

**PROPOSITION O
BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
SAN DIEGO COUNTY
PERFORMANCE AND FINANCIAL
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2010**

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT**
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2010

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

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

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

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

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2010:

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

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2010. These financial statements are the responsibility of the Sweetwater Union High School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition O Bond Building Fund of Sweetwater Union High School District as of June 30, 2010 and for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2011 on our consideration of Proposition O Bond Building Fund of Sweetwater Union High School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Christine White Accountancy Corporation

San Diego, California
January 12, 2011

Financial Section

PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT

Balance Sheet

June 30, 2010

ASSETS

Cash	\$	54,523,036
Accounts receivable - interest		144,302
Due from other funds		42,178,619

Total Assets \$ 96,845,957

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	7,947,901
Due to other funds		26,286

Total Liabilities 7,974,187

Fund Balance

Reserved for capital projects		88,871,770
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Total Liabilities and Fund Balance \$ 96,845,957

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

PROPOSITION O BOND BUILDING FUND OF
 SWEETWATER UNION HIGH SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Fiscal Year Ended June 30, 2010

REVENUES	
Earnings on investments	\$ 1,562,473
Local revenue	5,902
	<hr/>
Total Revenues	1,568,375
	<hr/>
EXPENDITURES	
Plant services	861,802
Facility acquisition and construction	76,993,329
	<hr/>
Total Expenditures	77,855,131
	<hr/>
Deficiencies of Revenues	
Under Expenditures	(76,286,756)
	<hr/>
OTHER FINANCING SOURCES (USES)	
Transfers in	1,241,633
	<hr/>
Total Other Financing Sources (Uses)	1,241,633
	<hr/>
Net Change in Fund Balance	(75,045,123)
	<hr/>
Fund Balance, July 1, 2009	163,916,893
	<hr/>
Fund Balance, June 30, 2010	\$ 88,871,770
	<hr/> <hr/>

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

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Accounting Policies

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

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

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

D. Encumbrances

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

E. Deposits and Investments

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

F. Interfund Borrowing

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

PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Use of Estimates

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

H. Budgets and Budgetary Accounting

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

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

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

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 consisted of the following:

Cash in county treasury	\$	54,522,234
Cash in bank		802
	\$	<u>54,523,036</u>

PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

NOTE 2 – CASH IN COUNTY TREASURY (continued)

Policies and Practices

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District's Building Fund maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$54,843,915 and an amortized book value of \$54,522,234. The weighted average maturity for this pool is 425 days as of June 30, 2010.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The individual investments within the San Diego County Investment Pool are rated at least A by Standard & Poor's Investment Direct.

Concentration of Credit Risk

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

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 amounting to \$144,302 consists of interest on Proposition O Bond investments held in the county treasury.

NOTE 4 – PROPOSITION O GENERAL OBLIGATION BONDS

General Obligation Bonds

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

At June 30, 2010, the principal balance outstanding on these bonds was \$172,380,000. The annual requirements to amortize the District's Proposition O, Series 2008A, general obligation bonds outstanding as of June 30, 2010, is as follows:

Series 2008A

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 1,560,000	\$ 9,148,213	\$ 10,297,963
2011-12	50,000	9,089,713	9,139,713
2012-13	495,000	9,087,838	9,582,838
2013-14	970,000	9,070,513	10,040,513
2014-15	1,055,000	9,041,413	10,096,413
2015-20	5,290,000	44,575,194	49,865,194
2020-25	225,000	43,815,406	44,040,406
2025-30	-	43,806,406	43,806,406
2030-35	31,475,000	40,812,656	72,287,656
2035-40	40,170,000	32,116,156	72,286,156
2040-45	52,200,000	20,067,188	72,267,188
2045-47	38,890,000	4,455,000	43,345,000
Total	<u>\$ 172,380,000</u>	<u>\$ 275,085,695</u>	<u>\$ 447,465,695</u>

PROPOSITION O BOND BUILDING FUND OF
 SWEETWATER UNION HIGH SCHOOL DISTRICT
 Notes to Financial Statements
 June 30, 2010

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$67.3 million to be paid from Proposition O bond funds.

<u>Project</u>	<u>Remaining Balance</u>
Planning and Operations	\$ 122,381
Chula Vista Middle School	2,965,434
Granger Jr. High School	12,231
Montgomery Middle School	1,624,925
National City Middle School Project 1	5,042,616
National City Middle School Project 2	1,568,300
Southwest Middle Project 1	3,786,944
Chula Vista High School Project 1	5,230,184
Hilltop High School Project 1	7,422,436
Mar Vista High School Project 1	2,913,625
Montgomery High School Project 1	8,047,563
Southwest High School Project 1	5,806,456
Sweetwater High School Project 1	22,711,134
Total Outstanding Construction Commitments	<u>\$ 67,254,229</u>

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 6 – INTERFUND ACTIVITIES

A. Due From/Due To Other Funds

Interfund receivable and payable balances as of June 30, 2010 are as follows:

1. The General Fund borrowed \$42,178,619 from the Proposition O - Building Fund during fiscal year 2009-10 as a temporary loan to be repaid.
2. The Proposition O - Building Fund borrowed \$26,286 from the General Fund during fiscal year 2009-10 for PERS Reduction charges as well as other costs incurred.

