *K-12 Deferrals.* A combined net increase of \$742.2 million in one-time Proposition 98 general funds (as compared to the 2014-15 Proposed State Budget) attributable to fiscal years 2012-13 and 2013-14 to accelerate the repayment of inter-year budgetary deferrals in those years. This acceleration will be offset by a reduction of \$742.2 million in ongoing Proposition 98 general funds for proposed deferral repayments in fiscal year 2014-15. When combined, total funding over the three-year period would eliminate all K-12 inter-year deferrals.
- *LCFF: Unduplicated Pupils.* To address certain challenges raised by local educational agencies collecting income eligibility forms to determine if a student qualified for a free or reduced-price meal, the May Revise proposes certain changes relating to the calculation of unduplicated pupils under the LCFF.
- *Proposition 39.* For fiscal years 2013-14 through 2017-2018, the California Clean Energy Jobs Act (Proposition 39) requires half of the increased revenues, up to \$550 million per year, to be used to support energy efficiency projects. The May Revise decreases the amount of energy efficiency funds available to K-12 schools in fiscal year 2014-15 by \$9 million to \$307 million to reflect reduced revenue estimates.
- *Local Property Tax Adjustments.* An increase of \$83.9 million in Proposition 98 general funds in fiscal year 2014-15 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues.
- *A.D.A.* An increase of \$103.1 million in fiscal year 2013-14 and an increase of \$121.1 million in fiscal year 2014-15 for school districts, charter schools and county offices of education as a result of an increase in projected A.D.A. in both years.
- *Categorical Program Growth.* An increase of \$15.3 million in Proposition 98 general funds for selected categorical programs based on updated estimates of projected A.D.A. growth.
- *Cost-of-Living Adjustments.* A decrease of \$258,000 in Proposition 98 general funds to selected categorical programs based on a revised C.O.L.A. factor of 0.85% for fiscal year 2014-15.
- *K-12 Mandates Block Grant.* An increase of \$1.6 million in Proposition 98 general funds to align mandate block funding with revised A.D.A. estimates. This additional funding is required to maintain statutory block grant funding rates assuming 100% program participation.
- *K-12 Mandates Claims Process.* An increase of \$5,000 in Proposition 98 general funds to reflect the addition of five mandates to the mandate claiming process (Parental Involvement Programs, Williams Case Implementation I, II, and III, and Developer Fees). An additional \$1,000 is provided for both the existing Student Records and Graduation Requirements mandates, which were inadvertently omitted from the claims process budget bill item last year.

The complete May Revise is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

2014-15 State Budget and Related Trailer Bills. The State Legislature, on June 15, 2014, approved Senate Bill 852, also known as the Budget Act of 2014 (“SB 852”), and more than a dozen trailer bills including Senate Bill 858 (“SB 858”) and Assembly Bill 1469 (“AB 1469”). SB 852, SB 858 and AB 1469, as well as the other trailer bills, have been submitted to the Governor for review and signature. The Governor signed SB 852 and the related trailer bills, including SB 848 and AB 1469, on June 20, 2014.

SB 852. SB 852 projects \$109.4 billion in general fund revenues, \$108.0 billion in general fund expenditures in fiscal year 2014-15, and combined total reserves (in both the stabilization account and the special fund for economic uncertainties) of \$1.6 billion. SB 852, as it relates to K-12 districts and community college districts (collectively, “K-14 Districts”) and as compared to the May Revise, provides for approximately an equal amount of Proposition 98 spending: an increase in school funding by 10 percent to \$58.3 billion in fiscal year 2013-14, and provides for \$60.9 billion in fiscal year 2014-15. SB 852, however, dedicates \$5.2 billion to pay down remaining deferred payments to K-14 Districts, which is approximately \$1 billion less than what was proposed under the May Revise. Such amount not used to pay down deferred payments are applied under SB 852 to provide (a) an additional \$155 million for early childhood education, (b) an additional \$250 million to accelerate the full implementation of the LCFF (for a total of approximately \$4.7 billion in fiscal year 2014-15), (c) \$250 million to capitalize the California Career Pathways Trust (a program intended to better connect schools/students with businesses/jobs), and (d) a down payment of \$450 million on mandate claims owed to K-14 Districts, which could be used to support the implementation of the Common Core curriculum.

SB 858. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Such provisions, however, would only become effective upon the State voters approval of certain constitutional amendments relating to the Rainy Day Fund in the November 2014 election (See “– Proposed 2014-15 State Budget” and “– May Revision to Proposed 2014-15 State Budget” above). Upon such voter approval, the State would, among other things, establish a Public School System Stabilization Account in the Rainy Day Fund. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 2% (plus a Board requirement of 1%) of its general fund expenditures and other financing uses. The District’s original adopted budget for fiscal year 2014-15 projected total expenditures and other financing uses of approximately \$357 million, three percent of

which is approximately \$10.7 million. The estimated maximum amount permitted under SB 858 in fiscal year 2013-14, if SB 848 were in effect for such fiscal year, would be \$21.4 million. The District's original adopted budget for fiscal year 2014-15 projected a combined assigned and unassigned ending fund balance of approximately \$22.7 million, which is slightly higher than the maximum what would be permitted under SB 858 if SB 858 were in effect.

The District cannot provide any assurances that the constitutional amendments related to the Rainy Day Fund will be approved by the State voters. The District does not expect SB 858, if approved and operative, to adversely affect its ability to pay the principal of and interest on the Bonds as and when due.

AB 1469. AB 1469 implements a new funding strategy for CalSTRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate would increase by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll. AB 1469 would also increase employee contribution rates as well. Further, the State Teachers Retirement Board would have authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. See "Retirement Benefits – CalSTRS" below.

Changes in State Budget

The final fiscal year 2014-15 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposals. Accordingly, the District cannot predict the impact that the final fiscal year 2014-15 State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2014-15 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

Future Budgets and Budgetary Actions

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address any changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for K-12 education. The State budget will be affected by national and State economic conditions and other factors over which the District cannot predict and will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, *i.e.*, each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the local control funding formula base before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its local control funding formula base is entitled to receive no State aid, and receives only its special categorical aid which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as "basic aid districts."

The District is not a “basic aid district.” Local property tax revenues, which account for approximately 25% of the District’s aggregate local control funding formula base, were \$55,396,860, or 16.03% of total general fund revenue in fiscal year 2013-14 and are budgeted to be \$56,904,315, or 15.95% of total general fund revenue in fiscal year 2014-15. For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below.

District Investment Practices

In accordance with California Law, the District maintains substantially all of its cash in the San Diego County Treasury. The County pools these funds with those of other school districts and local municipalities and government agencies in the County and invests the cash. These pooled funds are carried at a cost which approximates market value. Any investment losses are proportionally shared by all depositors with funds invested in the pool.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Education Code Section 41010, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. For additional information concerning the District’s accounting practices and policies, see Note 1 to the District’s audited financial statements included as APPENDIX B attached hereto.

Changes in Accounting Principles

GASB Statement No. 54. In March 2009, GASB issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Statement No. 54 also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for

specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in Statement No. 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency. The District implemented the provisions of Statement No. 54 for the year ended June 30, 2011.

GASB Statement No. 61. In November 2010, GASB issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34. The objective of Statement No. 61 is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

Statement No. 61 also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

Statement No. 61 also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The

provisions of Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012.

Financial Statements of the District

The District's audited financial statements for the fiscal year ending June 30, 2013 are attached hereto as APPENDIX B. The financial statements should be read in their entirety. The information set forth herein does not purport to be a summary of the District's financial statements. The District's auditors, Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, have not reviewed or participated in the preparation of this Official Statement, and have expressed no opinion as to the fairness or accuracy of the financial information included herein (other than the financial statements included as APPENDIX B attached hereto). The involvement of Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants has been limited to the preparation of the District's audited financial statements included herein as APPENDIX B as part of its annual audit of the District's financial affairs and to the rendition of the opinions with respect to such audited financial statements as set forth in APPENDIX B. The District has not requested its auditor to provide any review of the financial statements in connection with their inclusion in this Official Statement.

As noted in the financial statements, at the time the financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health. At the state level, the budget situation continues to reflect challenging economic times. The 2011 State Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs. All of these factors were considered in preparing the District's budgets for the 2011-12, 2012-13 and 2013-14 fiscal years.

The following table shows the Statement of Revenues, Expenditures and Changes in Fund Balance of the District's general fund for the Fiscal Years Ending June 30, 2011 through June 30, 2014. These summary statements are unaudited and are provided to permit comparison among fiscal years which, because of changes in audit presentation, are difficult to compare through all categories.

SWEETWATER UNION HIGH SCHOOL DISTRICT GENERAL FUND
Statement of Income, Expenditures, and Changes in Fund Balance
General Fund for Fiscal Years 2010-11 through 2013-14

	FISCAL YEAR			
	2010-11	2011-12	2012-13	2013-14
REVENUES				
General Revenues				
Local Control Funding Formula	\$240,183,930	\$236,478,953	\$ 234,761,788	\$273,331,562
Federal Revenue	29,768,589	32,150,022	19,768,639	23,652,523
Other State Revenue	56,090,989	56,175,909	56,190,326	20,336,640
Local Revenue	31,688,988	30,520,584	31,042,980	31,313,482
Total Revenues	\$357,732,496	\$355,325,468	\$341,763,733	\$348,634,207
EXPENDITURES				
Certificated Salaries	\$177,972,821	\$171,908,185	\$169,184,708	\$172,775,512
Classified Salaries	61,503,242	57,044,314	57,709,512	58,482,755
Employee Benefits	66,129,709	62,218,062	56,038,534	61,820,157
Books and Supplies	12,775,231	14,020,700	11,772,077	20,460,499
Services and Other Operating Expenditures	28,274,988	27,772,848	28,001,007	31,507,905
Capital Outlay	505,927	1,117,384	6,403,915	6,403,915
Outgo (excluding Transfers of indirect Costs)	3,385,351	3,355,872	4,030,768	2,102,186
Outgo – Transfers of Indirect Costs	(967,032)	(126,357)	(674,074)	--
Total Expenditures	\$349,580,237	\$337,311,008	\$332,466,447	\$348,079,332
Revenues Over (Under) Expenditures	\$ 8,152,270	\$ 18,013,560	\$ 9,297,285	\$ 554,875
Other Financing Sources (Uses)	(11,994,431)	(22,427,368)	(10,911,657)	--
Interfund transfers in	0	71,988	1,439	--
Interfund transfers out	(14,009,037)	(22,499,356)	(15,629,670)	--
All other financing sources	2,014,606	0	4,716,574	--
All other financing uses	0	0		
Total Other Financing Sources and Uses	(11,994,431)	(22,427,368)	(10,911,657)	554,875
Other Restatements	1,670,500	0	213,476	--
Net Change in Fund Balances	(3,842,161)	(4,413,808)	(1,614,372)	--
Beginning Fund Balances	37,447,932	35,276,271	30,862,463	29,461,567
Ending Fund Balances	\$ 35,276,271	\$ 30,862,463	\$ 29,461,567	\$ 30,016,442

This statement is a summary statement only of unaudited financial statements of the District. The District's audited financial statements for the year ended June 30, 2013 are attached as APPENDIX B to this Official Statement. See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – Retirement Benefits."

Source: The District.

The following table shows the general fund balance sheet of the District for fiscal years 2010-11 through 2012-13.

SWEETWATER UNION HIGH SCHOOL DISTRICT
Summary of General Fund Balance Sheet
Fiscal Years 2010-11 through 2012-13

	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
ASSETS			
Cash	\$ 13,462,081	\$ 15,298,076	\$16,909,494
Accounts receivable	85,881,199	104,575,357	73,034,999
Due from other funds	2,968,558	3,571,393	973,640
Inventories	189,948	226,557	127,034
Prepaid expenditures	520,025	490,532	118,916
Total Assets	\$103,021,811	\$124,161,915	\$96,164,083
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 7,932,583	\$ 8,613,699	\$ 7,161,060
Due to other funds	51,343,525	83,205,062	52,156,798
Deferred revenue	8,469,433	1,480,692	7,384,657
Total Liabilities	67,745,541	93,299,453	66,702,515
Fund Balances			
Nonspendable	\$ 734,967	\$ 742,083	\$ 270,944
Restricted	5,049,667	5,013,122	5,949,862
Committed	--	--	--
Assigned	16,070,478	8,370,619	4,737,525
Unassigned	13,421,158	16,736,638	18,503,237
Total Fund Balances	\$35,276,270	\$30,862,462	\$29,461,568
Total Liabilities and Fund Balances	\$103,021,811	\$124,161,915	\$96,164,083

Source: District Audited Financial Reports for fiscal years 2010-11.

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the San Diego County Superintendent of Schools.

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year's obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (known as "AB 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of AB 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that files or receives a qualified or negative certification for the second interim must submit a third interim financial report for the period ending April 30 by June 1. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation bonds or certificates of participation without approval by the County Superintendent. The District has never received a negative or qualified certification and has never had to file a third interim report.

The following table summarizes the District's adopted general fund budgets for fiscal years 2011-12, 2012-13, 2013-14 and 2014-15, audited actuals for fiscal years 2011-12 and 2012-13 and estimated actuals for fiscal year 2013-14.

