NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: S&P "SP-1+"**
Moody's "A1"
(See "MISCELLANEOUS – Ratings" herein.)

In the opinion of Best Best & Krieger, LLP, Bond Counsel to the District, 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 Notes is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "TAX MATTERS" herein.

$32,820,000
SWEETWATER UNION HIGH SCHOOL DISTRICT
2013 GENERAL OBLIGATION BOND ANTICIPATION NOTES

Dated: Date of Delivery **Due: January 1, 2018 (see inside cover page)**

The Sweetwater Union High School District 2013 General Obligation Bond Anticipation Notes (the "Notes") are being issued by the Sweetwater Union High School District (the "District") pursuant to Section 15150 of the California Education Code (the "Education Code"), other applicable law and the Note Indenture, dated as of January 1, 2013 (the "Indenture"), by and between the District and Union Bank, N.A., as trustee (the "Trustee"). The Notes are being issued in anticipation of the sale of bonds of the District authorized under and pursuant to a bond authorization approved by the voters of the District voting at an election held on November 7, 2006 (the "General Obligation Bonds"). See "PLAN OF FINANCE" herein.

The Notes will be payable from the proceeds of the sale of General Obligation Bonds or from other funds of the District lawfully available for the purpose of repaying the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" herein.

The proceeds from the sale of the Notes will be used to provide a portion of the funds necessary to finance the acquisition and construction of facilities authorized to be financed with the General Obligation Bonds including, without limitation, the Montgomery High School Gymnasium Project and the National City Middle School Project. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The interest and principal on the Notes shall be payable on January 1 and July 1 of each year, commencing on July 1, 2013 (each a "Note Payment Date") to their maturity.

The Notes are not subject to call and redemption prior to maturity. Certain changes have been made to this Official Statement since the Preliminary Official Statement dated March 1, 2013. See "INTRODUCTION" herein.

The Notes 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, New York, New York ("DTC"). Purchasers will not receive certificates representing their interest in the Notes. Individual purchases will be in denominations of $5,000 Principal Amount and any integral multiple thereof. The Principal Amount of, and interest on, the Notes will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Notes. See "THE NOTES" and APPENDIX G – "BOOK-ENTRY ONLY SYSTEM" herein.

Investment in the Notes involves risks which may not be appropriate for some investors. See "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Notes.

This cover page contains information for quick reference only. It is not a complete summary of the Notes. 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 Notes will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Best Best & Krieger LLP, San Diego, 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. It is anticipated that the Notes, in book-entry form, will be available for delivery through DTC, on or about March 27, 2013.

Mitsubishi UFJ Securities

Dated: March 14, 2013

MATURITY SCHEDULE

$32,820,000
SWEETWATER UNION HIGH SCHOOL DISTRICT
2013 GENERAL OBLIGATION BOND ANTICIPATION NOTES

Maturity Date (January 1,)	Principal Amount	Interest Rate	Yield	Price	CUSIP No. †
2018	$ 7,100,000	3.00%	1.440%	107.152	870462QV3
2018	25,720,000	5.00	1.440	116.322	870462QW1

† CUSIP data included herein is subject to Copyright 2013, 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.

This Official Statement does not constitute an offering of any security other than the original offering of the Notes 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 Notes 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 Notes 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 NOTES 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 NOTES 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.

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 Notes.

The Notes 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.

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

BOARD OF TRUSTEES

Jim Cartmill, *Board President*
Arlie N. Ricasa, *Board Vice President*
John McCann, *Member*
Bertha López, *Member*
Pearl Quiñones, *Member*

DISTRICT ADMINISTRATORS

Dr. Edward Brand, *Superintendent*
Albert G. Alt, Ed.D, *Chief Financial Officer*
Karen Michel, *Director of Finance*

SPECIAL SERVICES

Bond Counsel

Best Best & Krieger LLP
San Diego, California

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor

First Southwest Company
Santa Monica, California

Trustee

Union Bank, N.A.
Los Angeles, California

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OFFICIAL STATEMENT

$32,820,000
SWEETWATER UNION HIGH SCHOOL DISTRICT
2013 GENERAL OBLIGATION BOND ANTICIPATION NOTES

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 $32,820,000 aggregate initial principal amount of its Sweetwater Union High School District 2013 General Obligation Bond Anticipation Notes (the "Notes"), 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 Notes to potential investors is made only by means of the entire Official Statement.

The Notes are being issued pursuant to Section 15150 of the California Education Code (the "Education Code"), other applicable law and the Note Indenture, dated as of March 1, 2013 (the "Indenture"), by and between the District and Union Bank, N.A., as trustee (the "Trustee"). Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The Notes are being issued in anticipation of the sale of authorized bonds of the District. The District, through the County of San Diego (the "County"), has under two separate 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 $350.7 million is currently outstanding. The issuance anticipated in connection with the repayment of the Notes was authorized on November 7, 2006, when 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, is the only issue 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 but unissued.

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 that authorization consisting of $153,570,000 in serial bonds and $33,439,415 in capital appreciation bonds, with interest rates ranging from 2.5% to 5.27%. There is no remaining authorization under such Proposition BB Bonds.

The Notes will be payable from the proceeds of the sale of general obligation bonds of the District which may be issued pursuant to the 2006 Bond Authorization (the "General Obligation Bonds") or from other funds of the District lawfully available for the purpose of repaying the Notes, including, but not limited to, grant funds from the State of California (the "State") available for such purpose. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES." Certain District funds including, without limitation, its Capital Projects Fund and Capital Projects Fund for Blended Component Units contain restricted funds which are not available for the purpose of repaying the Notes or project expenditures as described herein.

The proceeds from the sale of the Notes will be used to provide a portion of the funds necessary to finance the acquisition and construction of facilities authorized to be financed with the General Obligation Bonds including, without limitation, the Montgomery High School Gymnasium Project and the National City Middle School Project. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Notes will be issued as fully registered notes in denominations of $5,000 Principal Amount and any integral multiple thereof. The interest and principal on the Notes shall be payable on January 1 and July 1 of each year, commencing on July 1, 2013 (each a "Note Payment Date") to their maturity. See "THE NOTES."

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 eleven middle schools, twelve high schools, one continuation school, four adult schools and one alternative education school. Two charter schools also operate within the district boundaries. As of Fiscal Year 2012-13, the District serves over 40,500 grades 7 to 12 students and over 14,650 adult students. The District has budgeted Fiscal Year 2012-13 general fund expenditures of approximately $308.7 million. For additional information about the District's operations and finances, see APPENDIX C – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET."

Investment in the Notes involves risks which may not be appropriate for some investors. Certain risk factors should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Notes, including certain limitations on the District's ability to issue General Obligation Bonds. See "SPECIAL RISK FACTORS."

Brief descriptions of the Notes, the Indenture, the security for the Notes, 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 Notes, the Indenture and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Notes, the Indenture and other documents. Copies of such documents may be obtained for inspection during the period of initial offering on the Notes 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 Trustee, Union Bank, N.A., 120 S. San Pedro St., 4th Floor, Los Angeles, California 9001, Attention: Corporate Trust Services or from the Sweetwater Union High School District, 1130 Fifth Avenue, Chula Vista, California 91911.

Changes have been made to this Official Statement since the Preliminary Official Statement dated March 1, 2013 including to reflect pricing information and to correct the reported Standard & Poor's Ratings Services LLC ("S&P") "SP-1+" rating for the Notes, reflecting the application of S&P's revised Bond Anticipation Note Rating Methodology criteria. The Preliminary Official Statement had shown the S&P "A+" rating, which is the underlying rating for the District's general obligation bonds. At the time that S&P reported its "SP-1+" rating, it affirmed its "A+" SPUR on the District's outstanding general obligation bonds. Clarifications have been made to made to state that interest on the Notes will be payable from the proceeds of the sale of General Obligation Bonds, from *ad valorem* taxes which may be lawfully levied pursuant to the State law, or from other funds of the District lawfully available for the purpose of paying interest on the Notes as set forth in the Indenture. It is not expected that interest will be paid from the net Note proceeds deposited to the Building Fund (as defined herein).

THE NOTES

Authority for Issuance

The Notes are being issued pursuant to Section 15150 of the Education Code, other applicable law and the Indenture. The issuance of the Notes and the execution and delivery of the Indenture was authorized by the Board of Trustees of the District pursuant to a resolution adopted on December 10, 2012.

Section 15150 of the Education Code provides that a school district may issue notes or renewal notes, maturing within a period not to exceed five years, in anticipation of the sale of bonds that have been authorized by the voters at the time the notes are issued. At an election duly called and regularly held in the District on November 7, 2006, the qualified electors of the District authorized, in compliance with Proposition 39, the issuance of not to exceed $644,000,000 aggregate principal amount of general obligation bonds (the "2006 Bond Authorization"). The Series 2008A Bonds are, to date, the only issue under the 2006 Bond Authorization. The District has a remaining $464,000,000 aggregate principal amount available for issuance under the 2006 Bond Authorization.

Purpose

The proceeds of the Notes will be used to provide a portion of the funds necessary to finance the acquisition and construction of facilities authorized by the voters of the District to be financed with the General Obligation Bonds. See "PLAN OF FINANCE."

Form and Registration

The Notes will be issued in fully registered book-entry form only, in denominations of $5,000 Principal Amount and any integral multiple thereof. The Notes will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Notes. Purchases of Notes under the DTC system must be made by or through a DTC participant, and ownership interests in Notes 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 Notes, beneficial owners ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX G – "BOOK-ENTRY ONLY SYSTEM."

Payment of the Notes

Payment of Notes. The interest and principal on the Notes shall be payable on January 1 and July 1 of each year, commencing on July 1, 2013 (each a "Note Payment Date") to their maturity. Interest on the Notes 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. The interest and principal on the Notes shall be payable on January 1 and July 1 of each year, commencing on July 1, 2013 (each a "Note Payment Date") to their maturity. Interest on the Notes will be payable from the proceeds of the sale of General Obligation Bonds, from ad valorem taxes which may be lawfully levied pursuant to the State law, or from other funds of the District lawfully available for the purpose of paying interest on the Notes as set forth in the Indenture. The Notes will be due and payable on January 1, 2018.

The Notes will be issued as fully registered bonds in the denomination of $5,000, or any integral multiple of $5,000 (not exceeding the principal amount of Notes maturing at any one time). The Notes will bear interest from the Note Payment Date next preceding the date of authentication thereof, unless such date of authentication is during the period from the 16th day of the month next preceding an Note Payment Date to and including such Note Payment Date, in which event they will bear interest from such Note Payment Date, or unless such date of authentication is on or before the fifteenth day of the month next preceding the first Note Payment Date, in which event they will bear interest from their dated date; provided, however, that if, at the time of authentication of any Note, interest is then in default on the Outstanding Notes, such Note will bear interest from the Note Payment Date to which interest previously has been paid or made available for payment on the Outstanding Notes. Payment of interest on the Notes due on or before the maturity of such Notes will be made to the person whose name appears on the note registration books of the Trustee as the registered owner thereof, as of the close of business on the 15th day of the month next preceding the Note Payment Date, such interest to be paid by check mailed on the Note Payment Date by first class mail to such registered owner at their address as it appears on such books, or, upon written request received prior to the 15th day of the month preceding an Note Payment Date of an Owner of at least $1,000,000 in aggregate principal amount of Notes, by wire transfer in immediately available funds to an account within the continental United States designated by such Owner.

Such interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the registered owners (the "Owners") of the Notes at their respective addresses shown on the registration books maintained by the Trustee as of the close of business on the preceding Record Date; provided, however, that so long as the Notes are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer. See APPENDIX G – "BOOK-ENTRY ONLY SYSTEM." Principal of and interest (if any) on the Notes shall be payable in lawful money of the United States of America. Notwithstanding the foregoing, if the principal of, and interest on, the Notes is not paid in full on the Maturity Date, interest on the amounts remaining so unpaid shall accrue at the Default Rate.