B. Interfund Transfers

Interfund transfers as of June 30, 2010 are as follows:

1. The County School Facilities Fund transferred \$558,230 into the Proposition O - Building Fund during fiscal year 2009-10 for Palomar High Project 1.
2. The Building Fund transferred \$683,403 into the Proposition O - Building Fund during fiscal year 2009-10 from the savings from Bonita Vista High School and Granger Junior High projects transferring to other projects.

Supplementary Information Section

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
Budgetary Comparison Schedule – Proposition O Building Fund
For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Other local	\$ 4,000,000	\$ 4,000,000	\$ 1,568,375	\$ (2,431,625)
Total Revenues	<u>4,000,000</u>	<u>4,000,000</u>	<u>1,568,375</u>	<u>(2,431,625)</u>
Expenditures				
Classified salaries	311,489	362,668	364,596	1,928
Employee benefits	99,976	111,269	115,328	4,059
Books and supplies	27,921	2,845,655	714,306	(2,131,349)
Services and other operating expenditures	100	561,622	353,873	(207,749)
Capital outlay	75,627,421	163,214,900	76,307,028	(86,907,872)
Total Expenditures	<u>76,066,907</u>	<u>167,096,114</u>	<u>77,855,131</u>	<u>(89,240,983)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72,066,907)</u>	<u>(163,096,114)</u>	<u>(76,286,756)</u>	<u>(91,672,608)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	1,241,633	1,241,633
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,241,633</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(72,066,907)</u>	<u>(163,096,114)</u>	<u>(75,045,123)</u>	<u>(91,672,608)</u>
Fund Balances, July 1, 2009	<u>163,916,893</u>	<u>163,916,893</u>	<u>163,916,893</u>	<u>-</u>
Fund Balances, June 30, 2010	<u>\$ 91,849,986</u>	<u>\$ 820,779</u>	<u>\$ 88,871,770</u>	<u>\$ (91,672,608)</u>

Other Independent Auditor's Reports

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

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

Independent Auditor's Report

We have audited the accompanying balance sheet of the Proposition O Bond Building Fund of Sweetwater Union High School District and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2010. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as #2010-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition O Bond Building Fund of Sweetwater Union High School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Chintia White Accountancy Corporation

San Diego, California
January 12, 2011

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

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have audited the financial statements of the Proposition O Bond Building Fund of the Sweetwater Union High School District (the District) as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated January 12, 2011. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition O General Obligation Bond for the fiscal year ended June 30, 2010. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Proposition O Bonds were only used for the purposes set forth in the ballot Measure and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot Measure, evaluated the remodeling, new construction and renovations of items which will enhance student learning and safety in the District, with no funds expended on administrator salaries.

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

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

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

Internal Control Evaluation (continued)

Procedures Performed (continued):

Construction Management:

Through our inquiry, it was determined that the Seville Group, Inc (SGI) and Gilbane Building Company were chosen as the construction management company responsible for overseeing Proposition O projects. SGI/Gilbane Building Company monitors the budget daily to make sure the projects are on track with respect to time and cost. Invoices are approved by the lead construction manager responsible for of each project in which the invoice was associated. After the invoice is approved it is forwarded to others as appropriate, such as, California Design (Architect) or the inspector of the projects. Once invoices are approved by the outside parties involved, it is further processed and sent to the District's business services department. Additionally, SGI/Gilbane assists the District with a competitive bid process for service contracts. SGI/Gilbane Building Company prepares a detailed request for proposal and the District reviews and revises the list as necessary before it is published and sent to competing vendors.

Business Services:

The Proposition O funds are tracked separately in the District general ledger by being coded to Fund 22, which rolls up into Fund 21 for San Diego County Office of Education reporting purposes. The individual goal code in the account string indicates the project to which the money is being coded. All of the purchase requisitions are reviewed by the Director of Purchasing before creating a purchase order. All purchase orders for Proposition O funds are given a purchase order number starting with "SF" to indicate Proposition O and are reviewed by the Facilities Accounting Supervisor for budget approval before being routed to the Senior Buyer in Purchasing. The Director of Facilities approves expenditures to verify that they are appropriate per Proposition O ballot language.

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the 2009-10 financial statement balances for the Proposition O Bond Fund are not materially misstated.