SWEETWATER UNION HIGH SCHOOL DISTRICT
General Fund Budgets for Fiscal Years 2011-12 through 2014-15,
Audited Actuals for Fiscal Years 2011-12 and 2012-13⁽¹⁾ and Estimated Actuals for Fiscal Years 2013-14

	2011-12 Adopted Budget	2011-12 Audited Actuals	2012-13 Original Adopted Budget	2012-13 Audited Actuals	2013-14 Original Adopted Budget	2013-14 Estimated Actuals	2014-15 Original Adopted Budget
Revenues:							
Revenue Limit/Local Control Sources	\$237,177,154	\$236,478,954	\$218,195,090	\$234,761,789	\$249,128,920	\$273,331,562	\$296,565,208
Federal Sources	28,426,357	32,150,022	18,283,939	20,474,503	19,867,048	23,652,523	23,049,163
Other state revenues	48,417,888	56,175,910	47,685,216	65,616,070	51,077,843	20,336,640	10,173,889
Other local sources	24,811,362	30,520,582	24,674,846	30,551,943	25,515,665	31,313,482	27,248,829
Total Revenues	338,832,761	355,325,468	308,839,091	351,404,305	345,589,476	348,634,207	357,037,089
EXPENDITURES							
Certificated salaries	158,123,427	171,908,180	144,228,768	169,184,708	168,786,134	172,775,512	179,775,378
Classified salaries	57,853,969	57,044,315	51,274,028	57,709,512	60,510,019	58,482,755	60,656,264
Employee benefits	57,500,057	62,218,064	62,372,213	65,464,277	56,987,007	61,820,157	64,602,343
Books and supplies	11,918,742	14,020,699	10,030,220	11,772,077	16,855,564	20,460,499	15,156,942
Services and operating expenditures	26,935,398	27,772,851	26,909,502	28,001,009	30,346,091	31,507,905	32,568,195
Expenditures	--	--	--	--	--	--	--
Capital outlay	--	1,117,385	--	6,403,915	1,710,205	930,318	--
Other outgo	--	--	--	(20,866)	--	--	--
Excluding Transfers of indirect costs ⁽²⁾	2,765,431	3,355,872	2,157,645	3,359,966	2,914,021	2,102,186	3,259,427
Transfers of indirect costs	(1,250,074)	(126,357)	(1,208,494)	263,976	(538,709)	--	--
Total Expenditures	313,846,950	337,311,909	295,763,882	342,138,574	337,570,332	348,079,332	357,017,649
Excess (Deficiency) of Revenues Over Expenditures	24,985,811	18,013,559	13,075,209	9,265,731	8,019,144	554,875	18,540
Other Financing Sources (Uses):							
Other sources	--	71,989	--	4,716,664	--	--	--
Transfers out	(13,982,420)	(22,499,356)	(12,980,999)	(15,383,288)	(11,253,800)	--	--
Net Financing Sources (Uses)	(13,982,420)	(22,427,367)	(12,980,999)	(10,666,624)	(11,253,800)	--	--
NET CHANGE IN FUND BALANCES							
Fund Balance – Beginning, as Original	35,276,270	35,276,270	30,862,462	30,862,462	29,953,712	29,461,572	30,016,447
Fund Balance – Adjustments	--	--	--	--	--	--	--
Fund Balance – Beginning, as Restated	35,276,270	35,276,270	30,862,462	30,862,462	29,953,712	29,461,572	30,016,447
Fund Balance – Ending	\$46,279,661	\$30,862,462	\$30,956,672	\$29,461,569	\$26,719,056	\$30,016,447	\$30,034,987

⁽¹⁾ As set forth in the audited financial statements for the year ended June 30, 2013 attached as APPENDIX B to this Official Statement. This statement is a summary statement only. The District's audited financial statements are an integral part of and necessary to a complete understanding of this statement.

⁽²⁾ The amount shown for the 2012-13 Audited Actuals reflect transfers including approximately \$12 million to the Adult Fund and approximately \$2 million to the Deferred Maintenance Fund. The California Department of Education accounting method for fiscal year 2012-13 considered interfund transfers to the Adult Fund and Deferred Maintenance as an expenditure. In fiscal year 2013-14 revenue is folded into the Local Control Funding Formula sources and those transfers are netted against total revenues.

Source: The District.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District's long-term obligations for the year ended June 30, 2013, is shown below:

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Due In One Year
Governmental Activities					
General Obligation (GO) Bonds	\$349,518,151	\$ 2,552,757	\$ 6,000,000	\$346,070,908	\$ 6,895,000
Premium on GO Bonds	6,020,089	--	251,927	5,768,162	--
GO Bond Anticipation Notes	--	32,820,000	--	32,820,000	--
Premium on Bond Anticipation Notes	--	4,705,810	235,291	4,470,519	--
Certificates of Participation (COPs)	105,645,000	--	8,165,000	97,480,000	6,395,000
Special Tax Revenue Bonds	68,425,000	--	2,330,000	66,095,000	2,525,000
Premium on Special Tax Revenue Bonds	3,530,159	--	199,820	3,330,339	--
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	4,420,000	--	295,000	4,125,000	300,000
Capital Leases	3,253,730	4,716,574	3,131,476	4,838,828	2,207,880
Compensated Absences	6,395,069	--	140,615	6,254,454	--
Early Retirement Incentive	4,176,686	--	698,726	3,477,960	740,435
Other Postemployment Benefits (OPEB)	22,239,308	4,190,315	--	26,429,623	--
Total	\$612,273,192	\$48,985,456	\$21,447,885	\$639,810,793	\$19,063,315

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.

General Obligation Bonds. The District has several series of general obligation bonds outstanding, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District.

General Obligation Bonds Election of 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. As of June 30, 2013, the principal balance outstanding of the general obligation bonds was \$48,235,000. Unamortized premium received on issuance of the bonds amounted to \$130,726 as of June 30, 2013. The outstanding General Obligation Bonds Election of 2000, Series B are among the Prior Bonds to be refunded and redeemed with a portion of the net proceeds of the Bonds.

General Obligation Bonds Election of 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 3.34 to 5.27 percent. As of June 30, 2013, the principal balance outstanding of the general obligation bonds was \$105,360,908. Unamortized premium received on issuance of the bonds amounted to \$2,403,543 as of June 30, 2013. The outstanding current interest bonds of the General Obligation Bonds Election of 2000, Series C are among the Prior Bonds to be refunded and redeemed with a portion of the net proceeds of the Bonds.

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 refunding bonds mature through August 1, 2025, with a stated interest yield of 3.22 percent. As of June 30, 2013, the principal balance outstanding of such general obligation bonds was \$22,200,000.

General Obligation Bonds Election of 2006, Series 2008A. In November 2006, the District voters approved Proposition O (the 2006 Bond Authorization herein), 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. As of June 30, 2013, the principal balance outstanding of the general obligation bonds was \$170,275,000. Unamortized premium received on issuance of the bonds amounted to \$3,233,893 as of June 30, 2013.

2013 General Obligation Bond Anticipation Notes. In 2013, the District issued its \$32,820,000 aggregate principal amount of 2013 General Obligation Bond Anticipation Notes due and payable on January 1, 2018. As of the date hereof, the District's General Obligation Bonds, Election of 2006, Series 2008A and the 2013 Bond Anticipation Notes are the only issues under the 2006 Bond Authorization.

The following table summarizes the debt service requirements for the outstanding Proposition BB Bonds under the Authorization and the Series 2008A Bonds under the 2006 Bond Authorization, assuming no optional redemption, in each case, and assuming the refunding of the Refunded Bonds as described herein. This table does not include debt service associated with the 2013 BANS, which are expected to be paid at their maturity from the proceeds of a future issue of bonds under the 2006 Bond Authorization, subject to the limits for issuance of additional debt.

Bond Year Ending August 1	Annual Debt Service Proposition BB Bonds	Annual Debt Service Series 2008A Bonds	Combined Annual Debt Service
2014	\$ 7,123,905.00	\$ 10,096,412.50	\$17,220,317.50
2015	11,815,142.22	10,048,443.76	21,863,585.98
2016	12,357,492.00	10,146,843.76	22,504,335.76
2017	12,925,104.00	10,099,643.76	23,024,747.76
2018	13,516,906.00	10,047,443.76	23,564,349.76
2019	14,116,937.00	9,522,818.76	23,639,755.76
2020	14,732,997.00	8,995,281.26	23,728,278.26
2021	15,380,086.00	8,761,281.26	24,141,367.26
2022	15,856,215.00	8,761,281.26	24,617,496.26
2023	16,359,162.00	8,761,281.26	25,120,443.26
2024	16,862,927.00	8,761,281.26	25,624,208.26
2025	17,392,010.00	8,761,281.26	26,153,291.26
2026	16,915,500.00	8,761,281.26	25,676,781.26
2027	17,461,500.00	8,761,281.26	26,222,781.26
2028	18,034,000.00	8,761,281.26	26,795,281.26
2029	17,645,250.00	8,761,281.26	26,406,531.26
2030	-	14,456,281.26	14,456,281.26
2031	-	14,456,531.26	14,456,531.26
2032	-	14,457,531.26	14,457,531.26
2033	-	14,458,531.26	14,458,531.26
2034	-	14,458,781.26	14,458,781.26
2035	-	14,457,531.26	14,457,531.26
2036	-	14,459,031.26	14,459,031.26
2037	-	14,457,281.26	14,457,281.26
2038	-	14,456,531.26	14,456,531.26
2039	-	14,455,781.26	14,455,781.26
2040	-	14,453,812.50	14,453,812.50
2041	-	14,454,000.00	14,454,000.00
2042	-	14,454,656.26	14,454,656.26
2043	-	14,454,093.76	14,454,093.76
2044	-	14,450,625.00	14,450,625.00
2045	-	14,447,562.50	14,447,562.50
2046	-	14,447,937.50	14,447,937.50
2047	-	14,449,500.00	14,449,500.00
Total	\$238,495,133.22	\$407,994,419.02	\$646,489,552.24

Retirement Benefits

The District participates in retirement plans with the State Teachers' Retirement System ("CalSTRS"), which covers all full-time certificated District employees, and the State Public Employees'

Retirement System (“CalPERS”), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

CalSTRS. Contributions to CalSTRS are fixed in statute. Teachers contribute 8% of salary to CalSTRS, while school districts contribute 8.25%. In addition to the teacher and school contributions, the State contributes 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Unlike typical defined benefit programs, however, neither the CalSTRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

Because of the downturn in the stock market, an actuarial valuation as of June 30, 2003 showed a \$118 million shortfall in the baseline benefits—one-tenth of 1% of accrued liability. Consequently, the surcharge kicked in for the first time in the fiscal year 2004-05 at 0.524% for three quarterly payments, which amounted to an additional \$92 million from the State’s general fund in fiscal year 2004-05. However, in addition to the small shortfall in pre-enhancement benefits (triggering the surcharge), the June 30, 2003, valuation also showed a substantial \$23 billion unfunded liability for the entire system, including enhanced benefits. As indicated above, there is no required contribution from teachers, school districts or the State to fund this unfunded liability.

As of June 30, 2013, an actuarial valuation (the “2013 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$74.4 billion, an increase of \$3.4 billion from the June 30, 2012 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2013, June 30, 2012 and June 30, 2011, based on the actuarial assumptions, were approximately 67%, 67% and 69%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2013 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” 7.50% investment rate of return, 4.50% interest on member accounts, 3.75% projected wage growth, and 3.00% projected inflation. The 2013 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See “–Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

As indicated above, there is no required contribution from teachers, schools districts or the State to fund the unfunded actuarial liability for the CalSTRS defined benefit program and only the State legislature can change contribution rates. The 2013 CalSTRS Actuarial Valuation noted that, as of June 30, 2013, the contribution rate, inclusive of contributions from the teachers, the school districts and the State, was equivalent to 19.497% over the next 30 years. The 2013 CalSTRS Actuarial Valuation provides that the contribution rate would need to have been raised by 13.382% to a total of 32.879% to amortize the unfunded liability over a 30-year period as of June 30, 2013.

The State recently passed a bill (AB 1469) that increases contribution rates significantly for school districts. See “– State Funding of Education; State Budget Process – 2014-15 State Budget and Related Trailer Bills – AB 1469” herein for more information.

The District's employer contributions to CalSTRS for fiscal years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 were \$16,233,633, \$15,352,587, \$15,020,515, \$14,457,279 and \$13,687,694, respectively, and were equal to 100% of the required contributions for each year. The District estimates employer contributions to CalSTRS of \$13,735,262 for fiscal year 2013-14 and has budgeted employer contributions to CalSTRS of \$15,378,036 for fiscal year 2014-15.

CalPERS. All qualifying classified employees of K through 12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability.

In March of 2012, the CalPERS Board of Administration adopted new economic actuarial assumptions to be used with the June 30, 2011 actuarial valuation; in particular, lowering the price inflation assumption from 3.00% to 2.75%. Lowering the price inflation assumption resulted in a reduced discount rate, which is the fund's assumed rate of return calculated based on expected price inflation and the expected real rate of return, from 7.75% to 7.5%. According to CalPERS, this reduction in the discount rate is anticipated to increase State and school district employer contributions for each fiscal year beginning in fiscal year 2012-13 by 1.2% to 1.6% for miscellaneous plans (which includes general office and others) and by 2.2% to 2.4% for safety plans beginning in fiscal year 2012-13. In April of 2013, the CalPERS Board of Administration approved changes to the CalPERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. Beginning with the June 30, 2013 actuarial valuation, CalPERS will employ a new amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period (as compared to the current policy of spreading investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period). Such changes, the implementation of which are delayed until fiscal year 2015-2016 for the State, schools and all public agencies, are expected to increase contribution rates in the near term but lower contribution rates in the long term.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2012, the CalPERS Schools plan had a funded ratio of 75.5% on a market value of assets basis. The funded ratio as of June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008 and June 30, 2007 was 78.7%, 69.5%, 65.0%, 93.8% and 107.8%, respectively.

In February of 2014, the CalPERS Board of Administration adopted new actuarial demographic assumptions that take into account public employees living longer. Such assumptions are expected to increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. CalPERS estimates that the new demographic assumptions could cost public agency employers up to 9% of payroll for safety employees and up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that future experiences differ from CalPERS' current assumptions, the required employer contributions may vary.

The District's employer contributions to CalPERS for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 were \$6,268,843, \$6,330,891, \$6,877,379 and \$6,555,780, respectively, and were equal to 100% of the required contributions for each year. With the approval of the reduced discount rate, the District's employer contributions to CalPERS are expected to increase beginning in fiscal year 2012-13. The District made employer contributions to CalPERS of \$6,574,694 for fiscal year 2012-13, estimates employer contributions to CalPERS of \$6,173,889 for fiscal year 2013-14 and has budgeted employer contributions to CalPERS of \$6,619,981 for fiscal year 2014-15.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 12.”

Governor’s Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that will reform pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees’ Pension Reform Act of 2012 (“PEPRA”) which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District’s future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District’s pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 12.”