Redemption of the Notes

The Notes are not subject to call and redemption prior to maturity.

Registration of Exchange or Transfer

So long as the Notes remain in book-entry form, transfer and exchange of any of the Notes 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 Notes, the Notes may be transferred and exchanged in accordance with the terms of the Indenture. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" and APPENDIX G – "BOOK-ENTRY ONLY SYSTEM."

Debt Service

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

Payment Date	Principal	Interest	Total
July 1, 2013	--	$ 391,405.55	$ 391,405.55
January 1, 2014	--	749,500.00	749,500.00
July 1, 2014	--	749,500.00	749,500.00
January 1, 2015	--	749,500.00	749,500.00
July 1, 2015	--	749,500.00	749,500.00
January 1, 2016	--	749,500.00	749,500.00
July 1, 2016	--	749,500.00	749,500.00
January 1, 2017	--	749,500.00	749,500.00
July 1, 2017	--	749,500.00	749,500.00
January 1, 2018	$32,820,000.00	749,500.00	33,569,500.00
Total	$32,820,000.00	$7,136,905.55	$39,956,905.55

PLAN OF FINANCE

The proceeds of the Notes will be used to provide a portion of the funds necessary to finance the acquisition and construction of facilities authorized by the voters of the District to be financed with the General Obligation Bonds, which include the modernization, expansion and reconstruction of various District schools including the Montgomery High School Gymnasium Project and the National City Middle School Project. The Montgomery High School Gymnasium Project is a gymnasium upgrade and modernization project located at 3250 Palm Avenue, San Diego, California, to be undertaken pursuant to the 2006 Bond Authorization and a Project Agreement by and between the District and the K-12 Public School Districts and Community Colleges Authority. The National City Middle School Project is the modernization and expansion of the National City Middle School located at 1701 "D" Avenue, National City, California, to be undertaken by the District pursuant to the 2006 Bond Authorization.

The District will cause the net proceeds of the sale of the Notes to be paid and credited to the building fund of the District to be established and maintained by the Trustee pursuant to the Indenture (the "Building Fund"), and such proceeds will be applied solely to authorized purposes under the 2006 Bond Authorization. See "ESTIMATED SOURCES AND USES OF FUNDS." All funds held by the County Treasurer relating to the Notes will be invested at the County Treasurer's discretion pursuant to law and the investment policy of the County. See APPENDIX F – COUNTY OF SAN DIEGO INVESTMENT POOL DISCLOSURE.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Notes are set forth in the following table:

Sources of Funds	
Principal Amount of Notes	$32,820,000.00
Original Issue Premium	4,705,810.40
Total Sources	$37,525,810.40
Uses of Funds	
Montgomery HS Gymnasium Project Account	$23,000,000.00
National City Middle School Project Account	14,267,734.03
Costs of Issuance[2]	258,076.37
Total Uses	$37,525,810.40

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

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

General

The Notes will be payable from the proceeds of the sale of General Obligation Bonds or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grant funds available for such purpose. Interest on the Notes will be payable from the proceeds of the sale of General Obligation Bonds, from *ad valorem* taxes which may be lawfully levied pursuant to the State law, or from other funds of the District lawfully available for the purpose of paying interest on the Notes as set forth in the Indenture.

The Notes are obligations of the District, secured by the issuance of General Obligation Bonds, *ad valorem* taxes levied and collected pursuant to State law or other sources as set forth above. The Notes 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 Notes.

Certain District funds including, without limitation, its Capital Projects Fund and Capital Projects Fund for Blended Component Units contain restricted funds which are not available for the purpose of repaying the Notes or project expenditures as described herein.

Note Repayment Fund

Note Repayment Fund. The Indenture provides that the Trustee will establish and maintain a separate fund designated the "Note Repayment Fund." The Trustee shall deposit in the Note Repayment Fund (i) proceeds of the sale of General Obligation Bonds issued to pay the Notes, as directed in a Written Request of the District, and (ii) any other funds made available by the District for the purpose of paying the Notes pursuant to the provisions of the Indenture.

On each Payment Date, the Trustee shall withdraw from the Note Repayment fund for payment to the Owners of the Notes the interest then due and payable.

On the Maturity Date, the Trustee shall withdraw from the Note Repayment Fund for payment to the Owners of the Notes the Principal Amount of, and interest on, the Notes then due and payable.

Pledge. Under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, in order to secure the payment of the Principal Amount of, and interest on, the Notes in accordance with their terms and the provisions of the Indenture, the District pledges to the Owners, and grants thereto a lien on and a security interest in, all of the amounts held in the Note Repayment Fund. The Indenture provides that such pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

Issuance of General Obligation Bonds to Pay Notes

The District has covenanted in the Indenture that it will issue and sell, or cause to be issued and sold, General Obligation Bonds at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on or prior to the Maturity Date.

Further, the District has covenanted in the Indenture that to the extent permitted by law, if the District is unable to, or precluded from, so issuing and selling, or causing to be so issued and sold, General Obligation Bonds, the District will use its best efforts to issue or incur and sell such other obligations as the District may legally issue or incur for such purpose at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on the Maturity Date. The District shall transfer or cause to be transferred such proceeds of any such General Obligation Bonds or other obligations to the Trustee for deposit in the Note Repayment Fund.

See “SPECIAL RISK FACTORS” for a discussion of certain risk factors relating to certain limitations on the District’s ability to issue General Obligation Bonds to pay the Principal Amount of, and interest on, the Notes.

Covenant With Respect to Issuance of General Obligation Bonds

The District has covenanted in the Indenture that, so long as any of the Notes remain Outstanding, the District shall not issue or cause to be issued any General Obligation Bonds, or any notes in anticipation of the sale of General Obligation Bonds; provided, however, that the District shall not be prohibited from issuing or causing to be issued General Obligation Bonds, or notes in anticipation of the sale of General Obligation Bonds, if, upon the issuance thereof, all of the Notes have been paid or are deemed to have been paid in accordance with the provisions of the Indenture.

Covenant With Respect to Levy for Payment of Interest on Notes

If the Notes are not paid in full on the Maturity Date, the District shall take all steps required by law and by the County to cause the Board of Supervisors of the County to levy, pursuant to Section

15150(d) of the California Education Code, a tax upon all taxable property in the District to pay interest on the Notes.

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Notes. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could result in the inability of the District to make full and/or punctual payment of the Notes.

Availability of Other Lawfully Available Funds

The Notes will be payable from the proceeds of the sale of General Obligation Bonds or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grant funds available for such purpose. The District has applied for, and is eligible to receive, funds under the State school building program (which funds would constitute State grant funds) for the projects expected to be financed with the proceeds of the Notes. However, the receipt by the District of any such State grant funds is subject to a number of conditions and contingencies. Thus, investors should not assume that the District will receive any such funds at a time and in an amount that would enable the District to pay the Notes from such funds on the maturity date.

Limitations on Ability to Issue General Obligation Bonds

The Notes are being issued in anticipation of the sale of General Obligation Bonds. As described above, the District has previously issued $180 million aggregate initial principal amount of General Obligation Bonds, leaving $464 million aggregate principal amount of General Obligation Bonds authorized by the 2006 Bond Authorization but unissued. The District has covenanted in the Indenture that, if required as provided therein, it will issue and sell, or cause to be issued and sold, General Obligation Bonds, at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on or prior to the Maturity Date. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Issuance of General Obligation Bonds to Pay Notes" above. The ability of the District to issue General Obligation Bonds is dependent upon a variety of factors, many of which the District cannot control, including those described below.

Debt Limitation. 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. Based on the District's Fiscal Year 2012-13 assessed valuation of $32.9 billion, its gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is currently estimated at $405 million and its net bonding capacity is approximately $225 million (taking into account current outstanding debt as of the date of issuance of the Notes). At current assessed values, such net bonding capacity would be sufficient to allow the District to issue General Obligation Bonds in order to pay the Notes in full at maturity. However, to the extent the District's bonding capacity is reduced, the District's ability to issue, or cause to be issued, General Obligation Bonds, at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes in full on the maturity dates thereof could be impacted.

The assessed valuation in the District for the ten-year period ending in Fiscal Year 2012-13 increased by an annual average of 5.93% but trended downward by approximately 12% from Fiscal Year 2008-09 to Fiscal Year 2012-13. See "TAX BASE FOR REPAYMENT OF THE BONDS – Assessed Valuations" below. Historical assessed valuations and historical rates of increase or decline in such valuations are not necessarily reliable indicators of future valuations or rates of increase or decline. The growth or decline in assessed valuation is the result of a number of economic and other factors outside the control of the District, such as general reductions in property values resulting in blanket reductions in assessed values, successful appeals by property owners for a reduction in their property's assessed value and the complete or partial destruction of taxable property caused by natural or manmade disasters. See "−Reductions in Assessed Values" below. The District can provide no assurance as to whether the District's assessed valuation will increase or decrease in future fiscal years or what the rate of any such increase or decrease will be from fiscal year to fiscal year and there can be no assurance that the District's assessed valuation will not decrease causing a corresponding reduction in bonding capacity and precluding the District from issuing General Obligation Bonds in an amount sufficient to pay the Notes in full at maturity.

Tax Rate Limitation. When bonds of a high school district have been approved in a 55% popular vote election called pursuant to the Strict Accountability in Local School Construction Bonds Act of 2000 ("Proposition 39"), the issuance of any series of bonds under such authorization cannot, based on the school district's projections, require the tax rate for all bonds issued under such authorization to exceed in any year $30 per $100,000 of assessed valuation in the school district in such year (the "Tax Rate Limit"). The tax rate for a district's general obligation bonds for any year is generally equal to the quotient of the debt service on such general obligation bonds in such year divided by the assessed value of taxable property within such district for such year. The Tax Rate Limit applies only when new bonds are issued; it is not a legal limitation upon the ability to levy taxes at such rate as may be necessary to pay debt service on the bonds once the bonds are issued.

The growth or decline in assessed valuation is the result of a number of economic and other factors outside the control of the District, such as general reductions in property values resulting in blanket reductions in assessed values, successful appeals by property owners for a reduction in their property's assessed value and the complete or partial destruction of taxable property caused by natural or manmade disasters. See "−Reductions in Assessed Values" below. No assurance can be given that the Tax Rate Limit will not preclude the District from issuing General Obligation Bonds in an amount sufficient to pay the Notes in full on the maturity date thereof.

Furthermore, the annual debt service on additional series of General Obligation Bonds will be dependent, in part, upon interest rates prevailing at the time of issuance, which the District cannot predict. Higher interest rates generally will require a greater annual tax levy and, therefore, a higher assessed valuation in the District in order to comply with the Tax Rate Limit.

Other Factors Limiting Issuance of General Obligation Bonds

Other factors which could affect the ability of the District to issue General Obligation Bonds include the financial condition of the District at the time it institutes proceedings to issue such obligations and the presence of conditions prevailing in the bond market which could make it difficult or impossible for the District to issue such obligations. No assurances can be given that the District will be able to issue General Obligation Bonds when and as required to provide for payment of the Notes at maturity.

Reductions in Assessed Values

Reductions in assessed valuations within the District could adversely affect the ability of the District to issue General Obligation Bonds, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes in full on the maturity date thereof. See "–Limitations on Ability to Issue General Obligation Bonds" above. Such reductions may occur as a result of a variety of factors, many of which the District cannot control, including those described below.