Results of Procedures Performed:

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

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Proposition O funds expended for the fiscal year ended June 30, 2010 were for valid facilities acquisition and construction purposes. CWA toured three District construction sites where 2009-10 construction work occurred: Sweetwater High, National City Middle, and Mar Vista High.

Results of Procedures Performed:

Sweetwater High School: CWA viewed the construction of 2 new buildings of which one will be a theatre and the other an administrative classroom and library. The theatre walls were being built on the date of the field walk. It included cinder block compacted with a rebar structure and filled with cement. The walls are on the fifth lift of eight. The walls are also being grouted as the wall height increases. There was trenching in process for storm drains and sewer systems that will be attached to the theatre building. The exterior frame of the administrative building was already complete at the time of the site walk. Unlike the theatre, the administrative building frame was built from a concrete structure. Sundt Construction was pouring concrete for the columns on the north side and the roof top was being stripped for the preparation of the new roof deck. The next phase of the building will undergo construction once the roof is complete.

National City Middle: CWA viewed the construction of a new science building, cafeteria, and cover lunch patio area for the student's eating area. The steel frame of the new science building was covered with DensGlass sheathing, with some areas covered with a pre-scratch coat of tar-paper to prepare for the stucco finish. The building was built on a concrete slab. The building is equipped with an evaluator pit. Through our evaluation of the interior walk-thru, the contractors installed a full sprinkler system in the building, copper pipes for the water utilities, and electrical conduit from the ground and in the walls. The cafeteria has a completed roof top and the ducting for air ventilation was being installed on the date of the walk-thru. In addition, there was performance on tying the permanent gas utility lines to the cafeteria. The patio frame and cover was complete, however the flooring to the patio area is incomplete.

Mar Vista High: CWA viewed the modernization of the administrative 100 building, career center U building, and the student activities 900 building or the food services area. Outside of the administrative building, a new sprinkler system was installed and the land was graded for the preparation of new landscaping. Also, there was new lighting fixtures installed and a new roof was put on the building. The administrative interior was affixed with new ceilings, doors, and receptionist desk. The restrooms of the building were renovated with new toilets, tile flooring, sinks, and faucets. In addition, the building was set for new electrical, data rooms, and a phone system. Also, new flooring was installed in the nurse's office, the attendance office and the learning center. The learning center had new operational power and computer outlets. A covered patio was installed in the lunch area. The cafeteria area was furnished with roll-up steel doors. The outside perimeter of the cafeteria was prepped for new stucco and multi-ply roofing. The cafeteria building was installed with a new sprinkler system and air ducts. Furthermore, the facilities were set-up with water utilities and electrical conduit.

Tests of Expenditures

Procedures Performed:

We tested expenditures to determine whether Proposition O funds were spent solely on voter and Board approved school facilities projects (as contained in the Facilities Master Plan). The expenditure testing included a sample of 70 payments, totaling \$19.5 million, or 25% of total expenditures for the fiscal year 2009-10. Expenditures sampled in our test included payments made to the construction management company, architects, district bond position salaries and other vendors.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Proposition O ballot measure and applicable State laws and regulations without exception. We also determined that no bond expenditures were made for teacher or administrator salaries. We do have a recommendation on the timeliness of interfund borrowing repayment which is described as Finding #2010-1. While the expenditure appears legally permissible, the District did not meet the strict requirements of law for timely repayment of the funds borrowed.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2010, CWA performed testing of 5 contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding including:

- Project: Chula Vista Middle School Phase 1
Original Contract Award Amount: \$ 6,896,007
- Project: Hilltop High School Project 1
Original Contract Award Amount: \$ 12,657,000
- Project: Mar Vista High School Project 1
Original Contract Award Amount: \$ 4,609,518
- Project: National City Middle School Project 1
Original Contract Award Amount: \$ 6,998,000
- Project: Southwest Middle School SOM Renovation
Original Contract Award Amount: \$ 5,800,000

Results of Procedures Performed:

We found that contracts tested followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder.

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

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Christy White Accountancy Corporation

San Diego, California
January 12, 2011

Findings and Recommendations Section

**PROPOSITION O BOND BUILDING FUND OF
SWEETWATER UNION HIGH SCHOOL DISTRICT
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2010**

There was one finding related to the financial and performance audit of the Proposition O Bond Building Fund for the year ended June 30, 2010, set forth as follows:

Finding #2010-1: Interfund Borrowing (60000)

Finding: The District's General Fund has borrowed cash from the Proposition O bond building fund for the second fiscal year in a row and at an increased level. The amount borrowed rose from \$31.75 million as of June 30, 2009 to \$42.1 million as of June 30, 2010. Two issues directly related to the bond program were noted:

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

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

District Response: The District acknowledges that an interfund transfer should have occurred at the end of the fiscal year, June 30, 2010. Once the oversight was discovered the interfund transfer was performed. Furthermore, all construction projects are on schedule and will be completed as scheduled.