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans (“Statement Number 67”), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions (“Statement Number 68”), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (such unfunded liabilities are currently typically included as notes to the government’s financial statements); (ii) full pension costs would be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter

amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Statement Number 67 will take effect in fiscal years beginning after June 15, 2013, and Statement Number 68 will take effect in fiscal years beginning after June 15, 2014.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalPERS and CalSTRS are more fully described in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013,” Note 12.

Other Post-Employment Benefits (OPEBs)

In addition to the retirement plan benefits with CalSTRS and CalPERS, the District provides certain post retirement healthcare benefits, in accordance with District employment contracts, to certificated, management and administrative employees who retire from the District on or after attaining age 55 with at least 10 years of service. The Postemployment Benefits Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, in 2007-08.

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

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. As of June 30, 2012, membership of the Plan consisted of approximately 349 retirees and beneficiaries currently receiving benefits, and approximately 3,883 active Plan members. The benefits consist of health insurance benefits (medical and prescription drug) and are provided to eligible retirees up to age 65. The contribution requirements of Plan members and the District are established and may be amended by the District, the CSEA, SEA and NAGE and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013” attached hereto and Note 12 therein.

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities (or funding excess) over a period not to exceed thirty years. The approximate accumulated future liability for post-employment benefits for the District at June 30, 2012 was \$22,488,858. The following table shows the components of the District's annual OPEB cost for the 2011-12 fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

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

The District's funding policy is based on the projected pay as you go financing requirements, with additional amounts to prefund benefits as determined annually by the Board of Trustees. For fiscal year 2011-12, the District contributed \$2,413,172. For fiscal year 2012-13, the District contributed \$1,684,471. Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution (Pay-Go)	Percentage Contributed	New OPEB Obligation (Asset)
2013	\$5,884,998	\$1,684,471	29%	\$26,429,623
2012	5,915,875	2,413,172	41	22,239,308
2011	5,857,055	1,684,471	29	18,736,605
2010	6,064,699	1,876,174	31	14,848,241
2009	7,056,744	1,582,247	22	10,659,716
2008	6,797,483	1,612,263	24	5,185,219

As of July 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability (AAL) for benefits was \$48.7 million and the unfunded actuarial accrued liability (UAAL) was \$48.7 million. The actuarial assumptions included a 5.0% 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. The healthcare cost trend rate is an assumed 8.5%. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2010, was 26 years.

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, mortality, and the healthcare cost trend. Actuarially determined amounts 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 to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures

The District participates in one joint venture under a joint powers agreement (“JPA”), the San Diego County Schools Risk Management JPA (RM), whose purpose is to jointly provide for the establishment, operation and maintenance of self-insurance programs for claims against member districts including, but not limited to, workers’ compensation claims, liability and property insurance coverage to member districts. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

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

The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of its governing board. Member districts share surpluses and deficits proportionately to their participation in the JPA. The relationship between the District and the JPA are such that the JPA is not a component unit of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in the District’s financial statements attached hereto. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 14.”

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture”

such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District's budgeted appropriations from "proceeds of taxes" (sometimes referred to as the "Gann limit") for the 2011-12 fiscal year were equal to the allowable limit of \$220,890,112 and for the 2012-13 fiscal year were equal to the allowable limit \$224,839,611. The District estimates an appropriations limit for the 2013-14 fiscal year of \$236,445,940. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIIC and Article XIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIIC and XIID (“Article XIIC” and “Article XIID,” respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIIC establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency’s governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). The Accountability Act changed State funding of public education below the university level, and the operation of the State’s Appropriations Limit. The Accountability Act guarantees State funding for K through 12 school districts and community college districts (collectively, “K-14 districts”) at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9 percentage, or to apply the relevant percentage to the State’s budgets in a different way than is proposed in the Governor’s Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State’s budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State’s ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 school Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the “change in the cost of living” by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State’s spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the “excess” tax revenues, determined based on a two-year cycle, would be transferred to K-14 school districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts’ minimum funding level), and that any such transfer to K-14 school districts would not be built into the school districts’ base expenditures for calculating their entitlement for State aid in the following year and would not increase the State’s appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain “qualified capital outlay projects” and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 school districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 school districts were guaranteed the greater of (a) 40.9% of general fund revenues (the “first test”) or (b) the amount appropriated in the prior year adjusted for changes in the cost

of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a “credit” to be paid in future years when general fund revenue growth exceeds personal income growth.

Proposition 1A

Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “State Funding of Education; State Budget Process” above.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**



ANNUAL FINANCIAL REPORT

JUNE 30, 2013

SWEETWATER UNION HIGH SCHOOL DISTRICT

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SWEETWATER UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' 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, 2013, 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 2012-2013*, 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.

Opinion

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, 2013, 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

As discussed in Note 16 to the basic financial statements, the District has reclassified certain long-term obligations and capital assets, resulting in the restatement of the government-wide financial statements beginning net position balance.

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 60 and 61, 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 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 supplementary information listed on the table of contents 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 13, 2013, 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.

Vavrinek, Irwin, Poy & Co., LLP

Rancho Cucamonga, California
December 13, 2013

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, 2013. 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, 2013

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, 2013

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, 2013

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$561.9 million for the fiscal year ended June 30, 2013, reflecting an increase of 2.3 percent from prior year. Of this amount, \$11.4 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	
	2013	2012 as restated
Assets		
Current and other assets	\$ 313,042,340	\$ 319,543,882
Capital assets	915,642,456	867,766,934
Total Assets	1,228,684,796	1,187,310,816
Liabilities		
Current liabilities	26,976,549	25,900,382
Long-term obligations	639,810,793	612,273,192
Total Liabilities	666,787,342	638,173,574
Net Position		
Net investment in capital assets	501,080,488	466,757,957
Restricted	49,431,357	45,412,162
Unrestricted	11,385,609	36,967,123
Total Net Position	\$ 561,897,454	\$ 549,137,242

The \$11.4 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 69.2 percent (\$11.4 million compared to \$37.0 million).

SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 3,567,185	\$ 1,865,649
Operating grants and contributions	67,489,004	80,820,228
Capital grants and contributions	117,187	6,464,906
General revenues:		
Federal and State aid not restricted	217,008,322	230,726,374
Property taxes	111,103,686	103,574,539
Other general revenues	16,962,037	8,976,704
Total Revenues	416,247,421	432,428,400
Expenses		
Instruction	223,358,779	222,216,771
Instruction-related	54,279,411	55,351,347
Student support services	43,263,844	45,257,536
Administration	18,475,704	19,661,435
Plant services	33,839,277	32,933,605
Interest on long-term obligations	20,022,249	27,641,454
Other	10,247,945	9,048,960
Total Expenses	403,487,209	412,111,108
Change in Net Position	\$ 12,760,212	\$ 20,317,292

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$403.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$111.1 million because the cost was paid by those who benefited from the programs (\$3.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$67.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$233.9 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, 2013

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	
	2013	2012	2013	2012
Instruction	\$ 223,358,779	\$ 222,216,771	\$ 184,272,391	\$ 166,392,835
Instruction-related	54,279,411	55,351,347	42,464,772	42,913,742
Student support services	43,263,844	45,257,536	27,461,029	29,592,057
Administration	18,475,704	19,661,435	16,827,802	17,874,231
Plant services	33,839,277	32,933,605	33,582,172	32,708,281
Interest on long-term obligations	20,022,249	27,641,454	20,022,249	27,641,454
Other	10,247,945	9,048,960	7,683,418	5,837,725
Total	\$ 403,487,209	\$ 412,111,108	\$ 332,313,833	\$ 322,960,325

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$292.4 million, which is an increase of \$15.6 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 30,862,462	\$ 356,120,969	\$ 357,521,863	\$ 29,461,568
Building Fund	50,719,709	38,026,010	28,615,670	60,130,049
Capital Project Fund for Blended Component Units	118,938,190	28,261,738	18,243,189	128,956,739
Non-Major Governmental Funds	76,225,657	69,358,219	71,768,836	73,815,040
Total	\$ 276,746,018	\$ 491,766,936	\$ 476,149,558	\$ 292,363,396

The primary reasons for these decreases are:

- a. The General Fund showed a decrease of \$1.4 million.
- b. The Capital Project Fund for Blended Component Units showed an increase of \$10.0 million.
- c. The Non-Major Governmental Funds showed a decrease of approximately \$2.4 million.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 June 17, 2013. (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 60.)

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, 2013, the District had \$915.6 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 \$19.2 million, or 2.1 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2013	2012
Land and construction in progress	\$ 463,280,114	\$ 507,902,052
Buildings and improvements	447,901,773	383,067,700
Furniture and equipment	4,460,569	5,449,682
Total	\$ 915,642,456	\$ 896,419,434

This year's additions of \$104.3 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 2013-2014 year. We anticipate capital additions to be \$22.3 million for the 2013-2014 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, 2013

Long-Term Obligations

At the end of this year, the District had \$639.8 million in long-term obligations versus \$612.3 million last year, an increase of 4.5 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2013	2012 as restated
General obligation bonds (including accreted interest and premium)	\$ 351,839,070	\$ 355,538,240
General obligation bond anticipation notes (including premium)	37,290,519	-
Certificates of participation	97,480,000	105,645,000
Special tax revenue bonds (including premium)	69,425,339	71,955,159
Demand revenue bonds	33,650,000	33,650,000
Qualified zone academy bonds	9,125,000	9,420,000
Capitalized lease obligations	4,838,828	3,253,730
Compensated absences	6,254,454	6,395,069
Early retirement incentive	3,477,960	4,176,686
Other postemployment benefits	26,429,623	22,239,308
Total	\$ 639,810,793	\$ 612,273,192

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 of \$389.1 million 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 2012-2013 ARE NOTED BELOW:

- All twelve of Sweetwater's comprehensive high schools were named Silver Medal winners by the U.S. News & World Report, placing them among the top nine percent of schools in the nation in the annual ranking of schools.
- Sweetwater District graduation rate is higher than the State and County averages while the dropout rate is below State and County averages. Graduation rates increased 3 percent and dropout rates decreased by 2 percent.
- Eleven Sweetwater schools exceeded the 800 point target score on the Academic Performance Index.
- All schools inspected and deemed by the San Diego County Department of Education as clean, safe, and functional.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2013-2014 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) Revenue Limit deficit of 22.3 percent;
 - (b) The District budgeted as if Proposition 30 (tax measure) did not pass;
 - (c) No funding for mandate claims.

- (2) The District's major source of income is from the Revenue Limit. Since the 2003-2004 fiscal year, the District has been experiencing a declining enrollment in excess of 1,000 students with losses peaking at 2,300+ students in 2005-2006. In 2009-2010 and 2010-2011 the District experienced a loss of 500 students and 609 students, respectively. In 2011-2012 the District experienced a declining enrollment of 482 students. For 2012-2013 the District is projecting a decline in student enrollment of 257 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	31 to 1	11,245
Grades nine through twelve	31 to 1	26,947

- (2) The budget includes \$27.0 million in Board approved budget reductions, however with passage of Proposition 30 (tax measure); the District was able to rescind employee furlough days. The District has made budget reductions totaling \$43.1 million over the past nine years.

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 Interim 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, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 229,751,790
Receivables	80,646,931
Prepaid expenses	118,916
Deferred costs on issuance	2,327,937
Stores inventories	196,766
Capital assets	
Land and construction in process	463,280,114
Other capital assets	579,671,170
Less: accumulated depreciation	(127,308,828)
Total Capital Assets	<u>915,642,456</u>
Total Assets	<u><u>1,228,684,796</u></u>
LIABILITIES	
Accounts payable	10,966,350
Accrued interest	8,625,542
Deferred revenue	7,384,657
Long-term obligations	
Current portion of long-term obligations	19,063,315
Noncurrent portion of long-term obligations	<u>620,747,478</u>
Total Long-Term Liabilities	<u>639,810,793</u>
Total Liabilities	<u><u>666,787,342</u></u>
NET POSITION	
Net investment in capital assets	501,080,488
Restricted for:	
Debt service	7,064,796
Capital projects	36,402,170
Educational programs	5,964,391
Unrestricted	<u>11,385,609</u>
Total Net Position	<u><u>\$ 561,897,454</u></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, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 223,358,779	\$ 1,068,728	\$ 37,900,473	\$ 117,187	\$ (184,272,391)
Instruction-related activities:					
Supervision of instruction	17,183,658	331,530	11,123,117	-	(5,729,011)
Instructional library, media, and technology	4,686,566	36,958	152,620	-	(4,496,988)
School site administration	32,409,187	559	169,855	-	(32,238,773)
Pupil services:					
Home-to-school transportation	8,391,386	200,641	1,493,124	-	(6,697,621)
Food services	11,421,794	1,012,258	9,083,880	-	(1,325,656)
All other pupil services	23,450,664	122	4,012,790	-	(19,437,752)
Administration:					
Data processing	5,928,253	-	-	-	(5,928,253)
All other administration	12,547,451	111,619	1,536,283	-	(10,899,549)
Plant services	33,839,277	64,507	192,598	-	(33,582,172)
Facility acquisition and construction	2,077,701	-	-	-	(2,077,701)
Ancillary services	7,212,870	739,111	1,665,250	-	(4,808,509)
Community services	304,166	-	-	-	(304,166)
Interest on long-term obligations	20,022,249	-	-	-	(20,022,249)
Other outgo	653,208	1,152	159,014	-	(493,042)
Total Governmental Activities	\$ 403,487,209	\$ 3,567,185	\$ 67,489,004	\$ 117,187	(332,313,833)
General revenues and subventions:					
					61,879,554
Property taxes, levied for general purposes					21,482,696
Property taxes, levied for debt service					27,741,436
Taxes levied for other specific purposes					217,008,322
Federal and State aid not restricted to specific purposes					389,321
Interest and investment earnings					16,572,716
Miscellaneous					
					Subtotal, General Revenues
					345,074,045
					12,760,212
					Change in Net Position
					Net Position - Beginning as Restated
					549,137,242
					Net Position - Ending
					\$ 561,897,454