Reduction in Inflationary Rate; Blanket Reductions of Assessed Values. Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

The County may, pursuant to Article XIIIA of the State Constitution, order blanket reductions of assessed property values and corresponding property tax bills on single-family residential properties when the value of the property has declined below the current assessed value as calculated by the County. According to the County Assessor's Office, the County has in the past, pursuant to Article XIIIA of the State Constitution, ordered such blanket reductions of assessed property values and corresponding property tax bills on residential properties when the value of the property has declined below the current assessed value. Such reductions, and any similar future reductions, could adversely affect the ability of the District to issue General Obligation Bonds, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes in full on the maturity date thereof. See "– Limitations on Ability to Issue General Obligation Bonds" above.

Appeals of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot be increased in any subsequent year to an amount greater than such base year value, increased by 2% compounded annually to such subsequent year, unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current assessed value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the assessed value of such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In the County, a property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the County Assessor's Office (the "Assessor"), the Assessor may offer to the property owner the opportunity to stipulate to a reduced assessed value, or may confirm the assessed value. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessed value ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessed value may and often does remain in effect beyond the year in which it is granted.

Reductions in assessed valuations resulting from such appeals could adversely affect the ability of the District to issue General Obligation Bonds, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes on the maturity date thereof. See "– Limitations on Ability to Issue General Obligation Bonds" above.

Further Initiatives. Article XIIIA of the California Constitution, which significantly affected the rate of property taxation, was adopted pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might alter the taxable value, reduce the property tax rate, or broaden property tax exemptions. Any such measures could adversely affect the ability of the District to issue General Obligation Bonds, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes on the maturity date thereof. See APPENDIX C − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – Constitutional and Statutory Provisions Affecting District Revenues and Appropriations."

CERTAIN INFORMATION REGARDING DISTRICT PROPERTY TAX BASE

Future Valuations, Rates, Etc. May Differ From Historical; No Levy to Pay Notes at Maturity

Future Valuations, Rates, Etc. This section of the Official Statement describes the State property taxation system and provides certain current and historical information regarding the assessed valuation of property within the District and the property tax base in the District. Such information might be generally helpful to investors in evaluating the ability of the District to issue General Obligation Bonds. However, 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. See "SPECIAL RISK FACTORS – Reductions in Assessed Values" above. 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, prior to the date such General Obligation Bonds are to be issued, the assessed valuation of property within the District and/or the property tax base in the District will not change in a manner that precludes the District from issuing such General Obligation Bonds in an amount sufficient to pay the Notes in full on the maturity date thereof, either because the District does not have sufficient net bonding capacity, because the Tax Rate Limit cannot be complied with or because the marketability of such General Obligation Bonds has been adversely affected thereby.

No Levy to Pay Notes. No tax will be levied to pay the Principal Amount of or interest on the Notes when due. As described above, the information in this section is included because it might be generally helpful to investors in evaluating the ability of the District to issue General Obligation Bonds. Investors should not interpret the inclusion of such information as indicating or suggesting that a tax will be levied to pay the Principal Amount of or interest on the Notes when due.

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 (See "SPECIAL RISK FACTORS–Reductions in Assessed Values"). 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 is 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.

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 Series 2008A Bonds and the outstanding Proposition BB 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 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 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 XIIIA of the California Constitution. See APPENDIX C − "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.

SWEETWATER UNION HIGH SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2008-09 Through 2012-13

Fiscal Year	Local Secured	Utility	Unsecured	Total
2008-09	$38,247,645,031	$245,294,818	$ 992,246,546	$39,485,186,395
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

Source: California Municipal Statistics, Inc.

SWEETWATER UNION HIGH SCHOOL DISTRICT
2012-13 Assessed Valuation By Jurisdiction[(1)]

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Chula Vista	$20,942,796,908	60.44%	$20,942,796,908	100.00%
City of Coronado	601,599	0.00	6,760,417,766	0.01
City of Imperial Beach	1,431,493,586	4.13	1,431,493,586	100.00
City of National City	3,111,756,744	8.98	3,111,756,744	100.00
City of San Diego	6,953,951,523	20.07	177,852,823,103	3.91
Unincorporated San Diego County	2,212,369,125	6.38	57,112,280,514	3.87
Total San Diego County	$34,652,969,485	100.00%	$382,126,855,240	9.07

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

SWEETWATER UNION HIGH SCHOOL DISTRICT
2012-13 Secured Assessed Valuation and Parcels By Land Use

	2012-13 Secured Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	$ 228,113,972	0.69%	494	0.48%
Commercial	4,049,547,151	12.20	2,486	2.40
Vacant Commercial	199,450,999	0.60	449	0.43
Industrial	2,350,358,636	7.08	1,337	1.29
Vacant Industrial	439,059,675	1.32	626	0.60
Recreational/Golf	141,411,020	0.43	121	0.12
Government/Social/Institutional	118,620,940	0.36	1,999	1.93
Miscellaneous	21,134,607	0.06	293	0.28
Subtotal Non-Residential	$7,547,697,000	22.75%	7,805	7.53%
Residential:				
Single Family Residence	18,030,536,448	54.34%	66,713	64.35%
Condominium/Townhouse	3,539,427,924	10.67	19,499	18.81
Mobile Home	121,286,720	0.37	2,001	1.93
Mobile Home Park	162,183,200	0.49	97	0.09
2-4 Residential Units	1,000,631,756	3.02	4,311	4.16
5+ Residential Units/Apartments	2,400,526,939	7.23	1,158	1.12
Miscellaneous Residential	4,644,092	0.01	182	0.18
Vacant Residential	374,582,884	1.13	1,914	1.85
Subtotal Residential	$25,633,819,963	77.25%	95,875	92.47%
Total	$33,181,516,963	100.00%	103,680	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 2012-13.

SWEETWATER UNION HIGH SCHOOL DISTRICT
Per Parcel 2012-13 Assessed Valuation of Single Family Homes

	No. of Parcels	2012-13 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	66,713	$18,030,536,448	$270,270	$260,000

2012-13 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	2,112	3.166%	3.166%	$ 89,051,054	0.494%	0.494%
$50,000 - $99,999	8,098	12.139	15.304	567,347,644	3.147	3.640
$100,000 - $149,999	5,459	8.183	23.487	688,327,312	3.818	7.458
$150,000 - $199,999	7,010	10.508	33.995	1,234,168,801	6.845	14.303
$200,000 - $249,999	8,736	13.095	47.090	1,965,626,008	10.902	25.205
$250,000 - $299,999	8,381	12.563	59.653	2,292,984,795	12.717	37.922
$300,000 - $349,999	8,372	12.549	72.202	2,709,288,972	15.026	52.948
$350,000 - $399,999	7,039	10.551	82.753	2,615,749,475	14.507	67.455
$400,000 - $449,999	4,907	7.355	90.108	2,071,381,952	11.488	78.943
$450,000 - $499,999	2,671	4.004	94.112	1,258,429,955	6.979	85.923
$500,000 - $549,999	1,469	2.202	96.314	762,605,852	4.230	90.152
$550,000 - $599,999	816	1.223	97.537	466,306,797	2.586	92.739
$600,000 - $649,999	556	0.833	98.371	344,417,793	1.910	94.649
$650,000 - $699,999	384	0.576	98.946	256,368,959	1.422	96.071
$700,000 - $749,999	184	0.276	99.222	132,055,536	0.732	96.803
$750,000 - $799,999	110	0.165	99.387	84,722,747	0.470	97.273
$800,000 - $849,999	107	0.160	99.547	87,708,424	0.486	97.759
$850,000 - $899,999	52	0.078	99.625	45,167,039	0.251	98.010
$900,000 - $949,999	51	0.076	99.702	47,125,263	0.261	98.271
$950,000 - $999,999	27	0.040	99.742	26,200,948	0.145	98.417
$1,000,000 and greater	172	0.258	100.000	285,501,122	1.583	100.000
Total	66,713	100.000%		$18,030,536,448	100.000%	

[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 2012-13 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 0.65% 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. See "SPECIAL RISK FACTORS − Reductions in Assessed Values" above.

The following table shows the 20 largest secured taxpayers within the District, as determined by the secured assessed valuation in Fiscal Year 2012-13.

SWEETWATER UNION HIGH SCHOOL DISTRICT
2012-13 TWENTY LARGEST SECURED TAXPAYERS

	Property Owner	Primary Land Use	Assessed Valuation	% of Total[(1)]
1.	Chelsea San Diego Finance LLC	Shopping Center	$ 211,104,001	0.64%
2.	Rohr Inc.	Industrial	180,748,655	0.54
3.	Centermark Properties Inc.	Shopping Center	131,896,976	0.40
4.	GGP-Otay Ranch LP	Shopping Center	118,496,741	0.36
5.	Otay Greenfield Developers LLC	Apartments	111,862,939	0.34
6.	Plaza Bonita	Shopping Center	110,495,529	0.33
7.	Pasha Automotive Services	Industrial	100,571,505	0.30
8.	Regulo Place Apartments Investors LLC	Apartments	92,893,489	0.28
9.	Costco Wholesale Corporation	Commercial	88,098,220	0.27
10.	Wal-Mart Real Estate Business Trust	Commercial	82,827,755	0.25
11.	Corrections Corp. of America	Correctional Facility	78,085,600	0.24
12.	Chula Vista Center LLC	Shopping Center	74,126,926	0.22
13.	Camden USA Inc.	Apartments	64,164,161	0.19
14.	EQR-Missions at Sunbow LLC	Apartments	58,842,674	0.18
15.	PVHR LLC	Assisted Living Facility	58,630,445	0.18
16.	Casoleil LP	Apartments	57,000,000	0.17
17.	Home Depot USA Inc.	Commercial	54,874,586	0.17
18.	BRE Properties Inc.	Apartments	51,766,985	0.16
19.	BRE-FMCA LLC	Apartments	50,490,696	0.15
20.	SSBTLCREV LLC	Undeveloped	50,476,080	0.15
			$1,827,453,963	5.51%

(1) 2012-13 Local Secured Assessed Valuation: $33,181,516,963.
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 2008-09 through 2012-13.

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

	2008-09	2009-10	2010-11	2011-12	2012-13
General Tax Rate	1.00000	1.00000	1.00000	1.00000	1.00000
Southwestern Community College District	.01320	.03442	.03635	.03308	.03753
Chula Vista Elementary School District	.01762	.02507	.02611	.02594	.02526
Sweetwater Union High School District	.04621	.05580	.05517	.06079	.05862
Otay Water District	.00500	.00500	.00500	.00500	.00500
Metropolitan Water District	.00430	.00430	.00370	.00370	.00350
Total Tax Rate	1.08633	1.12459	1.12633	1.12851	1.12991

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

	2008-09	2009-10	2010-11	2011-12	2012-13
General Tax Rate	1.00000	1.00000	1.00000	1.00000	1.00000
Southwestern Community College District	.01320	.03442	.03635	.03308	.03753
Chula Vista Elementary School District	.01762	.02507	.02611	.02594	.02526
Sweetwater Union High School District	.04621	.05580	.05517	.06079	.05862
Metropolitan Water District	.00430	.00430	.00370	.00370	.00350
Total Tax Rate	1.08133	1.11959	1.12133	1.12351	1.12491

2012-13 Assessed Valuation of TRA 1-245 is $2,038,844,458 which is 5.88% of the District's total assessed valuation.
2012-13 Assessed Valuation of TRA 1-265 is $3,610,325,654 which is 10.42% of the District's total assessed valuation.
2012-13 Assessed Valuation of TRA 1-000 is $1,944,761,986 which is 5.61% of the District's total assessed valuation.
Source: California Municipal Statistics, Inc.