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Building Fund	Capital Project Fund for Blended Component Units
ASSETS			
Deposits and investments	\$ 16,909,494	\$ 61,272,695	\$ 78,956,389
Receivables	78,034,999	23,686	27,589
Due from other funds	973,640	1,356,804	50,098,810
Prepaid expenditures	118,916	-	-
Stores inventories	127,034	-	-
Total Assets	\$ 96,164,083	\$ 62,653,185	\$ 129,082,788
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 7,161,060	\$ 2,456,657	\$ 44,492
Due to other funds	52,156,798	66,479	81,557
Deferred revenue	7,384,657	-	-
Total Liabilities	66,702,515	2,523,136	126,049
Fund Balances:			
Nonspendable	270,944	-	-
Restricted	5,949,862	60,130,049	128,956,739
Committed	-	-	-
Assigned	4,737,525	-	-
Unassigned	18,503,237	-	-
Total Fund Balances	29,461,568	60,130,049	128,956,739
Total Liabilities and Fund Balances	\$ 96,164,083	\$ 62,653,185	\$ 129,082,788

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 72,613,212	\$ 229,751,790
2,560,657	80,646,931
3,345,743	55,774,997
-	118,916
69,732	196,766
<u>\$ 78,589,344</u>	<u>\$ 366,489,400</u>

\$ 1,304,141	\$ 10,966,350
3,470,163	55,774,997
-	7,384,657
<u>4,774,304</u>	<u>74,126,004</u>

70,782	341,726
52,107,037	247,143,687
7,889,175	7,889,175
13,748,046	18,485,571
-	18,503,237
<u>73,815,040</u>	<u>292,363,396</u>
<u>\$ 78,589,344</u>	<u>\$ 366,489,400</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds		\$ 292,363,396
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	\$ 1,042,951,284	
Accumulated depreciation is	<u>(127,308,828)</u>	
Net Capital Assets		915,642,456
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		2,327,937
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.		(8,625,542)
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	328,479,415	
Premium on general obligation bonds	5,768,162	
General obligation bond anticipation notes	32,820,000	
Premium on bond anticipation notes	4,470,519	
Certificates of participation	97,480,000	
Special tax revenue bonds	66,095,000	
Premium on special tax revenue bonds	3,330,339	
Demand revenue bonds	33,650,000	
Qualified zone academy bonds	9,125,000	
Capital leases payable	4,838,828	
Compensated absences (vacations)	6,254,454	
Early retirement incentive	3,477,960	
Other postemployment benefits (net OPEB obligation)	26,429,623	
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is as follows:		
Total Long-Term Obligations	<u>17,591,493</u>	(639,810,793)
Total Net Position - Governmental Activities		<u>\$ 561,897,454</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, 2013**

	General Fund	Building Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 234,761,789	\$ -	\$ -	\$ -	\$ 234,761,789
Federal sources	20,474,503	-	-	10,770,584	31,245,087
Other State sources	65,616,070	-	-	1,432,027	67,048,097
Other local sources	30,551,943	500,200	27,255,287	24,885,018	83,192,448
Total Revenues	351,404,305	500,200	27,255,287	37,087,629	416,247,421
EXPENDITURES					
Current					
Instruction	203,917,677	-	-	7,673,034	211,590,711
Instruction-related activities:					
Supervision of instruction	15,747,523	-	-	1,272,319	17,019,842
Instructional library, media and technology	4,371,000	-	-	280,829	4,651,829
School site administration	29,015,655	-	-	2,702,148	31,717,803
Pupil services:					
Home-to-school transportation	8,299,210	-	-	-	8,299,210
Food services	4,829	-	-	11,324,927	11,329,756
All other pupil services	22,057,542	-	-	662,309	22,719,851
Administration:					
Data processing	5,933,852	-	-	-	5,933,852
All other administration	11,755,591	-	-	681,653	12,437,244
Plant services	27,229,167	1,556,021	574,676	4,284,417	33,644,281
Facility acquisition and construction	2,066,420	26,409,932	1,155,282	2,244,828	31,876,462
Ancillary services	7,197,974	-	-	-	7,197,974
Community services	264,985	-	-	-	264,985
Other outgo	653,208	-	-	-	653,208
Debt service					
Principal	3,359,966	-	-	16,561,510	19,921,476
Interest and other	263,976	649,717	-	22,700,250	23,613,943
Total Expenditures	342,138,575	28,615,670	1,729,958	70,388,224	442,872,427
Excess (Deficiency) of Revenues Over Expenditures	9,265,730	(28,115,470)	25,525,329	(33,300,595)	(26,625,006)
Other Financing Sources (Uses)					
Transfers in	90	-	1,006,451	32,270,590	33,277,131
Other sources	4,716,574	37,525,810	-	-	42,242,384
Transfers out	(15,383,288)	-	(16,513,231)	(1,380,612)	(33,277,131)
Net Financing Sources (Uses)	(10,666,624)	37,525,810	(15,506,780)	30,889,978	42,242,384
NET CHANGE IN FUND BALANCES	(1,400,894)	9,410,340	10,018,549	(2,410,617)	15,617,378
Fund Balances - Beginning	30,862,462	50,719,709	118,938,190	76,225,657	276,746,018
Fund Balances - Ending	\$ 29,461,568	\$ 60,130,049	\$ 128,956,739	\$ 73,815,040	\$ 292,363,396

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, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ 15,617,378**
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	\$ 29,895,371	
Depreciation expense	<u>(10,578,291)</u>	
Net Expense Adjustment		19,317,080

Cost write-off for canceled capital assets: If a project is canceled and will not be completed, costs previously capitalized must be written off to expense. (94,058)

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. (4,716,574)

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 \$698,726. Vacation earned was less than the amounts paid by \$140,615. 839,341

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: (4,190,315)

Proceeds received from general obligation bond anticipation notes 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. (32,820,000)

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, 2013

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 bond anticipation notes	\$ (4,705,810)	
Amortization of debt premium	687,038	
Amortization of costs of issuance	<u>(87,502)</u>	
		\$ (4,106,274)

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	6,000,000
Certificates of participation	8,165,000
Special tax revenue bonds	2,330,000
Qualified zone academy bonds	295,000
Capital lease obligations	3,131,476

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 \$5,544,915, and second, \$2,552,757 of additional interest was accreted on the District's capital appreciation general obligation bonds.

	<u>2,992,158</u>
Change in Net Position of Governmental Activities	<u><u>\$ 12,760,212</u></u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2013

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 12,510	\$ 4,917,564
Receivables	10	106,952
Prepaid expenses	-	96,932
Stores inventories	-	230,282
Total Assets	<u>12,520</u>	<u>\$ 5,351,730</u>
LIABILITIES		
Accounts payable	-	\$ 272,445
Due to student groups	-	5,079,285
Total Liabilities	<u>-</u>	<u>\$ 5,351,730</u>
NET POSITION		
Unreserved	<u>12,520</u>	
Total Net Position	<u>\$ 12,520</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, 2013**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 45</u>
Change in Net Position	45
Net Position - Beginning	<u>12,475</u>
Net Position - Ending	<u><u>\$ 12,520</u></u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 kindergarten 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, 2013

Other Related Entities

Charter School The District has approved charters for The Metropolitan Area Advisory Committee Community Charter School and Stephen Hawking 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.

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 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

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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).

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.

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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

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

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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

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JUNE 30, 2013

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.

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

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

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, 2013, 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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

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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.

Deferred Issuance Costs and Premiums

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, or proprietary fund statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2013, 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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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.

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 \$49,431,357 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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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.

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

New Accounting Pronouncements

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 provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

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.

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 27 and 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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

- 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.

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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 229,751,790
Fiduciary funds	4,930,074
Total Deposits and Investments	<u>\$ 234,681,864</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 34,818,678
Cash in revolving	26,044
Investments	199,837,142
Total Deposits and Investments	<u>\$ 234,681,864</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, 2013

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 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, 2013

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	\$ 172,847,330	\$ 172,683,011	393 days
Blackrock Institutional Funds Money Market Funds	19,079,292	19,079,292	51 days
First American Government Obligation Fund Class D	1,833,323	1,833,323	54 days
Fortis Funding LLC Commercial Paper	3,707,197	3,770,623	09/30/13
U.S. Treasury Bill	2,370,000	2,369,905	08/29/13
Total	<u>\$ 199,837,142</u>	<u>\$ 199,736,154</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 AAAs/S1 by Standard & Poor's Investor Service as of June 30, 2013. The investment in First American Government Obligation Fund Class D and the investment in Blackrock Institutional Money Market Funds have been rated Aaa-mf by Moody's Investor Service as of June 30, 2013. The investment in Fortis LLC Commercial Paper has been rated P-1 by Moody's Investor Service as of June 30, 2013. The U.S. Treasury Bill is not required to be rated.

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.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, the District's bank balance of \$6,086,336 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.

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 LLC of \$3,707,197, the District has a custodial credit risk exposure of \$3,707,197 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, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 7,833,889	\$ -	\$ -	\$ 2,272,950	\$ 10,106,839	\$ -
State Government						
Apportionment	45,795,992	-	-	-	45,795,992	-
Categorical aid	8,630,546	-	-	120,287	8,750,833	-
Lottery	3,602,143	-	-	-	3,602,143	-
Special education	5,788,618	-	-	-	5,788,618	-
Local Government						
Interest	7,329	23,686	27,589	45,110	103,714	10
Charter school	626,568	-	-	-	626,568	-
Regional occupational program	1,144,294	-	-	-	1,144,294	106,952
Other Local Sources	4,605,620	-	-	122,310	4,727,930	-
Total	<u>\$ 78,034,999</u>	<u>\$ 23,686</u>	<u>\$ 27,589</u>	<u>\$ 2,560,657</u>	<u>\$ 80,646,931</u>	<u>\$ 106,962</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012 as Restated	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 144,894,678	\$ -	\$ -	\$ 144,894,678
Construction in progress	363,007,374	29,895,371	74,517,309	318,385,436
Depreciated	507,902,052	29,895,371	74,517,309	463,280,114
Capital Assets Being Depreciated:				
Land improvements	6,831,171	-	-	6,831,171
Buildings and improvements	477,174,372	74,423,251	-	551,597,623
Furniture and equipment	21,242,376	-	-	21,242,376
Total Capital Assets Being Depreciated	505,247,919	74,423,251	-	579,671,170
Total Capital Assets	1,013,149,971	104,318,622	74,517,309	1,042,951,284
Less Accumulated Depreciation:				
Land improvements	5,643,305	-	-	5,643,305
Buildings and improvements	95,294,538	9,589,178	-	104,883,716
Furniture and equipment	15,792,694	989,113	-	16,781,807
Total Accumulated Depreciation	116,730,537	10,578,291	-	127,308,828
Governmental Activities Capital Assets, Net	\$ 896,419,434	\$ 93,740,331	\$ 74,517,309	\$ 915,642,456

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

Governmental Activities		
Instruction		\$ 9,520,463
Supervision of instruction		528,914
All other pupil services		528,914
Total Depreciation Expenses Governmental Activities		<u>\$ 10,578,291</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ 66,479	\$ 4,087	\$ 903,074	\$ 973,640
Building Fund	1,356,804	-	-	-	1,356,804
Capital Project Fund for Blended Component Units	48,050,106	-	-	2,048,704	50,098,810
Non-Major Governmental Funds	2,749,888	-	77,470	518,385	3,345,743
Total	\$ 52,156,798	\$ 66,479	\$ 81,557	\$ 3,470,163	\$ 55,774,997

The balance of \$66,479 due to the General Fund from the Building Fund resulted from the reimbursement of operating costs.

The balance of \$4,087 due to the General Fund from the Capital Project Fund for Blended Component Units and reimbursement of operating costs.

A balance of \$806,053 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from the reimbursement benefits, indirect costs and other operating costs.

A balance of \$89,072 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from the reimbursement benefits, indirect costs and other operating costs.

A balance of \$7,949 due to the General Fund from the Deferred Maintenance Non-Major Governmental Fund resulted from the reimbursement of operating costs.

A balance of \$1,356,804 due to the General Fund from the Building Fund resulted from the reimbursement of expenditures under the QZAB program.

A balance of \$48,050,106 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 \$1,952,095 due to the Capital Project Fund for Blended Component Units from the Cafeteria Non-Major Governmental Fund resulted from a temporary loan plus interest to be repaid.

A balance of \$96,609 due to the Capital Project Fund for Blended Component Units from the Adult Education Non-Major Governmental Fund resulted from a temporary loan plus interest to be repaid.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

A balance of \$1,330,999 due to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund from the General Fund is for COP debt service payments.

A balance of \$372,003 due to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund from the General Fund is for deposit of redevelopment agency funds.

A balance of \$544,599 due to the Cafeteria Non-Major Governmental Fund from the General Fund is for program contributions and reimbursement of operating costs.

A balance of \$502,287 due to the Adult Education Non-Major Governmental Fund from the General Fund is for the Adult Education Workforce Investment Act program and the reimbursement of operating costs.

The balance of \$518,385 due to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund from the Capital Facilities Non-Major Governmental Fund is for COP debt service payments.

A balance of \$73,249 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 \$4,221 due to the Capital Facilities Non-Major Governmental Fund from the Capital Projects Fund for Blended Component Units resulted from the reimbursement of project costs.

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Fund	
General Fund	\$ -	\$ -	\$ 90	\$ 90
Capital Project Fund for Blended Component Units	154,366	-	852,085	1,006,451
Non-Major Governmental Funds	15,228,922	16,513,231	528,437	32,270,590
Total	\$ 15,383,288	\$ 16,513,231	\$ 1,380,612	\$ 33,277,131

The General Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans. \$ 154,366

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for program costs contribution. 529,142

The General Fund transferred to the Adult Education Non-Major Governmental Fund for the program funding apportionment. 11,650,000

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for the District's program match. 1,620,480

The General Fund transferred to the Special Reserve Fund for Capital Projects Non-Major Government Fund for debt service payments. 1,330,999

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Operating Transfers, Continued

The General Fund transferred to the Capital Facilities Non-Major Governmental Fund for interest earned on interfund loans.	\$ 98,301
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.	16,513,231
The Adult Education Non-Major Governmental Fund transferred to the General Fund for interest earned on interfund loans.	50
The Adult Education Non-Major Governmental Fund transferred to the County School Facilities Non-Major Governmental Fund for interest earned on interfund loans.	5,127
The Adult Education Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	11,325
The Cafeteria Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	6,574
The Cafeteria Non-Major Governmental Fund transferred to the County School Facilities Non-Major Governmental Fund for interest earned on interfund loans.	2,419
The Cafeteria Non-Major Governmental Fund transferred to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund for interest earned on interfund loans.	2,507
The Deferred Maintenance Non-Major Governmental Fund transferred to the General Fund for interest earned on interfund loans.	40
The Capital Facilities Non-Major Governmental Fund transferred to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund for debt service payments.	518,385
The Capital Facilities Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for overpayment of special taxes.	834,185
Total	<u>\$ 33,277,131</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Vendor payables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249,760
State apportionment	-	-	-	-	-	-
Salaries and benefits	3,736,039	-	-	251,061	3,987,100	-
Books and supplies	1,536,404	-	-	774,810	2,311,214	-
Construction	-	2,363,681	-	37,652	2,401,333	-
Charter school	626,569	-	-	-	626,569	-
Services and other operating payables	1,262,048	92,976	44,492	240,618	1,640,134	22,685
Total	<u>\$ 7,161,060</u>	<u>\$ 2,456,657</u>	<u>\$ 44,492</u>	<u>\$ 1,304,141</u>	<u>\$ 10,966,350</u>	<u>\$ 272,445</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund
Federal financial assistance	\$ 91,847
State categorical aid	7,200,593
Other local	92,217
Total	<u>\$ 7,384,657</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2012			Balance	Due in
	as Restated	Additions	Deductions	June 30, 2013	One Year
General obligation bonds	\$ 349,518,151	\$ 2,552,757	\$ 6,000,000	\$ 346,070,908	\$ 6,895,000
Premium on general obligation bonds	6,020,089	-	251,927	5,768,162	-
General obligation bond anticipation notes	-	32,820,000	-	32,820,000	-
Premium on bond anticipation notes	-	4,705,810	235,291	4,470,519	-
Certificates of participation	105,645,000	-	8,165,000	97,480,000	6,395,000
Special tax revenue bonds	68,425,000	-	2,330,000	66,095,000	2,525,000
Premium on special tax revenue bonds	3,530,159	-	199,820	3,330,339	-
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	4,420,000	-	295,000	4,125,000	300,000
Capital leases	3,253,730	4,716,574	3,131,476	4,838,828	2,207,880
Compensated absences	6,395,069	-	140,615	6,254,454	-
Early retirement incentive	4,176,686	-	698,726	3,477,960	740,435
Other postemployment benefits (OPEB)	22,239,308	4,190,315	-	26,429,623	-
	<u>\$ 612,273,192</u>	<u>\$ 48,985,456</u>	<u>\$ 21,447,855</u>	<u>\$ 639,810,793</u>	<u>\$ 19,063,315</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, 2013**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2012 as Restated	Accreted	Redeemed	Bonds Outstanding June 30, 2013
06/25/03	08/01/28	3.00-4.75%	\$ 52,000,000	\$ 49,230,000	\$ -	\$ 995,000	\$ 48,235,000
10/21/04	08/01/29	2.50-5.27%	96,999,415	105,683,151	2,552,757	2,875,000	105,360,908
03/12/08	08/01/47	3.00-5.50%	180,000,000	170,770,000	-	495,000	170,275,000
12//14/11	08/01/25	3.22%	23,835,000	23,835,000	-	1,635,000	22,200,000
				\$ 349,518,151	\$ 2,552,757	\$ 6,000,000	\$ 346,070,908

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, 2013, the principal balance outstanding of the general obligation bonds was \$48,235,000. Unamortized premium received on issuance of the bonds amounted to \$130,726 as of June 30, 2013.

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, 2013, the principal balance outstanding of the general obligation bonds was \$105,360,908. Unamortized premium received on issuance of the bonds amounted to \$2,403,543 as of June 30, 2013.

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, 2013, the principal balance outstanding of the general obligation bonds was \$170,275,000. Unamortized premium received on issuance of the bonds amounted to \$3,233,893 as of June 30, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, the principal balance outstanding of the general obligation bonds was \$22,200,000.

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
2014	\$ 6,895,000	\$ -	\$ 14,318,603	\$ 21,213,603
2015	7,720,000	-	14,035,646	21,755,646
2016	8,062,263	472,737	13,798,602	22,333,602
2017	8,564,877	765,123	13,645,419	22,975,419
2018	8,853,647	1,156,353	13,481,326	23,491,326
2019-2023	45,840,619	11,404,381	64,758,516	122,003,516
2024-2028	61,184,502	126,300,498	59,209,115	246,694,115
2029-2033	54,170,000	-	44,279,838	98,449,838
2034-2038	36,440,000	-	34,940,156	71,380,156
2039-2043	46,845,000	-	24,138,563	70,983,563
2044-2048	61,495,000	-	9,025,142	70,520,142
Total	\$ 346,070,908	\$ 140,099,092	\$ 305,630,926	\$ 791,800,926

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, 2013, the principal balance outstanding of the general obligation bonds was \$32,820,000. Unamortized premium received on issuance of the bonds amounted to \$4,470,519 as of June 30, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Debt Service Requirements to Maturity

The notes mature through 2018 as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ -	\$ 1,140,906	\$ 1,140,906
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>\$ 7,136,906</u>	<u>\$ 39,956,906</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, 2012	Redeemed	Outstanding June 30, 2013
03/27/01	09/01/25	3.20-5.00%	\$ 42,875,000	\$ 37,755,000	\$ 1,795,000	\$ 35,960,000
12/19/02	09/01/27	3.00-5.00%	55,940,000	45,795,000	1,605,000	44,190,000
06/04/03	09/01/15	2.00-3.40%	23,700,000	6,435,000	1,930,000	4,505,000
12/01/05	09/01/22	2.90-5.00%	18,330,000	13,755,000	930,000	12,825,000
07/26/06	06/01/13	4.00-4.50%	11,875,000	1,905,000	1,905,000	-
				<u>\$ 105,645,000</u>	<u>\$ 8,165,000</u>	<u>\$ 97,480,000</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. At June 30, 2013, the principal balance outstanding of the certificates was \$35,960,000.

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. At June 30, 2013, the principal balance outstanding of the certificates was \$44,190,000.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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. At June 30, 2013, the principal balance outstanding of the certificates was \$4,505,000.

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, 2013, the principal balance outstanding of the certificates was \$12,825,000.

Certificates of Participation, Series 2006 Refinancing

On July 26, 2006, the District issued \$11,875,000 in certificates of participation used to refinance the District's Certificates of Participation, Series 2000. The certificates are due to mature on June 1, 2013 with interest rates ranging from 4.00 to 4.50 percent. At June 30, 2013, the District had fulfilled its obligation and had no outstanding balance.

Debt Service Requirements to Maturity

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 6,395,000	\$ 4,400,990	\$ 10,795,990
2015	6,485,000	4,150,796	10,635,796
2016	6,535,000	3,889,526	10,424,526
2017	7,025,000	3,604,229	10,629,229
2018	6,870,000	3,301,604	10,171,604
2019-2023	36,845,000	11,432,841	48,277,841
2024-2028	27,325,000	2,769,625	30,094,625
Total	<u>\$ 97,480,000</u>	<u>\$ 33,549,611</u>	<u>\$ 131,029,611</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2012	Redeemed	Outstanding June 30, 2013
02/24/05	09/01/29	3.00-5.00%	\$ 66,385,000	\$ 56,560,000	\$ 1,700,000	\$ 54,860,000
02/24/05	09/01/29	3.50-4.75%	15,180,000	11,865,000	630,000	11,235,000
				<u>\$ 68,425,000</u>	<u>\$ 2,330,000</u>	<u>\$ 66,095,000</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, 2013, the principal balance outstanding of the certificates was \$54,860,000.

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, 2013, the principal balance outstanding of the certificates was \$11,235,000.

Unamortized premium received on issuance of the special tax revenue bonds amounted to \$3,330,339 as of June 30, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Debt Service Requirement to Maturity

The special tax revenue bonds mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,525,000	\$ 3,176,052	\$ 5,701,052
2015	2,645,000	3,054,511	5,699,511
2016	2,720,000	2,926,609	5,646,609
2017	2,700,000	2,796,736	5,496,736
2018	2,920,000	2,661,504	5,581,504
2019-2023	17,975,000	10,883,421	28,858,421
2024-2028	24,535,000	5,733,500	30,268,500
2029-2030	10,075,000	457,788	10,532,788
Total	<u>\$ 66,095,000</u>	<u>\$ 31,690,121</u>	<u>\$ 97,785,121</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, 2013 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, 2013, the principal balance outstanding was \$5,000,000.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 300,000	\$ 94,875	\$ 394,875
2015	310,000	87,975	397,975
2016	315,000	80,956	395,956
2017	325,000	73,499	398,499
2018	330,000	66,125	396,125
2019-2023	1,775,000	212,876	1,987,876
2024-2025	770,000	26,692	796,692
Total	<u>\$ 4,125,000</u>	<u>\$ 642,998</u>	<u>\$ 4,767,998</u>

Capital Leases

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

	Energy Project	Equipment	Vehicles	Total
Balance, July 1, 2012	\$ 143,317	\$ 1,789,613	\$ 1,702,518	\$ 3,635,448
Additions	-	4,758,896	-	4,758,896
Payments	(143,317)	(2,883,847)	(272,403)	(3,299,567)
Balance, July 1, 2013	<u>\$ -</u>	<u>\$ 3,664,662</u>	<u>\$ 1,430,115</u>	<u>\$ 5,094,777</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 2,321,273
2015	1,888,194
2016	272,403
2017	272,403
2018	340,504
Total	<u>5,094,777</u>
Less: Amount Representing Interest	(255,949)
Present Value of Minimum Lease Payments	<u>\$ 4,838,828</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2013, amounted to \$6,254,454.

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
2014	\$ 740,435
2015	717,354
2016	694,272
2017	671,191
2018	334,681
2019-20	320,027
Total	<u>\$ 3,477,960</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$6,081,042, and contributions made by the District during the year were \$1,694,683. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$1,111,965 and \$(1,308,009), respectively, which resulted in an increase to the net OPEB obligation of \$4,190,315. As of June 30, 2013, the net OPEB obligation was \$26,429,623. 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, 2013**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 24,994	\$ -	\$ -	\$ 1,050	\$ 26,044
Stores inventories	127,034	-	-	69,732	196,766
Prepaid expenditures	118,916	-	-	-	118,916
Total Nonspendable	270,944	-	-	70,782	341,726
Restricted					
Legally restricted programs	5,949,862	-	-	14,529	5,964,391
Capital projects	-	60,130,049	128,956,739	36,402,170	225,488,958
Debt services	-	-	-	15,690,338	15,690,338
Total Restricted	5,949,862	60,130,049	128,956,739	52,107,037	247,143,687
Committed					
Deferred maintenance program	-	-	-	7,889,175	7,889,175
Total Committed	-	-	-	7,889,175	7,889,175
Assigned					
Restoration cuts	-	-	-	587,059	587,059
Capital projects	-	-	-	13,160,987	13,160,987
Other program balances	4,737,525	-	-	-	4,737,525
Total Assigned	4,737,525	-	-	13,748,046	18,485,571
Unassigned					
Reserve for economic uncertainties	10,442,883	-	-	-	10,442,883
Remaining unassigned	8,060,354	-	-	-	8,060,354
Total Unassigned	18,503,237	-	-	-	18,503,237
Total	\$ 29,461,568	\$ 60,130,049	\$ 128,956,739	\$ 73,815,040	\$ 292,363,396

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 349 retirees and beneficiaries currently receiving benefits and 3,883 active plan members.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 2012-2013, the District contributed \$1,694,683 to the Plan, all of which was used for current premiums (approximately 100 percent of total 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	\$ 6,081,042
Interest on net OPEB asset/obligation	1,111,965
Adjustment to annual required contribution	<u>(1,308,009)</u>
Annual OPEB cost (expense)	5,884,998
Contributions made	<u>(1,694,683)</u>
Increase in net OPEB asset/obligation	4,190,315
Net OPEB obligation, beginning of year as restated	<u>22,239,308</u>
Net OPEB obligation, end of year	<u><u>\$ 26,429,623</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:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2011	\$ 5,857,055	\$ 1,684,471	29%	\$ 18,736,605
2012	5,915,875	2,413,172	41%	22,239,308
2013	5,884,998	1,694,683	29%	26,429,623

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2010	\$ -	\$ 48,702,607	\$ 48,702,607	0%	\$ 234,255,640	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, 2010, 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, 2013, was 25 years. The actuarial value of assets was not determined in this actuarial valuation.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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. 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

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 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, 2013, 2012, and 2011, were \$14,244,855, \$14,457,279, and \$15,020,515, respectively, and equal 100 percent of the required contributions for each year.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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. 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

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 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, 2013, 2012, and 2011, were \$7,039,283, \$6,555,780, and \$6,877,379, 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 \$9,425,744 (5.176 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*.

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, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

Construction Commitments

As of June 30, 2013, 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>
National City Middle Phase 2	\$ 14,065,079	10/09/13
Granger Junior High Health Clinic Upgrade	158,512	10/25/13
Bonita Vista High Track & Field	309,587	11/01/13
Bonita Vista High HVAC Upgrade	1,500,000	12/13/13
Hilltop High Artificial Track & Field	246,467	12/13/13
Montgomery High Phase 2	22,681,426	
Gym		04/15/14
Classroom		05/09/14
Plaza		08/14/13
Power Purchase Management	385,092	06/30/14
Sweetwater High Parking Lot	2,000,000	10/22/14
Mar Vista High Phase 2	1,800,000	06/30/15
	<u>\$ 43,146,163</u>	

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, 2013, the District made payments totaling \$18,059,946 for annual premiums.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 15 - SUBSEQUENT EVENTS

On October 22, 2013, the District issued \$72,140,000 in 2013 Refunding Revenue Bonds pursuant to an agreement between the District and the Authority. The bonds were issued for the purpose of refunding outstanding certificates of participation. The bonds have a final maturity date to occur on September 1, 2027 with interest rates ranging between 3.00 to 4.125 percent.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occurred in the prior year net position have been restated as of June 30, 2012, to more accurately reflect the substance of the underlying transactions. The following table lists the reason for the restatement.