Article XIIIA 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 Series 2008A Bonds and the outstanding Proposition BB Bonds is similarly exempt from the 1% tax limitation. However, the tax rate levied as the result of any single election, such as the 2006 Bond Authorization, can be no more than $60 for a unified school district, $30 for a high school or elementary school district. For further information see APPENDIX C − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – Constitutional and Statutory Provisions Affecting District Revenues and Appropriations" herein. Furthermore, pursuant to certain applicable requirements of the California Education Code, the total outstanding general obligation debt of the District may not exceed 1.25 percent of the assessed value of taxable property within the District, calculated pursuant to a formula therein set forth. The tax rate projected to be levied in connection with the Series 2008A Bonds and the outstanding Proposition BB Bonds is within the legal limit. In addition, after the issuance of the Notes, the outstanding aggregate amount of general obligation bonds of the District will not exceed the currently applicable statutory 1.25 percent debt 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 notes is included when calculating the District's bonding capacity. Based on the District's Fiscal Year 2012-13 assessed valuation of $32.9 billion, its gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is currently estimated at $405 million and its net bonding capacity is approximately $225 million (taking into account current outstanding debt as of the date of issuance of the Notes). Economic and other factors beyond the District's control could cause a reduction in the assessed value of taxable property within the District. Such a reduction would result in a corresponding reduction of the District's bonding capacity. To the extent the District's bonding capacity is reduced, the District's ability to issue, or cause to be issued, General Obligation Bonds, at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on the maturity date thereof, could be impacted. See "SPECIAL RISK FACTORS – "Limitations on Ability to Issue General Obligation Bonds" and "– Reductions in Assessed Values" for a description of how reductions in the assessed valuation of the property in the District could affect the District's ability to issue General Obligation Bonds, the available proceeds of which would be sufficient, together with such other moneys as are available therefor, to pay the Notes in full on the maturity date thereof.

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 Notes and the General Obligation 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 and corresponding delinquencies with respect to property located in the District for the fiscal years 2007-08 through 2011-12.

SWEETWATER UNION HIGH SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
Fiscal Years 2007-08 through 2011-12

Fiscal Year	Secured Tax Charge(1)	Amount Delinquent June 30
2007-08	$64,994,520.48	(2)
2008-09	60,854,249.42	(2)
2009-10	60,281,897.97	(2)
2010-11	58,535,025.77	(2)
2011-12	57,870,992.46	(2)

(1) 1% General Fund apportionment.
(2) The 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.
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 November 12, 2012. 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

2012-13 Assessed Valuation: $34,652,969,485

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 11/1/12
Metropolitan Water District	1.578%	$ 3,101,480
Otay Municipal Water District, Improvement District No. 27	100.	6,235,000
San Diego Community College District	0.003	27,991
Southwestern Community College District	83.676	197,378,585
Sweetwater Union High School District	**100.**	**328,479,415**(1)
Chula Vista City School District	100.	66,405,000
San Ysidro School District	100.	126,152,611
South Bay Union School District	100.	22,270,246
City of National City	100.	4,885,000
Sweetwater Union High School District Community Facilities District	100.	176,675,000
Y/S School Facilities Financing Authority Chula Vista School Project	100.	5,040,000
City of Chula Vista Community Facilities Districts	100.	210,200,000
City of Chula Vista 1915 Act Bonds	100.	22,945,015
Other Cities and Special District 1915 Act Bonds	100.	8,804,278
TOTAL DIRECT & OVERLAPPING TAX AND ASSESSMENT DEBT		$1,178,599,621

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 11/1/12
San Diego County General Fund Obligations	9.068%	$ 37,351,999
San Diego County Pension Obligations	9.068	68,363,448
San Diego County Superintendent of Schools Certificates of Participation	9.068	1,687,782
Otay Municipal Water District Certificates of Participation	73.599	41,395,758
Southwestern Community College District General Fund Obligations	83.676	1,041,766
Sweetwater Union High School District Certificates of Participation	100.	6,325,000
Chula Vista City School District Certificates of Participation	100.	143,480,000
San Ysidro School District Certificates of Participation	100.	42,932,385
City of Chula Vista Certificates of Participation	100.	129,800,000
City of National City Certificates of Participation	100.	2,715,000
City of San Diego General Fund Obligations	3.910	21,461,795
San Miguel Consolidated Fire Protection District Certificates of Participation	0.257	15,047
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$496,569,980
Less: Otay Municipal Water District Certificates of Participation		41,395,758
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$455,174,222

OVERLAPPING TAX INCREMENT DEBT:		
Chula Vista Redevelopment Agency	100.	$ 41,985,000
Imperial Beach Redevelopment Agency	100.	40,050,000
National City Redevelopment Agency	100.	67,160,000
San Diego Redevelopment Agency Housing Bonds	9.484	5,503,091
San Diego Redevelopment Agency San Ysidro Project Area	100.	7,740,000
TOTAL OVERLAPPING TAX INCREMENT DEBT		$162,438,091
GROSS COMBINED TOTAL DEBT		$1,837,607,692(2)
NET COMBINED TOTAL DEBT		$1,796,211,934

(1) Excludes the Notes.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2012-13 Assessed Valuation:
Direct Debt ($328,479,415)..0.95%
Total Direct Overlapping Tax and Assessment Debt 3.40%
Combined Direct Debt ($334,804,415) 0.97%
Gross Combined Total Debt..5.30%
Net Combined Total Debt..5.18%

Ratios to Redevelopment Incremental Valuation ($3,671,017,593):

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Best Best & Krieger LLP, Bond Counsel to the District ("Bond Counsel"), based on existing statutes, regulations, rulings and court decisions, interest on the Notes is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the proposed form of opinion of Bond Counsel are set forth in APPENDIX B hereto.

The Internal Revenue Code of 1986 (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The District has covenanted to comply with certain restrictions designed to assure that interest on the Notes will not be includable in federal gross income. Failure to comply with these covenants may result in interest on the Notes being includable in federal gross income, possibly from the date of issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. 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 Notes may affect the value of, or the tax status of interest on the Notes. Further, no assurance can be given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Notes. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Bond Counsel is further of the opinion that interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes, however, that interest on the Notes is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Notes should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to the Notes, (ii) interest with respect to the Notes earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to the Notes, may be subject to federal income taxation under Section 1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Notes.

If the initial offering price to the public (excluding bond houses and brokers) at which a Note is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Note is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Note (other than a purchaser who holds such Note as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Note constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as interest on the Notes. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Note and the basis of such Note acquired at such initial offering price by an initial purchaser of each such Note will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of such Notes who purchase such Notes after the initial offering of a substantial amount thereof. Owners who do not purchase such Notes in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Notes. All holders of such Notes should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Note based on the purchaser's yield to maturity in such Notes, except that in the case of such a Note callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Note. A purchaser of such a Note is required to decrease his or her adjusted basis in such Note by the amount of Note premium attributable to each taxable year in which such purchaser holds such Note. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Notes should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Note, and with respect to the state and local tax consequences of owning and disposing of such a Note.

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

Although Bond Counsel has rendered an opinion that interest on the Notes is excludable from federal gross income, and is exempt from State of California personal income taxes, the ownership or disposition of the Notes, and the accrual or receipt of interest on the Notes may otherwise affect an Owner's state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Owner's particular tax status and the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code may cause interest on the Notes to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent Owners 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, liquidity of or marketability of the Notes. In 2011 and 2012, 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 Notes. There can be no assurance that such future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code enacted or proposed after the date of issuance of the Notes will not have an adverse effect on the tax exempt status, market price or marketability of the Notes. Prospective purchasers of the Notes 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 Issues

The Internal Revenue Service ("IRS") has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Notes will be selected for audit by the IRS. It is also possible that the market value of the Notes might be affected as a result of such an audit of the Notes (or by an audit of similar obligations).

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 Notes. 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 a Note 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 Notes 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 Notes and certain other legal matters are subject to the approving opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX B – "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 Notes 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 2012-13 Fiscal Year (which is due not later than April 1, 2014) 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 E − "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 has 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 third-parties, and has taken steps to implement procedures to better meet its obligation under the Rule.

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 in any way challenging the respective powers of the several offices of the titles of the officials of the District to such offices; or (ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Notes, the application of the proceeds of the sale of the Notes, or the payment of the Notes as contemplated by the Indenture, or the District's ability to issue the General Obligation Bonds to repay the Notes, or in any way contesting or affecting the validity or enforceability of the Notes or the Indenture or contesting the powers of the District or its authority with respect to the Notes or the Indenture or (iii) in which a final adverse decision could (A) result in any material adverse impact on the financial condition of the District, (B) materially adversely affect the operations of the District or the consummation of the transactions contemplated by the Indenture or (C) adversely affect the exclusion of the interest paid on the Notes from gross income for federal income tax purposes or the exemption of the interest paid on the Notes from California personal income taxation.

The District will furnish a certificate at the time of the original delivery of the Notes that (i) no litigation is pending concerning the validity of the Notes; 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 Notes.

MISCELLANEOUS

Ratings

Standard & Poor's Ratings Services LLC ("S&P") and Moody's Investors Service ("Moody's") have each assigned its rating on the Notes of "SP-1+" 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 Notes. Such ratings reflect only the views of S& P and Moody's and does not constitute a recommendation to buy, sell or hold the Notes 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 Notes.

The Preliminary Official Statement dated March 1, 2013 included the S&P "A+" rating, which is the underlying rating for the District's general obligation bonds, rather than the S&P "SP-1+" rating for the Notes, reflecting the application of S&P's revised Bond Anticipation Note Rating Methodology criteria. At the time that S&P reported its "SP-1+" rating, it affirmed its "A+" SPUR on the District's outstanding general obligation bonds.

Professionals Involved in the Offering

Best Best & Krieger LLP, San Diego, California is acting as Bond Counsel to the District with respect to the Notes, and will receive compensation from the District contingent upon the sale and delivery of the Notes. Certain legal matters will be passed on for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District. Payment of the fees and expenses of Disclosure Counsel is also contingent upon the issuance and delivery of the Notes.

Financial Advisor

First Southwest Company, Santa Monica, California, served as financial advisor to the District (the "Financial Advisor") with respect to the issuance and sale of the Notes. 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 Notes are being purchased for reoffering by Mitsubishi UFJ Securities (USA), Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Notes pursuant to a note purchase agreement between the District and the Underwriter (the "Purchase Agreement") at a purchase price of $37,443,760.40 (representing the par amount of the Notes, plus original issue premium of $4,705,810.40, less an underwriter's discount of $82,050.00). The Purchase Contract 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 Notes have been offered to the public and that a representative portion of the Notes 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 Notes 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.

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

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 Notes, the Indenture 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 Notes 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 Trustee, Union Bank, N.A., 120 S. San Pedro St., 4th Floor, Los Angeles, California 9001, Attention: Corporate Trust Services or from 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 Notes.

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: /s/ Dr. Edward Brand
Superintendent

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Note Indenture which are not described elsewhere in this Official Statement. The summary does not purport to be complete or definitive and reference should be made to the Note Indenture for a full and complete statement of its provisions. All capitalized terms used with respect to the Notes and not defined in this Official Statement have the meanings set forth in the Note Indenture.

Definitions

"Authorized Denominations" means, with respect to the Notes, $5,000 Principal Amount and any integral multiple thereof.

"Authorized Representative" means, with respect to the District, the Superintendent of the District and the Chief Financial Officer of the District, and any other Person authorized by the Superintendent of the District to act on behalf of the District under or with respect to the Indenture and designated as an Authorized Representative of the District in a Written Certificate of the District filed with the Trustee.

"Board of Trustees" means the Board of Trustees of the District.

"Bond Counsel" means a firm of nationally recognized bond counsel selected by the District.

"Building Fund" means the fund by that name established and held by the Trustee pursuant to the provisions of the Indenture.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

"Closing Date" means the date upon which the Notes are initially issued and delivered to the original purchaser thereof, being March 27, 2013.