Government-Wide Financial Statements

Net Position - Beginning	\$ 552,909,716
Overstatement in accretion on General Obligation Bonds	1,260,188
Overstatement in premium on General Obligation Bonds	231,942
Understatement in premium on Special Tax Revenue Bonds	(3,530,159)
Overstatement in Early Retirement Incentive Plan	2,916,005
Understatement of long-term obligations from QZAB	(5,000,000)
Overstatement in Other Postemployment Benefits	249,550
Understatement in capital assets	100,000
Net Position - Beginning as Restated	<u><u>\$ 549,137,242</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final to Actual
REVENUES				
Revenue limit sources	\$ 218,195,090	\$ 235,272,432	\$ 234,761,789	\$ (510,643)
Federal sources	18,283,939	24,943,606	20,474,503	(4,469,103)
Other State sources	47,685,216	53,121,627	65,616,070	12,494,443
Other local sources	24,674,846	28,247,736	30,551,943	2,304,207
Total Revenues ¹	308,839,091	341,585,401	351,404,305	9,818,904
EXPENDITURES				
Current				
Certificated salaries	144,228,768	169,327,008	169,184,708	142,300
Classified salaries	51,274,028	58,481,731	57,709,513	772,218
Employee benefits	62,372,213	56,819,215	65,464,277	(8,645,062)
Books and supplies	10,030,220	19,460,515	11,772,077	7,688,438
Services and operating expenditures	26,909,502	35,662,537	28,001,009	7,661,528
Other outgo	(1,088,494)	(1,222,025)	(20,866)	(1,201,159)
Capital outlay	-	693,645	6,403,915	(5,710,270)
Debt service - principal	1,773,668	3,359,968	3,359,966	2
Debt service - interest	263,977	263,977	263,976	1
Total Expenditures ¹	295,763,882	342,846,571	342,138,575	707,996
Excess (Deficiency) of Revenues Over Expenditures	13,075,209	(1,261,170)	9,265,730	10,526,900
Other Financing Sources (Uses)				
Transfers in	-	-	90	90
Other sources	-	-	4,716,574	4,716,574
Transfers out	(12,980,999)	(14,784,844)	(15,383,288)	(598,444)
Net Financing Sources (Uses)	(12,980,999)	(14,784,844)	(10,666,624)	4,118,220
NET CHANGE IN FUND BALANCES	94,210	(16,046,014)	(1,400,894)	14,645,120
Fund Balances - Beginning	30,862,462	30,862,462	30,862,462	-
Fund Balances - Ending	\$ 30,956,672	\$ 14,816,448	\$ 29,461,568	\$ 14,645,120

¹ On behalf payments of \$9,425,744 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, 2013**

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, 2006	\$ -	\$ 55,600,023	\$ 55,600,023	0%	\$ 259,100,000	21%
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%

SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ 887,240
Adult Secondary Education	84.002	13978	243,008
Adult Education: English Literacy and Civics Education	84.002A	14109	255,275
Total Adult Basic Education Grants Cluster			<u>1,385,523</u>
No Child Left Behind Act (NCLB)			
Title I, Part A:			
Title I, Part A - Low Income and Neglected	84.010	14329	8,780,903
Title I, Part A - Program Improvement	84.010	14955	40,930
Total Title I, Part A			<u>8,821,833</u>
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	301,534
Title II, Part A - Improving Teacher Quality	84.367	14341	1,256,695
English Language Acquisition Grants			
Title III - Immigrant Education Program	84.365	14346	96,054
Title III - Limited English Proficient Student Program	84.365	10084	994,901
Total English Language Acquisition Grants			<u>1,090,955</u>
Title IV, Part A - Drug-Free Schools Formula Grant	84.186	14347	275
Title IV, Part B, 21st Century Community Learning Centers	84.287	14788	204,799
Title X - McKinney-Vento Homeless Assistance	84.196A	14332	1,614
Special Education (IDEA):			
Local Assistance	84.027A	13379	5,729,847
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	417,316
Total Special Education (IDEA)			<u>6,147,163</u>
Carl D. Perkins Vocational and Technical Education Act			
Career and Technical Education			
Career and Technical Education - Secondary Education	84.048	14894	622,763
Career and Technical Education - Adult, Section 132	84.048	14893	523,824
Total Career and Technical Education			<u>1,146,587</u>
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.158	10006	167,100
Total U.S. Department of Education			<u>20,524,078</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ 5,331,299
Especially Needy Breakfast Program	10.553	13526	2,297,899
Basic Breakfast Program	10.553	13390	7,781
Commodities	10.555	13396	703,943
Total Child Nutrition Cluster			<u>8,340,922</u>
Child and Adult Care Food Program	10.558	13393	520,315
Total U.S. Department of Agriculture			<u>8,861,237</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medical Assistance Program:			
Medical Billing Option	93.778	10013	713,537
Medical Administrative Activities	93.778	10060	254,136
Total Medical Assistance Program			<u>967,673</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps	12.000	[1]	326,916
U.S. DEPARTMENT OF INTERIOR FISH AND WILDLIFE SERVICES			
Tijuana Slough Funds	15.000	[1]	8,982
Total Expenditures of Federal Awards			<u>\$ 30,688,886</u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

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>
Jim Cartmill	President	2014
Arlie N. Ricasa	Vice President	2014
John McCann	Member	2014
Bertha Lopez	Member	2016
Pearl Quiñonez	Member	2016

ADMINISTRATION

Dr. Edward Brand	Superintendent
Sandra Huevo	Assistant Superintendent, Human Resources
Albert G. Alt, Ed.D.	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, 2013**

	Final Report	
	Amended Second Period Report	Annual Report
ELEMENTARY		
Seventh and eighth	10,723	10,692
Home and hospital	1	2
Special education	611	602
Community day schools	16	21
Total Elementary	<u>11,351</u>	<u>11,317</u>
SECONDARY		
Regular classes	25,106	24,826
Continuation education	335	328
Home and hospital	10	10
Special education	1,458	1,440
Community day schools	63	65
Total Secondary	<u>26,972</u>	<u>26,669</u>
Total K-12	<u><u>38,323</u></u>	<u><u>37,986</u></u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 7 - 8	57,244	55,654	54,000	52,500				
Grade 7					59,150	178	-	Complied
Grade 8					59,150	178	-	Complied
Grades 9 - 12	58,020	56,408	64,800	63,000				
Grade 9					65,012	178	-	Complied
Grade 10					65,012	178	-	Complied
Grade 11					65,012	178	-	Complied
Grade 12					65,012	178	-	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, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND				
Revenues	\$ 345,589,476	\$ 351,404,305	\$ 355,397,457	\$ 367,220,825
Other sources	-	4,716,664	-	-
Total Revenues and Other Sources	345,589,476	356,120,969	355,397,457	367,220,825
Expenditures	337,570,332	342,138,575	359,811,265	371,062,987
Other uses and transfers out	11,253,800	15,383,288	-	-
Total Expenditures and Other Uses	348,824,132	357,521,863	359,811,265	371,062,987
DECREASE IN FUND BALANCE	\$ (3,234,656)	\$ (1,400,894)	\$ (4,413,808)	\$ (3,842,162)
ADJUSTMENT FOR RESTATEMENT	-	-	-	1,670,500
ENDING FUND BALANCE	\$ 26,226,912	\$ 29,461,568	\$ 30,862,462	\$ 35,276,270
AVAILABLE RESERVES ²	\$ 16,169,059	\$ 18,503,237	\$ 16,739,639	\$ 13,421,158
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	4.64%	5.32%	4.65%	3.62%
LONG-TERM OBLIGATIONS	N/A	\$ 639,810,793	\$ 612,273,192	\$ 622,494,592
K-12 AVERAGE DAILY ATTENDANCE AT P-2	38,312	38,323	38,284	38,776

The General Fund balance has decreased by \$5,814,702 over the past two years. The fiscal year 2013-2014 budget projects a further decrease of \$3,234,656 (10.9 percent). 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 and anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have increased by \$17,316,201 over the past two years.

Average daily attendance has decreased by 453 over the past two years. Additional decline of 11 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 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 \$9,425,744, \$7,176,779, and \$7,771,162 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011, respectively.

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
The Metropolitan Area Advisory Committee Community Charter (MAAC) School	No
Stephen Hawking Charter School	No

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	\$ 188,912	\$ 285,025	\$ 8,591,914	\$ 1,217,034
Receivables	1,040,169	1,475,799	6,771	915
Due from other funds	502,287	544,599	73,249	4,221
Stores inventories	-	69,732	-	-
Total Assets	\$ 1,731,368	\$ 2,375,155	\$ 8,671,934	\$ 1,222,170
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 227,118	\$ 263,206	\$ 774,810	\$ 10,898
Due to other funds	902,662	2,041,167	7,949	518,385
Total Liabilities	1,129,780	2,304,373	782,759	529,283
Fund Balances:				
Nonspendable	-	70,782	-	-
Restricted	14,529	-	-	692,887
Committed	-	-	7,889,175	-
Assigned	587,059	-	-	-
Total Fund Balances	601,588	70,782	7,889,175	692,887
Total Liabilities and Fund Balances	\$ 1,731,368	\$ 2,375,155	\$ 8,671,934	\$ 1,222,170

See accompanying note to supplementary information.

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
\$ 35,682,318	\$ 10,957,671	\$ 15,690,338	\$ -	\$ 72,613,212
28,320	8,683	-	-	2,560,657
-	2,221,387	-	-	3,345,743
-	-	-	-	69,732
<u>\$ 35,710,638</u>	<u>\$ 13,187,741</u>	<u>\$ 15,690,338</u>	<u>\$ -</u>	<u>\$ 78,589,344</u>

\$ 1,355	\$ 26,754	\$ -	\$ -	\$ 1,304,141
-	-	-	-	3,470,163
<u>1,355</u>	<u>26,754</u>	<u>-</u>	<u>-</u>	<u>4,774,304</u>

-	-	-	-	70,782
35,709,283	-	15,690,338	-	52,107,037
-	-	-	-	7,889,175
-	13,160,987	-	-	13,748,046
<u>35,709,283</u>	<u>13,160,987</u>	<u>15,690,338</u>	<u>-</u>	<u>73,815,040</u>
<u>\$ 35,710,638</u>	<u>\$ 13,187,741</u>	<u>\$ 15,690,338</u>	<u>\$ -</u>	<u>\$ 78,589,344</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, 2013**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES				
Federal sources	\$ 1,909,347	\$ 8,861,237	\$ -	\$ -
Other State sources	503,230	691,830	-	-
Other local sources	986,675	1,324,507	20,319	246,522
Total Revenues	3,399,252	10,877,574	20,319	246,522
EXPENDITURES				
Current				
Instruction	7,673,034	-	-	-
Instruction-related activities:				
Supervision of instruction	1,272,319	-	-	-
Instructional library, media, and technology	280,829	-	-	-
School site administration	2,702,148	-	-	-
Pupil services:				
Food services	-	11,324,927	-	-
All other pupil services	662,309	-	-	-
Administration:				
All other administration	674,074	-	-	7,579
Plant services	1,103,115	70,292	1,871,591	20,648
Facility acquisition and construction	65,860	-	-	562,411
Debt service				
Principal	-	-	66,510	-
Interest and other	-	-	5,636	-
Total Expenditures	14,433,688	11,395,219	1,943,737	590,638
Excess (Deficiency) of Revenues Over Expenditures	(11,034,436)	(517,645)	(1,923,418)	(344,116)
Other Financing Sources (Uses)				
Transfers in	11,650,000	529,142	1,620,480	2,507
Transfers out	(16,502)	(11,500)	(40)	(1,352,570)
Net Financing Sources (Uses)	11,633,498	517,642	1,620,440	(1,350,063)
NET CHANGE IN FUND BALANCES	599,062	(3)	(302,978)	(1,694,179)
Fund Balances - Beginning	2,526	70,785	8,192,153	2,387,066
Fund Balances - Ending	\$ 601,588	\$ 70,782	\$ 7,889,175	\$ 692,887

See accompanying note to supplementary information.

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
\$ -	\$ -	\$ -	\$ -	\$ 10,770,584
-	-	236,967	-	1,432,027
(50,307)	1,092,468	21,264,834	-	24,885,018
(50,307)	1,092,468	21,501,801	-	37,087,629
-	-	-	-	7,673,034
-	-	-	-	1,272,319
-	-	-	-	280,829
-	-	-	-	2,702,148
-	-	-	-	11,324,927
-	-	-	-	662,309
-	-	-	-	681,653
3,705	1,215,066	-	-	4,284,417
1,616,557	-	-	-	2,244,828
-	1,905,000	6,000,000	8,590,000	16,561,510
-	122,280	14,649,103	7,923,231	22,700,250
1,620,262	3,242,346	20,649,103	16,513,231	70,388,224
(1,670,569)	(2,149,878)	852,698	(16,513,231)	(33,300,595)
105,846	1,849,384	-	16,513,231	32,270,590
-	-	-	-	(1,380,612)
105,846	1,849,384	-	16,513,231	30,889,978
(1,564,723)	(300,494)	852,698	-	(2,410,617)
37,274,006	13,461,481	14,837,640	-	76,225,657
\$ 35,709,283	\$ 13,160,987	\$ 15,690,338	\$ -	\$ 73,815,040

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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, 2013. 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:		
Medi-Cal Billing Option	93.778	\$ 31,245,087 (556,201)
Total Schedule of Expenditures of Federal Awards		<u>\$ 30,688,886</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. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-1983 actual minutes or the 1986-1987 requirements, whichever is greater, as required by *Education Code* Section 46201.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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 AUDITORS' REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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, 2013, 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 13, 2013.

Emphasis of Matter

As discussed in Note 16 to the basic financial statements, the District has reclassified certain long-term obligations and capital assets, resulting in the restatement of the government-wide financial statements beginning net position balance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 13, 2013.

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.

Vavrinek, Irwin, Poy & Co., LLP

Rancho Cucamonga, California
December 13, 2013



**INDEPENDENT AUDITORS' 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 requirement 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, 2013. 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, 2013.

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.

Vavrinek, Irvine, Poy & Co., LLP

Rancho Cucamonga, California
December 13, 2013



INDEPENDENT AUDITORS' 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 Audits of California K-12 Local Educational Agencies 2012-2013* 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, 2013.

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 2012-2013*. 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 opinion. Our audit does not provide a legal determination of Sweetwater Union High School District's compliance with those requirements.

Basis for Qualified Opinion for the Instructional Materials

As described in the accompanying schedule of findings and questioned costs, Sweetwater Union High School District did not comply with requirements regarding the Instructional Materials as discussed in the Findings and Questioned Costs section of this report, as item 2013-1. Compliance with such requirements is necessary, in our opinion, for Sweetwater Union High School District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Sweetwater Union High School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other 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, 2013, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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	6	Yes
County Offices of Education	3	Not applicable
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
Class Size Reduction Program (including charter schools):		
General Requirements	7	Not applicable
Option One Classes	3	Not applicable
Option Two Classes	4	Not applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Charter Schools:		
Contemporaneous Records of Attendance	1	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

Vavrinek, Irvine, Poy & Co., LLP

Rancho Cucamonga, California
December 13, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' 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 programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major 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 programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A Program</u>
<u>84.027A</u>	<u>Special Education (IDEA)</u>
<u>84.048</u>	<u>Career and Technical Education</u>
<u>84.002, 84.002A</u>	<u>Adult Basic Education Grants Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 920,667</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>Instructional Materials</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Materials

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

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

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.

Corrective Action Plan

Due to the modified year-round calendar it is difficult to assess the sufficiency of instructional materials within the required eight weeks. In order to meet the eight week requirement, the public hearing will take place at a special board meeting held within the required time frame.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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.

Financial Statement Findings

ASSOCIATED STUDENT BODY

2012-1 30000

Criteria

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

Condition

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

Bonita Vista High School

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

Bonita Vista Middle School

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

Castle Park High School

- Two out of 21 cash receipts were not supported by adequate supporting documentation for ticket sales.
- Four out of 21 cash receipts did not have adequate sales supporting documentation. These receipts lacked any proper form of cash reconciliation of sales to the amounts received.
- Two out of 21 cash receipts were not deposited in a timely manner. This included collections for Cycling Fundraising Ride and a donation.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

- Three out of 20 cash disbursements tested did not obtain prior approval before an expense was made (Check #'s 51384 to Aspire Fundraising, #51413 to International Baccalaureate, and #51583 to club advisor.)

Chula Vista Adult School

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

Chula Vista High School

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

Granger Junior High School

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

Hilltop Middle School

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

Mar Vista High School

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

Montgomery High School

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

Montgomery Middle School

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Rancho Del Rey High School

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

Southwest Middle School

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

Southwest High School

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

San Ysidro High School

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

San Ysidro Adult Education

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

Sweetwater High School

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

Hilltop High School

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

Palomar High School

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Otay Ranch High School

- One out of 15 cash disbursements tested did not have evidence of receipt on file.
- Two out of 14 cash receipts tested did not have adequate supporting documentation (copy of check or tally sheets) to reconcile actual proceeds to cash collected and deposited.
- One out of 14 deposits cannot be reconciled to cash receipts. \$27,672.94 was deposited on March 7, 2012 when total cash receipts per Bluebear report was \$27,862.94.

Cause

Insufficient controls over student body activities.

Effect

The potential for irregularities in accounting to go undetected.

Perspective

We audited 27 ASBs at the school sites selected for testing in fiscal year 2011-2012. Our audit included an evaluation of internal control procedures over: cash disbursements, cash receipts, and ASB organization. A detailed report of our findings by individual school site has been provided to the District for necessary follow-up.

Recommendation

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

District Response

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Current Status

Improved, see management letter.

AUDIT AND AUDIT COMMITTEE

2012-2 30000

Criteria

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

Condition

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

Cause

Staffing constraints within the District.

Effect

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

Perspective

Through inquiry with high level management.

Recommendation

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

District Response

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Current Status

Implemented.

FIXED ASSET INVENTORY

2012-3 20000

Criteria

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

Condition

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

Cause

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

Effect

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

Perspective

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

Recommendation

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

District Response

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

Current Status

Not implemented, see current year management letter.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

HUMAN RESOURCES

2012-4 30000

Criteria

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

Condition

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

Cause

Turnover and staffing constraints within the District.

Effect

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

Perspective

Through testing internal controls related to the human resource department.

Recommendation

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

District Response

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

Current Status

Implemented.

CASH IN COUNTY

2012-5 30000

Criteria

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

Condition

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

Cause

Turnover and staffing constraints within the District.

Effect

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

Perspective

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

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

District Response

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

Current Status

Implemented.

Federal Award Findings

MEDI-CAL ADMINISTRATIVE ACTIVITIES TIME SURVEYS

2012-6 500000

Federal Program

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

Criteria

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

Condition

In 2009-2010, the District submitted time survey hours for approved reimbursement. However, upon examination of employee submitted time surveys, auditor noted that employees did not have proof of attending any type of training for which they charged.

Context

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

Cause

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Effect

The District is not in full compliance with the Federal regulations as they pertain to the Medicaid Cluster. We believe that the revenues received in 2011-2012 relating to submissions in the second and third quarter of 2009-2010 are overstated.

Questioned Costs

Based upon testing, auditor projected that 32 percent of employees were not in compliance. Upon this projection, \$225,944 of revenues received for the 2011-2012 year was overstated.

Recommendation

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

District Response

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

Current Status

Implemented.

State Award Findings

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (ASES)

2012-7 40000

Criteria

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Condition

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

Chula Vista Middle School

Before School

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

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

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

Granger Junior High School

Before School

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

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

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

After School

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

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

Mar Vista Middle School

Before School

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

After School

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

National City Middle School

Before School

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

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

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

After School

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

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

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

Questioned Costs

\$2,688,092 was received for the ASES program in fiscal year 2011-2012.

Cause

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

Context

Attendance records at four of four school sites tested.

Effect

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

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

District Response

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

Current Status

Implemented.

INSTRUCTIONAL MATERIAL PUBLIC HEARING

2012-8 70000

Criteria

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

Condition

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

Cause

Turnover in staff caused oversight of applicable compliance requirements.

Effect

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Questioned Cost

2011-2012 Instructional Materials funding of \$2,331,137.

Recommendation

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

District Response

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

Current Status

Not implemented, see current year State Award Finding and Questioned Costs 2013-1.



Governing Board
Sweetwater Union High School District
Chula Vista, California

In planning and performing our audit of the basic financial statements of Sweetwater Union High School District for the year ending June 30, 2013, we considered its internal control structure in order to determine out auditing procedures for the purpose of expressing our opinion on the basic 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 13, 2013, on the basic financial statements of Sweetwater Union High School District.

OTHER POSTEMPLOYMENT BENEFITS

Observation

The Governmental Accounting Standards Board issued standard No. 45 which affects the way local educational agencies account for and report their costs and obligations relating to postemployment benefits other than pensions (OPEB). Although it is an accounting standard, it required a significant actuarial calculation be performed for the required disclosure. The entity needs to obtain a valuation of their OPEB obligations either every two or every three years, depending on the size of their plan. To this end, the District was required to conduct an actuarial study during this past fiscal year.

Recommendation

As actuarial costs are estimates of future results and to effectively manage benefit costs, the District should periodically examine the existing liability every two years as required under the standard.

FIXED ASSETS

Observation

Financial Statements prepared in accordance with GASB Statements 34, must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress." While the District does have an adequate method of tracking and monitoring its capital assets activities, a reconciliation between the items scanned at various locations and the items reported in the fixed asset module is not performed. The District's capital assets reported on the government-wide statements can easily be subject to misstatements.

Recommendation

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

RECEIPTS

Observation

There is no independent review of the District clearing account. In addition, the District used the cash clearing account inappropriately. The clearing account should be used to accumulate receipts for later distribution or deposit into the county treasury. We noted several transactions for reimbursements to ROTC and Veteran Administration payments to Adult Education.

Recommendation

Bank reconciliation's should be reviewed on a regular basis by an individual independent of the disbursement, receiving, and reconciliation process. The funds collected are normally from a local source and include fee collections, donations, local grants, and miscellaneous collections from sites or departments. These funds are typically received by the District and deposited into a cash clearing bank account, which are subsequently transmitted to the county treasury.

Observation

During receipt testing for Adult Education Revenue, we noted that there was no source documents for cash received other than a Ztape and spreadsheet prepared by the site that lists cash collected, checks collected, and credit card charges.

Recommendation

A master receipt book would provide an audit trail that would enable the verification that all monies received are subsequently deposited intact and in a timely manner.

DISBURSEMENTS

Observation

We noted that 16 out of 40 Direct-Pay disbursements tested were used for items that would normally be encumbered using an open/blanket Purchase Order. Utilities, annual memberships, and scheduled consulting contract fees were paid using a Direct-Pay disbursement with no prior approval.

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 utilities that are consistently paid annually. The Open Purchase Order requires preapproval as well as determination of amount and budget account funding prior to the expense being incurred.

Observation

We noted the Revolving Cash Fund reconciliations were not being reviewed by someone within the finance department. Reconciliations performed by the accounting technician are not being reviewed for any discrepancies noted between bank ending amounts and amounts outstanding or in transit. In addition, the Revolving Cash Fund had many stale dated deposits in transit. One deposit in transit in the amount of \$2,214.96 has been in transit since July 2012. Per inquiry with Director of Finance, an investigation of stale dated deposits and the reconciliation process will begin with the custodian of the Revolving Cash Fund.

Recommendation

The District should ensure that monthly reconciliations are performed on the revolving cash account to ensure that there is sufficient accountability in place to monitor revolving cash transactions. Reconciliations should involve counting the cash on hand as well as totaling the receipts provided and making sure that the cumulative sum agrees to the established imprest amount. The District should implement a procedure requiring an Administrator to review the reconciliation. This procedure is necessary in order to determine whether all District funds held are accounted for. In addition, it will also assist in determining whether deposits and or checks are not stale dated.

PAYROLL AND PERSONNEL

Observations

In reviewing the internal control procedures for payroll and personnel systems, we found areas of concern which require attention by the District.

- Five out of 40 personnel files reviewed did not specify the funding code in the section applicable within the Personnel Action Request (PAR).
- Two out of 10 employees reviewed had more than 40 days of vacation accrued at the beginning of the school year. In addition, they were advanced their full vacation time for the current year.
- A review of the warrants and warrant register is not performed upon receipt of the payroll from the County Office of Education to ensure the payroll agrees to the prelist.

Recommendations

- Every personnel file should have the proper funding code attached to it to ensure employees are being paid out of appropriate funds. In addition, this will assist the District in ensuring that any possible errors are identified in a timely manner.

- Per CSEA contract, employees should only be able to accrue a maximum of 40 days of vacation. We noted two of the ten employees selected had more than 40 days of vacation accrued at the end of prior year. The District's vacation liability continues to increase and could be a significant amount if it is not controlled by management.
- Payroll warrants should be reconciled to the Payroll Registers that are forwarded by the County to ensure that all checks listed on the registers are actually received and that what is actually paid is in agreement with the prelist approved. The reconciliation would also help determine if duplicate payroll warrants were received.

CAFETERIA

Observation

There is no independent review of the cafeteria bank reconciliation. Also, we noted a deposit in transit of \$7,361.95 that did not clear the October 2012 bank reconciliation. In addition, during receipt testing, it was noted that over a two week period in March 2013, \$1,332.75 of the total \$1,697.25 deposits never hit the bank statement.

Recommendation

Bank reconciliation's need to be prepared for each bank account on a monthly basis and these bank reconciliations should be forwarded to the Business Services Office for review on a regular basis. Custodians of each bank account should be provided with the proper forms and procedures for preparing accurate and timely bank reconciliations.

ASSOCIATED STUDENT BODY FUNDS

Bonita Vista Middle School

Observations

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

1. Five out of 13 disbursements tested did not have receiving documentation of the goods for those listed on the invoices.
2. Since student council minutes could not be located for the entire year, fundraiser approval could not be verified.
3. Two out of the three fundraisers reviewed did not have revenue potential forms completed.
4. Student store sales and corresponding deposits were different due to constant overages and shortages in cash for sales.
5. The inventory reconciliation report indicated significant variances.

Recommendations

1. Goods ordered should be inspected and compared to the invoice to make sure the appropriate goods were received. The best way to indicate the inspection was performed is to mark/initial the invoice for received goods.

2. Student council minutes should be documented, printed, and signed by appropriate personnel. It should also include approvals of expenses and fundraisers and participation of students. Record of minutes ensures all the expenses are approved by ASB and fundraisers are only held after ASB's approval.
3. There should be detailed records for all fundraiser sales, so that cash collections may be verified using those records.
4. Student store sales and the corresponding deposits should agree. Controls need to be in place to ensure cash overages and shortages do not occur. The ASB Advisor should supervise the store sales to avoid these shortages and overages.
5. With the amount of significant variances with the inventory count, there needs to be better controls and security in place to ensure merchandise does not get stolen or spoiled. The access to inventory should be limited and more frequent inventory counts should be performed to ensure large variances do not happen.

Bonita Vista High School

Observations

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

1. One out of nine deposits tested was not made in a timely manner. 28 days were noted between first day of receipt and the deposit date.
2. Three out of 26 disbursements tested did not have receiving documentation evidence (i.e. packing slip, receiving signature) for goods purchased.
3. The bank reconciliation report had many old and stale checks listed as still outstanding.
4. Four out of four fundraisers tested did not have revenue potential forms completed.
5. Significant variances were noted during the examination of the store inventory reconciliation and they were not investigated by site personnel.