"Code" means the Internal Revenue Code of 1986.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate executed and delivered by the District on March 27, 2013, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by, or reimbursable to, the District relating to the authorization, issuance, sale and delivery of the Notes, including but not limited to, printing expenses; Bond Counsel fees and expenses; disclosure counsel fees and expenses; financial advisor fees and expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges and first annual administrative fees of the Trustee, expenses of its counsel; fees, charges and disbursements of other attorneys, accounting firms, consultants and other professionals, if any; fees and charges for preparation, execution and safekeeping of such Notes, and any other cost, charge or fee in connection with the original issuance of such Notes.

"Costs of Issuance Account" means the account in the Building Fund by that name established and held by the Trustee pursuant to the provisions of the Indenture.

"County" means the County of San Diego, a county and political subdivision of the State organized and existing under the laws of the State, and any successor thereto.

"Default Rate" means, as to each Note, an interest rate of 5.00% per annum.

"Defeasance Securities" means (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

"District" means Sweetwater Union High School District, a school district organized and existing under the laws of the State, and any successor thereto.

"General Obligation Bonds" means general obligation bonds authorized to be issued by the District by the qualified electors thereof at the election duly called and regularly held in the District on November 7, 2006, excluding the Prior Bonds of such authorization previously issued by the District.

"Indenture" means the Note Indenture, dated as of March 1, 2013, by and between the District and the Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

"Information Services" means the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org); and, in accordance with then current guidelines of the Securities and Exchange Commission, and such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the District delivered to the Trustee.

"Maturity Date" means January 1, 2018.

"Montgomery HS Gymnasium Project Account" means the account in the Building Fund by that name established and held by the Trustee pursuant to the provisions of the Indenture.

"Montgomery HS Gymnasium Project" means the Montgomery High School Gymnasium Upgrade and Modernization Project located at 3250 Palm Avenue, San Diego, California, to be undertaken pursuant to the 2006 Bond Authorization and the Project Agreement by and between the District and the K-12 Public School Districts and Community Colleges Authority.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

"National City Middle School Project Account" means the account in the Building Fund by that name established and held by the Trustee pursuant to the provisions of the Indenture.

"National City Middle School Project" means the modernization and expansion of the National City Middle School as described in Exhibit "1" to Exhibit "B" to Resolution No. 3542 adopted July 24, 2006 and authorized pursuant to the 2006 Bond Authorization.

"Note Payment Date" means January 1 and July 1 of each year, commencing on July 1, 2013.

"Note Projects" means (a) Montgomery HS Gymnasium Project and (b) the National City Middle School Project.

"Note Repayment Fund" means the fund by that name established and held by the Trustee pursuant to the provisions of the Indenture.

"Notes" means the Sweetwater Union High School District 2013 General Obligation Bond Anticipation Notes issued under the provisions of the Indenture.

"Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the District by the Trustee in writing.

"Outstanding" means, when used as of any particular time with reference to Notes, subject to the provisions of the Indenture, all Notes theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture, except (a) Notes theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Notes with respect to which all liability of the District shall have been discharged in accordance with the provisions of the Indenture, including Notes (or portions of Notes) disqualified under the provisions of the Indenture, and (c) Notes in lieu of which other Notes shall have been authenticated and delivered by the Trustee pursuant to the provisions of the Indenture.

"Owner" means, with respect to a Note, the Person in whose name such Note is registered on the Registration Books.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means the following, to the extent that such securities are otherwise eligible legal investments of the District:

(a) (i) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (iv) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

-Export-Import Bank

-Rural Economic Community Development Administration

-U.S. Maritime Administration

-Small Business Administration

-U.S. Department of Housing & Urban Development (PHAs)

-Federal Housing Administration

-Federal Financing Bank

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

-Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

-Obligations of the Resolution Funding Corporation (REFCORP)

-Senior debt obligations of the Federal Home Loan Bank System

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (which may include the Trustee or its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including a fund for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services; and

(g) Investments in the Treasury Pool of San Diego County.

"Person" means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Amount" means the principal amount of the Notes as issued.

"Prior Bonds" means the Sweetwater Union High School District General Obligation Bonds, Election of 2006, Series 2008A (County of San Diego, California) issued in the initial principal amount of $180,000,000.

"Record Date" means the fifteenth (15th) calendar day of the month preceding a Note Payment Date.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Notes pursuant to the provisions of the Indenture.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New

York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 25th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-5004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Written Certificate of the District delivered to the Trustee.

"State" means the State of California.

"Supplemental Indenture" means any agreement amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the provisions of the Indenture.

"Tax Certificate" means the Tax Certificate executed by the District at the time of issuance of the Notes relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Trustee" means Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the provisions of the Indenture substituted in its place as provided in the Indenture.

"Written Certificate" and "Written Request" of the District mean, respectively, a written certificate or written request signed in the name of the District by an Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

The Notes

Execution of the Notes. The Notes shall be executed in the name and on behalf of the District with the manual or facsimile signature of the President of the Board of Trustees attested by the manual or facsimile signature of the Clerk of the Board of Trustees. The Notes shall then be delivered to the Trustee for authentication by it. In case any of such officers who shall have signed or attested any of the Notes shall cease to be such officers before the Notes so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the District, such Notes may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the District as though those who signed and attested the same had continued to be such officers, and also any Notes may be signed and attested on behalf of the District by such Persons as at the actual date of execution of such Notes shall be the proper officers of the District although at the nominal date of such Notes any such Person shall not have been such officer of the District.

Authentication of the Notes. Only such of the Notes as shall bear thereon a certificate of authentication substantially in the form set forth in the Indenture, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the Notes so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Registration Books. The Trustee shall keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Notes, which shall be open to inspection during regular business hours and upon reasonable notice by the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Notes as provided in the Indenture.

Transfer and Exchange of Notes. Any Note may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Note for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Note shall be surrendered to the Trustee for transfer, the District shall execute and the Trustee shall authenticate and shall deliver a new Note or Notes in a like aggregate Principal Amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Notes may be exchanged at the Office of the Trustee for a like aggregate Principal Amount of Notes in other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Temporary Notes. The Notes may be issued in temporary form exchangeable for definitive Notes when ready for delivery. Any temporary Notes may be printed, lithographed or typewritten, shall be in Authorized Denominations, shall be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Note shall be executed by the District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Notes. If the District issues temporary Notes it shall execute and deliver definitive Notes as promptly thereafter as practicable, and thereupon each temporary Note may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Note a definitive Note in a like Principal Amount. Until so exchanged, the temporary Notes shall be entitled to the same benefits under the Indenture as definitive Notes authenticated and delivered under the Indenture.

Notes Mutilated, Lost, Destroyed or Stolen. If any Note shall become mutilated, the District, at the expense of the Owner of said Note, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Note of like tenor in exchange and substitution for the Note so mutilated, but only upon surrender to the Trustee of the Note so mutilated. Every mutilated Note so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the District. If any Note shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee and the District shall be given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Note of like tenor in lieu of and in replacement for the Note so lost, destroyed or stolen (or if any such Note shall have matured, instead of issuing a replacement Note, the Trustee may pay the same without surrender thereof).

The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Note issued under the Indenture and of the expenses which may be incurred by the District and the Trustee in connection with the issuance of such replacement Note. Any Note issued under the provisions of the Indenture in lieu of any Note alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District whether or not the Note so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Notes secured by the Indenture.

Source of Payment; Funds; Investment

Source of Payment. The Notes shall be payable from the proceeds of the sale of General Obligation Bonds or from other funds of the District lawfully available for the purpose of repaying the Notes, including State grant funds available for such purpose. Interest on the Notes shall be payable from the proceeds of the sale of General Obligation Bonds, from ad valorem taxes which may be lawfully levied pursuant to the Sate law, or from other funds of the District lawfully available for the purpose of paying interest on the Notes as set forth in the Indenture.

The Notes are obligations of the District, secured by the issuance of General Obligation Bonds, ad valorem taxes levied and collected pursuant to State law or other sources as set forth above. The Notes 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 Notes.

Note Repayment Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Note Repayment Fund." The Trustee shall deposit in the Note Repayment Fund (i) proceeds of the sale of General Obligation Bonds issued to pay the Notes, as directed in a Written Request of the District and (ii) any other funds made available by the District for the purpose of paying the Notes pursuant to the provisions of the Indenture, as directed in a Written Request of the District.

(b) On each Note Payment Date, the Trustee shall withdraw from the Note Repayment fund for payment to the Owners of the Notes the interest then due and payable.

(c) On any date on which the Notes or any portion thereof have been called for redemption pursuant to the provisions of the Indenture, the Trustee shall withdraw from the Note Payment Fund for payment to the Owners of the Notes call redemption the principal amount of, and interest on, such Notes to the date of redemption.

(d) On the Maturity Date, the Trustee shall withdraw from the Note Repayment Fund for payment to the Owners of the Notes the Principal Amount of, and interest on, the Notes then due and payable.

Building Fund. The net proceeds from the sale of the Notes shall be paid and credited to the fund established and held by the Trustee and designated as the "Sweetwater Union High School District 2013 General Obligation Bond Anticipation Notes Building Fund" of the District and the "Montgomery HS Gymnasium Project Account," the "National City Middle School Project Account" and the "Costs of Issuance Account" therein. Monies in the Building Fund, and the accounts therein, shall be kept separate and distinct from all other District and Trustee funds, and those proceeds shall be used solely for the purpose of financing the Note Projects pursuant to paragraphs (a) and (b) below and for payment of permissible Costs of Issuance of the Notes pursuant to paragraph (c) below:

(a) Montgomery HS Gymnasium Project Account.

(i) Upon receipt of the net proceeds of the Notes, the Trustee shall deposit such proceeds thereof as shall be provided for in the Indenture in the Montgomery HS Gymnasium Project Account and the moneys on deposit in such account shall be used solely for the purpose of financing the Montgomery HS Gymnasium Project as directed in writing by a Written Request of the District. The Trustee shall have no obligation to insure that the proceeds are applied in accordance with the preceding sentence.

(ii) The interest earned on the monies deposited in the Montgomery HS Gymnasium Account shall be deposited to such Account.

(iii) At the Written Request of the District filed with the Trustee, any amounts remaining on deposit in the Montgomery HS Gymnasium Project Account and not needed for the purposes thereof may be withdrawn from such Account and transferred to the National City Middle School Project Account if such Account is still open or to the Note Repayment Fund to be applied to pay the Notes if the National City Middle School Project Account is closed. Upon the transfer of all moneys from the Montgomery HS Gymnasium Project Account pursuant to this subparagraph (i), the Trustee shall then close such Account.

(b) National City Middle School Project Account.

(i) Upon receipt of the net proceeds of the Notes, the Trustee shall deposit such proceeds thereof as shall be provided for in the Indenture in the National City Middle School Project Account and the moneys on deposit in such account shall be used solely for the purpose of financing the National City Middle School Project as directed in writing by a Written Request of the District. The Trustee shall have no obligation to insure that the proceeds are applied in accordance with the preceding sentence.

(ii) The interest earned on the monies deposited in the National City Middle School Project Account shall be deposited to such Account.

(iii) At the Written Request of the District filed with the Trustee, any amounts remaining on deposit in the National City Middle School Project Account and not needed for the purposes thereof may be withdrawn from such Account and transferred to the Montgomery HS Gymnasium Project Account if such Account is still open or to the Note Repayment Fund to be applied to pay the Notes if the Montgomery HS Gymnasium Project Account is closed. Upon the transfer of all moneys from the Montgomery HS Gymnasium Project Account pursuant to this subparagraph (i), the Trustee shall then close such Account

(c) Costs of Issuance Account.