Recommendations

1. Deposits should be made daily or at least on a weekly basis to ensure cash does not disappear.
2. Goods ordered should be inspected and compared to the invoice to make sure the appropriate goods were received. The best way to indicate the inspection is to mark/initial the invoice for received goods.
3. The bank reconciliation should not have stale checks as outstanding. Payees of the outstanding checks should be contacted every few months to ensure the wrong person did not receive the checks.
4. Revenue potential forms should be completed to ensure cash deposit and cash disbursed are accurately reported, and the amounts can be traced from revenue potential to the supporting documents for the cash collections of the fundraiser.
5. With the amount of significant variances with the inventory count, there needs to be better controls and security in place to ensure merchandise does not get stolen or spoiled. The access to inventory should be limited and more frequent inventory counts should be performed to ensure large variances do not happen.

Options Secondary School – The Portal

Observations

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

1. Two of the 13 deposits tested were not made on a timely basis. The range of days between receipts and deposit ranged from eight to 35 days. In addition, one out of 13 deposits tested had a shortage recorded in students store sales.
2. The only fundraiser over \$1,000 had its revenue potential prepared and completed before the end of the fundraiser, so the deposit amount did not agree to the amount on the revenue potential.
3. The inventory count performed twice a year is not compared to perpetual count so variances are not investigated.

Recommendations

1. Deposits should be made daily or at least on a weekly basis to ensure cash does disappear. Student store sales and the corresponding deposits should agree. Controls need to be in place to ensure overages and especially shortages do not occur. The ASB Advisor should supervise the store sales to avoid these shortages and overages.
2. The revenue potential form should not be completed with deposit amount noted until the end of the fundraiser. Completing it in a timely manner ensures that correct cash collection are reported on the revenue potential form and it can be easily verified and traced to the source documents.
3. The physical inventory count should be compared to the perpetual count to determine any variances so they can be investigated.

Southwest Middle School

Observation

The site does not document and investigate variances noted with physical inventory count as compared with the system totals.

Recommendation

Site personnel should implement a perpetual inventory system that will require the site to document and investigate variances of physically counted inventory. This will assist site personnel in reconciling actual cash collections to recorded cash based on the items sold. In addition, a perpetual inventory system will assist site personnel in reconciling the inventory to the monthly physical counts and identify any variances which may have resulted due to stolen goods.

Southwest High School

Observation

Based on the review of the ASB disbursements procedures, it was noted that eight out of 29 disbursements were made without explicit receiving documentation for goods being ordered. 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 by the ASBs.

Recommendation

All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received 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.

Observation

Based on the review of procedures over fundraising events it was noted that six out of six fundraisers tested were not approved prior to the event taking place.

Recommendation

Review and approval of the fundraising events is an important control activity to prevent any potential unacceptable ASB activity and allow equal participation between all clubs and trusts. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

Observation

Site does not document and investigate variances of physically counted inventory as compared to the system totals.

Recommendation

Site personnel should implement a perpetual inventory system that will require them to document and investigate variances of physically counted inventory. This will assist site personnel in reconciling actual cash collections to recorded cash based on items sold. In addition, a perpetual inventory system will assist site personnel in reconciling the inventory to the monthly physical counts and identify any variances which may have resulted due to stolen goods.

Observation

Two deposits were not made on a timely basis. We noted four batches of receipts were deposited over ten days after receiving the monies and the initial receipt date.

Governing Board
Sweetwater Union High School District

Recommendation

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 communicate guidelines for such a procedure including the maximum cash on hand that should be maintained at the site.

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

Vavrinek, Irino, Poy & Co., LLP

Rancho Cucamonga, California
December 13, 2013

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

The Depository Trust Company ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Resolution. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the Sweetwater Union High School District (the “District”) in connection with the issuance of \$82,270,000 aggregate initial principal amount of Sweetwater Union High School District 2014 General Obligation Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a Resolution of the Board of Trustees of the District (Resolution No. 4307) adopted on June 30, 2014 (the “Bond Resolution”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean, individually, the Superintendent of the District, the Chief Financial Officer or a designee, or such other officer or employee as the District shall designate in writing from time to time.

“Dissemination Agent” shall mean the Special District Financing & Administration, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement, dated July 16, 2014 (including all exhibits or Appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which due date shall be April 1 of each year, so long as the fiscal year ends on June 30), commencing with the report for the 2013-14 Fiscal Year (which is due not later than April 1, 2015), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e) hereof. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year.

(ii) The District’s average daily attendance.

(iii) The District’s outstanding debt.

(iv) Updated information on average daily attendance, pension plans and non-certificated lease obligations;

(v) Assessed value of taxable property in the District as shown on the most recent equalized assessment roll including that information for the then current fiscal year appearing in the tables entitled “Summary of Assessed Valuations,” “Secured Assessed Valuation and Parcels By Land Use” and “Twenty Largest Secured Taxpayers.”

(vi) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

(vii) Other financial information and operating data relating to the District contained in the Official Statement for the Bonds in the table under the headings “TAX BASE FOR REPAYMENT OF THE BONDS - Ad Valorem Property Taxes,” “- Assessed Valuations,” “- Tax Rates,” “- Tax Collections and Delinquencies” and “Direct and Overlapping Debt” for the previous Fiscal Year, and, where such information or data is in tabular form, for the five most recent Fiscal Years for which the information is available.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB’s website. The District shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under subsections (a) and (b), the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of the credit or liquidity providers or their failure to perform;

(v) issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes; or

(ix) bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an

obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

(i) unless described in paragraph 5(a)(v) hereof, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) optional, unscheduled or contingent Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) appointment of a successor or additional trustee or the change of name of a trustee.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b) hereof, the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) hereof.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Bond Resolution for amendments to the Bond Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(e) hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of San Diego or

in U.S. District Court in or nearest to the County of San Diego. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: July 30, 2014

**SWEETWATER UNION HIGH SCHOOL
DISTRICT**

By: _____
Interim Superintendent

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Sweetwater Union High School District
Name of Issue: Sweetwater Union High School District
2014 General Obligation Refunding Bonds
Date of Issuance: July 30, 2014

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated July 30, 2014. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

**SWEETWATER UNION HIGH SCHOOL
DISTRICT**

By: _____
Interim Superintendent

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the Sweetwater Union High School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:

[Date of Delivery]

Board of Trustees of the
Sweetwater Union High School District
1130 Fifth Avenue
Chula Vista, CA 91911

Re: \$82,270,000 Sweetwater Union High School District
2014 General Obligation Refunding Bonds
Final Opinion

Ladies and Gentlemen:

We have acted as Bond Counsel for the Sweetwater Union High School District (“District”) in connection with the proceedings for the issuance and sale by the District of \$82,270,000 principal amount of Sweetwater Union High School District 2014 General Obligation Refunding Bonds (“Bonds”). The Bonds are being issued pursuant to the Resolution of Issuance of the Board of Trustees of the District, adopted on June 30, 2014 (Resolution No. 4307) (“Bond Resolution”), and in accordance with the statutory authority set forth in Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code. The Bonds are being issued to refund certain outstanding general obligation bonds of the District and to pay costs of issuance of the Bonds.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the District, the County of San Diego (“County”), and the purchaser of the Bonds, including certificates as to factual matters, including, but not limited to the Tax Certificate, as we have deemed necessary to render this opinion.

Attention is called to the fact the we have not been requested to examine, and have not examined, any documents or information relating to the District, or the County, other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been, or may be supplied to any purchaser of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only matters set forth as our opinion in the Official Statement).

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may

be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their execution and delivery, and we disclaim any obligation to update this letter. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Resolution, the Tax Certificate and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

The Bond Resolution and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the effect on any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing, we are of the following opinions:

1. The Bonds are valid and binding general obligations of the District.
2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation as to rate or amount (except as to certain classes of personal property which is taxable at limited rates) to pay the Bonds. The County is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent necessary funds are not provided from other sources.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences arising with respect to the Bonds.

It is understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and remedies, to the application of equitable principles heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to exercise of judicial discretion in appropriate cases and to limitations on legal remedies against school districts in the State of California.

Very truly yours,

BOWIE, ARNESON, WILES & GIANNONE

APPENDIX F

COUNTY OF SAN DIEGO INVESTMENT POOL DISCLOSURE

The following information concerning the Treasury Pool of San Diego County (the "Treasury Pool") has been provided by the County Treasurer and has not been confirmed or verified by the District or the Underwriters. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

In accordance with Government Code Section 53600 et seq., the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53635 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the County Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53635 et seq., authorities delegated by the County Board of Supervisors and the County Treasurer's investment policy.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County Treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County Treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee pursuant to State law. The members of the Oversight Committee include the County Treasurer, the County Auditor, the County Superintendent of Schools or designee, a representative from special districts, a representative from school districts and community college districts in the County, and members of the public. The role of the Oversight Committee is to review and approve the Investment Policy that is prepared by the County Treasurer.

The Treasury Pool's Portfolio

As of April 30, 2014, the securities in the Treasury Pool had a market value of \$8,571,014,380 and a book value of \$8,572,985,013, for a net unrealized loss of \$1,970,634 of the book value of the Treasury Pool.

The effective duration for the Treasury Pool was 0.75 years as of April 30, 2014. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.75 years means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.75%.

As of April 30, 2014, approximately 7.62% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 10.15% by community colleges, 40.96% by the County, 3.63% by the Non-County and 37.64% by K-12 school districts.

Standard & Poor's Ratings Group maintains ratings of "AAAF" (extremely strong protection against losses and credit defaults) and "S-1" (low sensitivity to changing market conditions) on the Pool. The ratings reflect only the view of the rating agency and any explanation of the significance of such ratings may be obtained from such rating agency as follows: Standard & Poor's Rating Services, a Division of McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments: Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities.

Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days.

Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. At all times, the Pool's investments will comply with California Government Code and the County's Investment Policy (the "Investment Policy").

The Investment Policy: The Investment Policy currently states the primary goals of the County Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the County Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the County Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 25% of the securities must mature within 90 days. The maximum effective duration for the Pool shall be 1.50 years.

With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements and/or securities lending agreements to 20% of the total investments in the Pool. The Investment Policy states that the uses of reverse repurchase agreements shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned by the Pool; or to provide funds for the immediate payment of an obligation. The maturity of the reverse repurchase agreement and the maturity of the security purchased shall be the same.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the simultaneous return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

The Investment Policy also authorizes investments in covered call options and put options, which are options that the County Treasurer sells to a third party the right to buy an existing security in the Pool or sell a security to the Pool, both at a specific price within a specific time period. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements; cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option; the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options written against them at any given time.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business April 30, 2014. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following table were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on April 30, 2014, the Pool necessarily would have received the values specified.

COUNTY OF SAN DIEGO POOLED MONEY FUND
as of April 30, 2014

	Percent of Portfolio	WAM	WAC	YTC	Current Par/Share	Current Book	Market Price	Market Value	Current Accr Int	Yield to Worst	Unrealized Gain/Loss
Certificates of Deposit	0.75	195	195	0.26	\$ 64,363,000	\$ 64,363,000	1.000	\$ 64,363,000	\$ 2,077	0.26	\$ 0
Commercial Paper	26.89	54	54	0.18	2,306,067,000	2,305,382,246	0.999	2,304,529,074	0	0.18	(853,173)
Fannie Mae	13.01	971	765	0.81	1,114,613,000	1,115,681,802	0.999	1,113,055,786	2,626,579	0.79	(2,626,017)
Federal Farm Credit Bank DN	0.58	48	48	0.15	50,000,000	49,990,208	0.998	49,924,600	0	0.15	(65,608)
Federal Farm Credit Bank Notes	1.06	1,048	196	1.04	90,000,000	90,005,971	0.999	89,909,250	345,183	1.04	(96,721)
Federal Home Loan Bank DN	0.47	48	48	0.16	40,000,000	39,991,644	0.998	39,935,640	0	0.16	(56,004)
Federal Home Loan Bank Notes	14.18	462	240	0.53	1,213,570,000	1,215,499,887	1.003	1,216,859,282	2,395,455	0.51	1,359,396
Federal Home Loan Mortgage Corp DN	0.58	44	44	0.16	50,000,000	49,990,444	0.998	49,920,650	0	0.16	(69,794)
Federal Home Loan Mortgage Corp	7.57	740	521	0.80	644,093,000	649,399,017	1.009	649,910,866	2,787,904	0.80	511,849
Money Market Funds	0.93	1	1	0.20	79,515,000	79,515,000	1.002	79,655,140	14,266	0.20	140,140
Negotiable CD	28.86	89	89	0.18	2,474,000,000	2,474,018,991	1.000	2,474,018,950	776,594	0.18	41
Repurchase Agreements	0.10	1	--	0.02	8,878,162	8,878,162	1.000	8,878,162	5	0.02	0
U.S. Treasury Bonds	5.02	893	893	0.90	427,000,000	430,268,641	1.007	430,053,980	1,574,080	0.90	(214,661)
Totals for April 2014	100.00	346	256	0.41	\$8,562,099,162	\$8,572,985,013	1.001	\$8,571,014,380	\$10,522,143	0.40	\$(1,970,634)
Totals for March 2014	100.00	390	288	0.43	\$7,531,442,713	\$7,543,668,562	1.001	\$7,536,051,521	\$10,047,432	0.42	\$(7,617,042)
Change From Prior Month		(44)	(32)	(0.02)	\$1,030,656,449	\$1,029,316,451	0.000	\$1,034,962,859	\$ 474,711	(0.02)	\$ 5,646,408

Portfolio Effective Duration 0.75 years

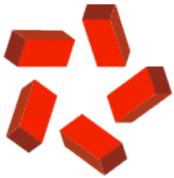
	April Return	Annualized Returns	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.034%	0.409%	0.347%	0.416%	0.141%	0.428%
Market Value	0.034%	0.409%	0.347%	0.417%	0.141%	0.428%

Notes:
Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate to the maturity date.
Yield to call (YTC) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the call date.
Yield to worst (YTW) is the lesser of yield to maturity or yield to call, reflecting the optionality of the bond issuer.
Yields for the portfolio are aggregate based on the book value of each security.
Source: County of San Diego, Treasurer-Tax Collector.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272