(i) Upon receipt of the net proceeds of the Notes, the Trustee shall deposit such proceeds thereof as shall be provided for in the Indenture in the Costs of Issuance Account and the moneys on deposit in such account shall be used solely for the purpose of paying the Costs of Issuance of the Notes as directed in writing by a Written Request of the District. The Trustee shall have no obligation to insure that the proceeds are applied in accordance with the preceding sentence.

(ii) The interest earned on the monies deposited in the Costs of Issuance Account.

(iii) Upon the earlier of: (i) payment in full of all costs of issuance for the Notes, which shall be determined by a Written Certificate to the Trustee to that effect by an Authorized Representative; or (ii) six months following the Closing Date, the Trustee shall transfer the funds, if any, remaining in the Costs of Issuance Account to the National City Middle School Project Account. Upon the transfer of all moneys from the Costs of Issuance Account, the Trustee shall then close the Costs of Issuance Account.

Notwithstanding anything to the contrary in the Indenture, if on the date which is three (3) years from the Closing Date, any funds derived from the Notes remain on deposit in the Building Fund, upon receipt of Written Request executed by an Authorized Representative, the Trustee shall restrict the investment of such funds so that the investment earnings thereon in not in excess of the yield on the Notes as determined pursuant to the Tax Certificate, unless in the written opinion of Bond Counsel delivered to the Trustee such restriction is not necessary to prevent an impairment of the exclusion of interest on the Notes from gross income for federal income tax purposes.

Investment. Except as otherwise provided in the Indenture, all moneys in the Note Repayment Fund and the Building Fund shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the District two Business Days prior to the making of such investment. Moneys in the Note Repayment Fund and the Building Fund shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Absent timely written direction from the District, the Trustee shall invest any moneys in the Note Repayment Fund and the Building Fund in Permitted Investments described in paragraph (f) of the definition thereof; provided, however, that any such investment shall be made with due regard for the Trustee's obligations and responsibilities as a fiduciary under the Indenture.

All interest, profits and other income received from the investment of moneys in the Note Repayment Fund or the Building Fund shall be retained in such fund.

Permitted Investments acquired as an investment of moneys in the Note Repayment Fund or the Building Fund shall be credited to such Fund. For the purpose of determining the amount in the Note Repayment Fund or the Building Fund, all Permitted Investments credited thereto shall be valued by the Trustee at the market value thereof.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the District, the Trustee shall sell or present for redemption any Permitted Investments in the Note Repayment Fund or the Building Fund whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from such Fund, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture.

The Trustee shall furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker."

Covenants

Punctual Payment. The District shall punctually pay or cause to be paid the Principal Amount of, and interest on, all the Notes, in strict conformity with the terms of the Notes and of the Indenture, according to the true intent and meaning thereof. On or prior to the Maturity Date, the District shall cause amounts to be deposited with the Trustee sufficient to pay the Principal Amount of, and interest on, the Notes to become due on or prior to such date.

Issuance of Obligations to Pay Notes. The District shall (a) issue and sell, or cause to be issued and sold, General Obligation Bonds, and/or (b) issue and sell bond anticipation notes in renewal of the Notes pursuant to Section 15150 of the California Education Code, at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on or prior to the Maturity Date. To the extent permitted by law, the District covenants that, if the District is unable to, or precluded from, so issuing and selling, or causing to be so issued and sold, General Obligation Bonds and bond anticipation notes, the District will use its best efforts to issue or incur and sell such other obligations as the District may legally issue or incur for such purpose at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Principal Amount of, and interest on, the Notes due and payable on the Maturity Date. The District shall transfer or cause to be transferred such proceeds of any such General Obligation Bonds, bond anticipation notes or other obligations to the Trustee for deposit in the Note Repayment Fund.

No Additional General Obligation Bonds or Notes. So long as any of the Notes remain Outstanding, the District shall not issue or cause to be issued any General Obligation Bonds, or any notes in anticipation of the sale of General Obligation Bonds; provided, however, that the provisions of the Indenture shall not prohibit the District from issuing or causing to be issued General Obligation Bonds, or notes in anticipation of the sale of General Obligation Bonds, if, upon the issuance thereof, all of the Notes have been paid or are deemed to have been paid in accordance with the provisions of the Indenture.

Levy for Payment of Interest on Notes. If the Notes are not paid in full on the Maturity Date, the District shall take all steps required by law and by the County to cause the Board of Supervisors of the County to levy, pursuant to Section 15150(d) of the California Education Code, a tax upon all taxable property in the District to pay interest on the Notes.

Protection of Security and Rights of Owners. The District shall at all times, to the extent permitted by law, defend, preserve and protect all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Tax Covenants. (a) The District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Notes under Section 103 of the Code. Without limiting the generality of the foregoing, the District shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth therein. This covenant shall survive payment in full or defeasance of the Notes.

(b) In the event that at any time the District is of the opinion that for purposes of the Indenture it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture, if the District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Notes, the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure Certificate. Each of the District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate applicable to it. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an event of default under the Indenture; provided, however, that the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate Principal Amount of Outstanding Notes shall, upon receipt of indemnification reasonably satisfactory to the Trustee, or any Owner or Beneficial Owner of the Notes may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the District during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Indenture.

Events of Default and Remedies

Events of Default. (a) Failure to pay in full the Principal of, and interest on, of the Notes due and payable on or prior to the Maturity Date;

(b) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Notes contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the District by the Trustee, or to the District and the Trustee by the Owners of not less than 5% in aggregate Principal Amount of the Notes at the time Outstanding; provided, however, that, if in the reasonable opinion of the District, the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such 30 day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; and

(c) The District shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Remedies. If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

(a) by mandamus, suit, action or proceeding, to compel the District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Notes, and to require the carrying out of any or all such covenants and agreements of the District and the fulfillment of all duties imposed upon it by the Indenture or by applicable provisions of law;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any rights of the Trustee or the Owners; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the District and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Funds After Default. If an Event of Default shall occur and be continuing, any funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(b) To the payment (upon presentation of the Notes to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) to the Persons entitled thereto of the unpaid Principal Amount of, and interest on, the Notes which shall have become due, with interest on the overdue amounts at the Default Rate, and, if the amount available shall not be sufficient to pay in full all of such Principal Amount of, and interest on, the Notes, together with such interest, then to the payment thereof ratably, according to the amounts of Principal Amount of, and interest on, the Notes due on such date to the Persons entitled thereto, without any discrimination or preference.

Power of Trustee to Enforce. All rights of action under the Indenture or the Notes or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Notes, subject to the provisions of the Indenture.

Note Owners Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate Principal Amount of the Notes then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Limitation on Note Owners' Right to Sue. No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate Principal Amount of the Notes then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Notes, the Indenture or applicable law with respect to the Notes, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in any provision of the Indenture or in the Notes contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Principal Amount of, and interest on, the Notes to the respective Owners as provided in the Indenture, but only from the sources provided in the Indenture, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Notes.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Owners, then in every such case the District, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the District, the Trustee and the Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

Trustee

Duties and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party hereto and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party hereto and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party hereto and any successor thereto if (i) at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate Principal Amount of the Notes then Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the

Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the District, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

(d) Upon removal or resignation of the Trustee, the District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under paragraph (a) above shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Notes contained shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same or incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Notes assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Notes.

(b) The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Notes, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Notes for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the District or others in accordance with the Indenture.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

(d) No provision of the Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under Article V or this Article or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate Principal Amount of the Notes at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(j) The Trustee may become the Owner of Notes with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate Principal Amount of the Notes then Outstanding.

(k) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Notes.

(l) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

Right to Rely on Documents.

(a) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture.) may be deemed to be conclusively proved and established by a Written Certificate of the District, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(c) The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the District, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture. The District shall, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Indenture and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of the Indenture.

Modification or Amendment

Amendments Permitted. (a) The Indenture and the rights and obligations of the District, the Owners and the Trustee may be amended or modified from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into with the written consent of the Owners of a majority in aggregate Principal Amount of all Notes then Outstanding, which shall have been filed with the Trustee, exclusive of Notes disqualified as provided in the Indenture. No such modification or amendment shall (i) extend the fixed maturity of any Note, reduce the Principal Amount thereof or the rate of interest thereon, without the consent of the Owner of each Note so affected, or (ii) modify or amend the Indenture without the consent of the Owners of all of the Notes then Outstanding.

(b) The Indenture and the rights and obligations of the District, the Trustee and the Owners may also be amended or modified from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District in the Indenture contained other covenants and agreements thereafter to be observed or to surrender any right or power in the Indenture reserved to or conferred upon the District;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, provided that such amendment or modification does not materially adversely affect the interests of the Owners under the Indenture;

(iii) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(iv) to cause interest on the Notes to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(v) in any other respect whatsoever as the District may deem necessary or desirable, provided that such amendment or modification does not materially adversely affect the interests of the Note Owners under the Indenture.

(c) Promptly after the execution by the District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the District), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Notes; Preparation of New Notes. Notes delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the District so determines shall, bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to any amendment or modification provided for in such Supplemental Indenture and, in that case, upon demand of the Owner of any Notes Outstanding at the time of such execution and presentation of such Owner's Notes for such purpose at the Office of the Trustee a suitable notation shall be made on such Notes. If the Supplemental Indenture shall so provide, new Notes so modified as to conform, in the opinion of the District and the Trustee, to any amendment or modification contained in such Supplemental Indenture shall be prepared and executed by the District and authenticated by the Trustee and, upon demand of the Owner of any Note then Outstanding, and presentation of such Note for such purpose at the Office of the Trustee, such a new Note in equal Principal Amount shall be exchanged for such Owner's Note so surrendered.

Amendment of Particular Notes. The provisions of this Article shall not prevent any Owner from accepting any amendment or modification as to any particular Note owned by it, provided that due notation is made on such Note.

Defeasance

Discharge of the Indenture. (a) If the District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Notes the Principal Amount thereof, and the interest thereon, at the times and in the manner stipulated in the Indenture and therein, then all agreements, covenants and other obligations of the District to the Owners of such Notes under the Indenture shall thereupon cease, terminate and become void and the Indenture shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant hereto which are not required for the payment of the Principal Amount of, and interest on, such Notes.

(b) Subject to the provisions of the above paragraph, when any Note shall have been paid and if, at the time of such payment, the District shall have kept, performed and observed all of the covenants and promises in such Note and in the Indenture required or contemplated to be kept, performed and observed by the District or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Note and all covenants, agreements and other obligations of the District under the Indenture shall cease, terminate become void and be completely discharged as to such Note.

(c) Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Notes, those provisions of the Indenture relating to the maturity of the Notes, payment of the Principal Amount thereof, and interest thereon, and the dates thereof, exchange and transfer of Notes, replacement of mutilated, destroyed, lost or stolen Notes, the safekeeping and cancellation of Notes, non-presentment of Notes, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the Principal Amount of, and interest on, the Notes, to pay to the Owners the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Notes, those provisions of the Indenture contained in the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the District.

Notes Deemed To Have Been Paid. If moneys shall have been set aside and held by the Trustee for the payment of the Principal Amount of and interest on any Note, at the times and in the manner stipulated in the Indenture and therein, such Note shall be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Note shall prior to the Maturity Date be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (a) there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Note on and prior to the Maturity Date and the Principal Amount thereof on the Maturity Date, which sufficiency shall be verified in a report of an independent firm of nationally recognized certified public accountants, and (b) in the event such Note does not mature within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Note that the deposit required by clause (a) above has been made with the Trustee and that such Note is deemed to have been paid in accordance with the Indenture.

Payment of Notes After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the Principal Amount of, and interest on, any Notes and remaining unclaimed for two years after the Maturity Date, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Note shall look only to the District for the payment of thereof.

Miscellaneous

Limitation of Rights. Nothing in the Indenture or in the Notes expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the District and the Owners any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the District and the Owners.

Evidence of Rights of Note Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Notes transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the District if made in the manner provided in the Indenture.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Notes shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Note shall bind every future Owner of the same Note and the Owner of every Note issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

Disqualified Notes. In determining whether the Owners of the requisite aggregate Principal Amount of Notes have concurred in any demand, request, direction, consent or waiver under the Indenture, Notes which are known by the Trustee to be owned or held by or for the account of the District, or by any other obligor on the Notes, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the Notes, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Notes so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Notes and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the Notes. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Notes. The money held by the Trustee for the payment of the amount due on any particular date with respect to particular Notes shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Notes entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Notes and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

Waiver of Personal Liability. No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the Notes or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture shall relieve any such officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Notes, Best Best & Krieger LLP, San Diego, California, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Notes in substantially the following form:

[Date of Delivery]

Sweetwater Union High School District
Chula Vista, California

Re: $32,820,000 Sweetwater Union High School District 2013 Bond Anticipation Notes

Ladies and Gentlemen:

We have acted as bond counsel to the Sweetwater Union High School District (the "District") in connection with issuance of $32,820,000 aggregate principal amount of the District's 2013 Bond Anticipation Notes (the "Notes"). The Notes are being issued pursuant to Section 15150 of the California Education Code and a Note Indenture, dated as of March 1, 2013 (the "Note Indenture"), by and between the District and Union Bank, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), opinions of counsel to the District and the Trustee, certificates of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 Notes has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Notes, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county transportation commissions in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated March 14, 2013, or other offering material relating to the Notes and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Notes constitute the valid and binding limited obligations of the District.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District.

3. Interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Notes is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, 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. Interest on the Notes is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

We are admitted to the practice of law only in the State of California and our opinions are limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Notes terminates upon the issuance of the Notes and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

BEST BEST & KRIEGER LLP

APPENDIX C

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, which may be considered in evaluating the ability of the District to issue, or cause to be issued, General Obligation Bonds, at a time or times and in a principal amount or amounts, the available proceeds of which are sufficient, together with such other moneys as are available therefor, to pay the Notes on the maturity date thereof. It should not be inferred from the inclusion of this information in the Official Statement that the Notes 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 Notes from such funds. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" 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 ten middle schools, twelve high schools, one continuation school, four adult schools and four alternative education schools. One charter school also operates within the district boundaries.

As of Fiscal Year 2012-13, the District serves over 40,500 students in grades 7 to 12 and over 14,650 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 2012-13 is 38,704.40 and taxable property within the District has a Fiscal Year 2012-13 assessed valuation of $32,931,270,910. The District has budgeted Fiscal Year 2012-13 general fund expenditures of approximately $308.7 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 years in which the current terms for each member of the Board expire are set forth below:

Name	Office	Current Term Expires (December)
Jim Cartmill	Board President	2014
Arlie N. Ricasa	Board Vice President	2014
John McCann	Member	2014
Bertha López	Member	2016
Pearl Quiñones	Member	2016

District Administrators

The Superintendent of the District, Edward Brand, Ph.D, is responsible for the administration of the affairs of the District. Other senior administrators include, Albert G. Alt, Chief Financial Officer, and Karen Michel, Director of Finance.

Dr. Edward Brand, *Superintendent*. Dr. Ed Brand serves as Superintendent of the Sweetwater Union High School District. Dr. Brand previously served as Superintendent for a decade between 1995 and 2005 and was brought back to the district in June 2011 by a unanimous vote by the Board of Trustees. After 16 months, he was given a new two-year contract by the Board of Trustees. Dr. Brand is the architect of the Compact for Success which promises guaranteed admission to San Diego State University to Sweetwater graduates who meet a series of educational targets. Since the Compact began in the year 2000, the number of incoming freshmen from Sweetwater enrolling annually at San Diego State University has more than doubled. Dr. Brand was named Superintendent of the Year by the American Association of School Administrators for his vision in creating the Compact for Success. A native San Diegan, Dr. Brand attended United States International University and California Western University. He started his career in education as a teacher at Southwest High School. Prior to his retirement in 2005, he was an educator for 30 years. His wife, Betty, taught in the Sweetwater District for 33 years. Together, they raised four children.

Richard Knott, *Interim Chief Financial Officer*. Richard Knott has served as the District's Interim Chief Financial Officer since August 2012. Mr. Knott has over forty years of professional experience and joined the District after retiring from his position as Controller for the Los Angeles Unified School District (September 2003 to December 2005). He has provided consulting services through his own firm, RJKnott Consulting Services, since August 2003. Prior to that, Mr. Knott was employed for 30 years by the San Diego Unified School District (May 1973 to July 2003) serving as Controller/CFO (1999), Deputy Controller (1990), Financial Accounting Manager (1981), Supervising Financial Analyst (1979) and Senior Accountant (1973). Mr. Knott is a Certified Public Accountant and began his career in corporate accounting with Price Waterhouse & Co. Certified Public Accountants (1969) and the Irvin J. Kahn Organization (1970). Mr. Knott earned a Master's Degree in Educational Administration, with an emphasis in K-12 School Business and Finance, from San Diego State University and a Bachelor's Degree in Accounting from the University of San Diego (with honors). Mr. Knott's service accomplishments, board positions, officer's positions, peer review and instruction and professional memberships are extensive and include the National Association of Federally Impacted Schools (NAFIS) -- Board of Directors representing western states (1999-2003), California Association of Federally Impact Schools (CAFIS) – Past President, President, President Elect, Treasurer (1994-2002), Center for Civic Education – Board of Directors (1998-2002), California Association of School Business Officials (CASBO) – Finance Committee Chair San Diego/Imperial County Section and Southern California School Business Executives Committee as well as providing testimony before the U.S. Congress, House of Representatives Sub-Committee on Education and various committees of State Assembly and Senate representing district on school financial matters. Mr. Knott has announced his retirement effective March 1, 2013. Albert G. Alt, who most recently served as Chief Financial Officer for the Yuba Community College District, assumed the position of Chief Financial Officer on or about March 1, 2013.

Karen Michel, *Director of Finance*. Karen Michel has served as 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 2,213 certificated and 1,540 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
2007-08	2,561	1,771	4,332
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

District employees are represented by 3 labor associations. Currently, 99% of all District employees are covered by negotiation agreements, as follows: The District is currently in 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, 2013
Classified employees	California School Employees Association	June 30, 2013
Supervisors	National Association of Government Employees	June 30, 2013

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 C – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process" below.

About 66.56% of the District's 2011-12 general fund revenues was derived from anticipated State funds determined by student attendance. As budgeted, approximately 69.74% of the District's 2012-13 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, 2013.

SWEETWATER UNION HIGH SCHOOL DISTRICT
ENROLLMENT AND AVERAGE DAILY ATTENDANCE
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Enrollment	ADA	ADA Change From Prior Year	Base Revenue Limit
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

(1) 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, revenue limit 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 following table shows the District's adopted general fund budget for the 2012-13 Fiscal Year.

SWEETWATER UNION HIGH SCHOOL DISTRICT
GENERAL FUND - 2012-13 ADOPTED BUDGET

REVENUES	Adopted Budget
Revenue Limit Sources	$218,195,090
Federal Revenues	18,283,939
Other State Revenues	47,685,216
Other Local Revenues	24,674,846
TOTAL REVENUES	$308,839,091
EXPENDITURES	
Certificated Employees	$144,228,768
Classified Employees	51,274,028
Employee Benefits	62,372,213
Books and Supplies	10,030,220
Contracted Services	26,909,502
Capitalized Expenditures	0
Other	949,151
TOTAL EXPENDITURES	295,763,882
EXCESS OF REVENUES OVER EXPENDITURES	13,075,209
OTHER USES; TRANSFERS OUT	(12,980,999)
NET INCREASE/DECREASE FUND BALANCE	$ 94,210
BEGINNING GENERAL FUND BALANCE	30,862,463
ENDING GENERAL FUND BALANCE	$ 30,956,673

Source: The District.

The District categorizes its general fund revenues into four sources: (i) revenue limit 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.

Revenue Limit Sources. In general, base revenue limits are calculated for each school district by multiplying (i) its ADA by (ii) a base revenue limit 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 base revenue limit per student for Fiscal Year 2012-13 is 6,028.

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, are budgeted to equal approximately 7.17% of the District's general fund revenues in Fiscal Year 2012-13.

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 budget assumes that revenues from other State sources will be approximately 15.21% 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 and has budgeted $5,866,301 for such aid in 2012-13. 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 are budgeted at 7.9% of the total general fund revenues for Fiscal Year 2012-13.

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 Resolution will be held in the County Investment Pool and disbursed in accordance with the 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 receives approximately 15.21% of its general fund revenues from State funds, budgeted at approximately $51,742,383 million in Fiscal Year 2012-13. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

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 revenue limit per unit of average daily attendance (ADA). Such apportionments will, generally speaking, amount to the difference between the district's revenue limit 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 revenue limit sources and other State programs and the District's local property taxes and local revenues sources. Revenue limit 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. Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the school district's student enrollment measured in units of average daily attendance ("A.D.A."). The base revenue limit is calculated from the school district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization 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. School districts, like the District, that receive some equalization aid are commonly referred to as "revenue limit districts."

Changes in local property tax income and student enrollment (A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, assuming property tax revenues are unchanged. Operating costs increase disproportionately slowly, and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools. In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, the fixed property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus is financially beneficial to a basic aid district. Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes.

In its 2012-13 adopted budget, the District projects that it will receive approximately $237,322,377 million in aggregate revenue limit 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 million 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. The District's State lottery revenue is currently budgeted at $5,866,301 million for Fiscal Year 2012-13.

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. The Governor signed the Fiscal Year 2012-13 State budget on June 27, 2012.

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 2012-13, Fiscal Year 2010-11, Fiscal Year 2011-12 and Fiscal Year 2012-13 (see "−2012-13 State Budget" and "−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.

2012-13 State Budget. The Governor signed the fiscal year 2012-13 State budget (the "2012-13 State Budget") on June 27, 2012. The 2012-13 State Budget closes a $15.7 billion budget gap and builds a reserve of nearly $1 billion with (i) $8.1 billion in expenditure reductions, (ii) $6 billion in increased revenues (which assumes the approval by the voters of temporary taxes at the November 2012 election, as further described below) and (iii) $2.5 billion from certain loan and transfer measures. This $15.7 billion budget gap is less than the $26.6 billion budget gap encountered for fiscal year 2011-12. The 2012-13

State Budget purports to position the State to have a balanced budget in an ongoing manner for the first time in over a decade, with future spending expected to stay within available revenues.

The 2012-13 State Budget assumes the passage of The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure") at the November 6, 2012 election. Such Temporary Tax Measure, which was approved by the voters at the November 6, 2012 election, increases the personal income tax on the State's highest income taxpayers by up to 3% for a period of seven years starting with the 2012 tax year, and increases the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013. The 2012-13 State Budget projects that the Temporary Tax Measure will generate an estimated $8.5 billion in revenues in fiscal year 2012-13. Such additional revenues would increase the State's Proposition 98 obligation by $2.9 billion and provide a net benefit of $5.6 billion to the State's general fund.

With the voter approval of the Temporary Tax Measure, the 2012-13 State Budget provides $53.6 billion in Proposition 98 funding for K-12 schools and community colleges, a $6.7 billion (or 14%) increase from fiscal year 2011-12. Of such increased amount, $6.1 billion is designated for K-12 schools. The 2012-13 State Budget maintains level Proposition 98 programmatic funding for all K-12 schools, pays off $2.2 billion in the amount of payments to K-12 schools and community colleges that are deferred each year, and funds the Quality Education Investment Act program (as described below) within the Proposition 98 guarantee. According to the 2012-13 State Budget, the Temporary Tax Measure is expected to increase Proposition 98 funding for K-12 schools and community colleges by an aggregate amount of $17.2 billion (or 37%) over the next four fiscal years when compared to fiscal year 2011-12. This projected increase reverses years of cuts in funding for K-12 schools and community colleges.

K-12 adjustments provided in the 2012-13 State Budget include:

- Proposition 98 Adjustments. A decrease of approximately $630 million due to (i) eliminating the hold-harmless adjustment provided to K-12 schools from the elimination of the sales tax on gasoline in fiscal year 2010-11, and (ii) using a consistent current value methodology to rebench the Proposition 98 minimum guarantee for the exclusion of child care programs, the inclusion of special education mental health services, and new property tax shifts.

- *Redevelopment Agency Asset Liquidation*. An increase of $1.3 billion in local property taxes for fiscal year 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies, which increase in local revenues also reduces Proposition 98 general fund by an identical amount.

- *Quality Education Investment Act*. A decrease of $450 million in funding for fiscal year 2012-13 with respect to the Quality Education Investment Act. The overappropriation in fiscal year 2011-12 will be used to prepay the $450 million required to be provided on top of the Proposition 98 minimum guarantee in fiscal year 2012-13. The program will be funded within the Proposition 98 minimum guarantee to achieve one-time savings of $450 million for fiscal year 2012-13.

- *K-12 Deferrals*. An increase of $2.1 billion in Proposition 98 funding to reduce K-12 inter-year budgetary deferrals from $9.5 billion to $7.4 billion.

- *Mandates Block Grant*. An increase of $86.2 million from fiscal year 2011-12 to provide a total of $166.6 million for K-12 mandates through a new voluntary block grant, in which participating school districts and county offices of education would receive $28 per student and participating charter schools would receive $14 per student. School districts and county offices of education that choose not to participate in the block grant program would retain their right to submit claims for reimbursement, subject to audit by the State Controller.

- *Charter Schools*. An increase of $53.7 million in Proposition 98 funding for charter school categorical programs to fund growth in charter school enrollment. Additionally, the 2012-13 State Budget provides for (i) the expansion of the ability of school districts to convey surplus property to charter schools, (ii) the authorization of county treasurers to provide charter schools with short-term cash loans, and (iii) the authorization of charter schools to participate in the temporary revenue anticipation note financing mechanisms that are currently available to school districts and county offices of education.

- *Child Care*. Total savings of $294.3 million from (i) the inclusion of part-day center-based services for 3- and 4- year-olds within the State Preschool Program funded through Proposition 98, (ii) the reduction of child care provider contracts, and (iii) not providing the statutory cost-of-living-adjustment for non-CalWORKs programs.

The complete 2012-13 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 interest address or for the accuracy, completeness or timeliness of information posted there, 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 2012-13 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 2013-14 State Budget. The Governor released his proposed fiscal year 2013-14 State budget (the "2013-14 Proposed State Budget") on January 10, 2013. The 2013-14 Proposed State Budget projects a balanced budget for fiscal year 2013-14 and proposes a multiyear plan that is balanced, maintains a $1 billion reserve and pays down budgetary debt from past years. In comparison, a $15.7 billion and $26.6 billion budget gap was encountered in fiscal years 2012-13 and 2011-12, respectively. The 2013-14 Proposed State Budget provides that the projected balanced budget is largely the result of the various spending cuts implemented over the previous two fiscal years, and the passage of the Temporary Tax Measure at the November 6, 2012 election. The 2013-14 Proposed State Budget acknowledges that the Temporary Tax Measure will only provide temporary revenues, with the sales tax increase expiring at the end of 2016 and the income tax increase expiring at the end of 2018. Accordingly, the 2013-14 Proposed State Budget notes the State must begin to plan now to ensure that the budget will remain balanced after such temporary tax increases expire. The 2013-14 Proposed State Budget also notes certain other risks that could return the State to fiscal deficits, including: fiscal challenges of the federal government, deviation from projected economic growth, rising health care costs and federal government and court interference with the State's efforts to reduce spending.

In addition to the revenues projected to be generated by the Temporary Tax Measure, additional revenues are also expected due to the passage of Proposition 39 (The California Clean Energy Jobs Act) at the November 6, 2012 election ("Proposition 39"), which establishes a single sales tax for out-of-state corporations. Such tax measures are expected to collectively generate $3.2 billion of State general fund revenue in fiscal year 2012-13 and $5.8 billion of State general fund revenue in fiscal year 2013-14, or 5.9% of total State general fund revenue ($98.5 billion). Of such total State general fund revenue, personal income taxes are expected to contribute $61.7 billion (62.7%), sales and use taxes are expected to contribute $23.3 billion (23.6%) and corporation taxes are expected to contribute $9.1 billion (9.3%).

Absent any changes, the 2013-14 Proposed State Budget projects that the fiscal year 2013-14 budget would be balanced but would lack an adequate reserve. To create a $1 billion reserve, the 2013-14 Proposed State Budget proposes several measures, such as the suspension of certain newly identified mandates, the use of fiscal year 2012-13 funds appropriated above the Proposition 98 minimum guarantee to prepay certain obligations to schools under the Quality Education Investment Act, as described below, and the extension of the hospital quality assurance fee and the gross premiums tax on Medi-Cal managed care plans. The 2013-14 Proposed State Budget dedicates $4.2 billion in fiscal year 2013-14 to pay down the State's budgetary debt (which budgetary debt amounted to $34.7 billion at the end of fiscal year 2010-11 and is currently estimated to be $27.8 billion at the end of fiscal year 2012-13) and estimates that such budgetary debt will be reduced to less than $5 billion by the end of fiscal year 2016-17.

As it relates to K-12 education, the 2013-14 Proposed State Budget provides Proposition 98 funding of $56.2 billion for fiscal year 2013-14, an increase of $2.7 billion from fiscal year 2012-13, which translates to Proposition 98 per-pupil expenditures of $8,304 in fiscal year 2013-14, as compared to $7,967 in fiscal year 2012-13. Total per-pupil expenditures from all sources are projected to be $11,455 in fiscal year 2012-13 and $11,742 in fiscal year 2013-14, including funds provided for prior year "settle-up" obligations. For fiscal year 2012-13, K-12 A.D.A. is estimated to be 5,982,430, an increase of 16,090 from fiscal year 2011-12. The 2013-14 Proposed State Budget estimates that K-12 A.D.A. will increase by an additional 5,967 in fiscal year 2013-14 to 5,988,397.

The 2013-14 Proposed State Budget proposes a new funding formula for school districts and county offices of education, the Local Control Funding Formula, to increase local control and flexibility, reduce State bureaucracy and to ensure that student needs drive the allocation of resources. The Local Control Funding Formula would replace the existing revenue limit funding system and most categorical programs, and would distribute 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 and economically disadvantaged students. Every school district would be entitled to a Base Grant adjusted for grade span cost differentials, multiplied by A.D.A. The average Base Grant, when fully implemented, is expected to be equal to the current average undeficited school district revenue limit. School districts would be entitled to supplemental funding increases up to 35% of the Base Grant. When the proportion of English language learners and economically disadvantaged students exceeds 50% of its total student population, a school district would receive an additional concentration grant equal to 35% of the Base Grant for each English language learner and economically disadvantaged student above the 50% threshold. Under the new formula, "basic aid districts" would be defined as school districts whose local property taxes equal or exceed their district's formula allocation and would continue to retain local property taxes in excess of their new formula allocation.

Additionally, the 2013-14 Proposed State Budget proposes the following permanent changes to further increase local control and flexibility: (i) elimination of the minimum contribution requirement for routine maintenance, (ii) elimination of the required local district set-aside for deferred maintenance contributions, and (iii) ability to use proceeds from the sale of any real and personal surplus property for any one-time general fund purposes. The 2013-14 Proposed State Budget also proposes other program reforms including, but not limited to, reforms relating to charter schools, special education, adult education and technology-based instruction.

Certain workload adjustments for K-12 programs included in the 2013-14 Proposed State Budget include the following:

- K-12 Deferrals. An increase of approximately $1.8 billion Proposition 98 general fund to reduce inter-year budgetary deferrals. Combined with the $2.2 billion provided in fiscal year 2012-13 to retire inter-year deferrals, the total outstanding deferral debt for K-12 is projected to be reduced to $5.6 billion at the end of fiscal year 2013-14, and all remaining K-12 deferrals are projected to be paid off by the end of fiscal year 2016-17.

- New School District Funding Formula. An increase of approximately $1.6 billion in Proposition 98 general fund for school districts and charter schools in fiscal year 2013-14.

- New County Office of Education Funding Formula. An increase of approximately $28.2 million Proposition 98 general fund to support first year implementation of a new funding formula for county offices of education in fiscal year 2013-14.

- Energy Efficiency Investments. An increase of $400.5 million Proposition 98 general fund to support energy efficiency projects in schools consistent with The California Clean Energy Jobs Act.

- Cost-of-Living Adjustment Increases. A 1.65% cost-of-living adjustment ("COLA") for a select group of categorical programs that will remain outside of the new student funding formula, including special education and child nutrition. COLA for school district and county offices of education revenue limits will be provided in the form of new funding allocated for the implementation of the new funding formulas.

- Charter Schools. An increase of $48.5 million Proposition 98 general fund to support projected charter school A.D.A. growth.

- K-12 Mandates Funding. An increase of $100 million to the K-12 portion of the mandates block grant to support costs associated with mandates relating to graduation requirements and behavioral intervention plans.

- Local Property Tax Adjustments. An increase of $526.6 million and $608.6 million Proposition 98 general fund for school district and county office of education revenue limits in fiscal years 2012-13 and 2013-14, respectively, as a result of lower or reduced offsetting property tax revenues.

- A.D.A. An increase of $304.4 million in fiscal year 2012-13 for school district and county office of education revenue limits as a result of an increase in projected A.D.A. from the 2012-13 State Budget. An increase of $2.8 million in fiscal year 2013-14 for school districts and county offices of education as a result of projected growth in A.D.A. in fiscal year 2013-14.

- The revised Proposition 98 guarantee for fiscal year 2012-13 will be $162.8 million below the level of Proposition 98 General Fund appropriated in fiscal year 2012-13, which excess appropriated amount will be used to retire future funding obligations under the terms of the Quality Education Investment Act (see "–2012-13 State Budget" above).

The complete 2013-14 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 there, and such information is not incorporated herein by such reference.

LAO Overview of 2013-14 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2013-14 Proposed State Budget entitled "The 2013-14 Budget: Overview of the Governor's Budget" on January 14, 2013 (the "2013-14 Budget Overview"), in which the LAO acknowledges that the State has reached a point where, unlike in recent years, its underlying expenditures and revenues are roughly in balance. The LAO commends the 2013-14 Proposed State Budget emphasis on paying down the State's budgetary debt, especially in light of the risks and pressures that the State still faces (e.g., the uncertainty at the federal level over "fiscal cliff" issues related to the debt limit and sequestration). However, despite the commitment to paying down the State's budgetary debt under the Governor's multiyear plan, the 2013-14 Budget Overview notes that the State would still have no sizeable reserve at the end of fiscal year 2016-17 and further, the State would not have begun addressing significant unfunded liabilities associated with the teachers' retirement system and state retiree health benefits. With respect to the assumption in the 2013-14 Proposed State Budget regarding the continuation of moderate economic growth, the 2013-14 Budget Overview recognizes that a prolonged impasse at the federal level over "fiscal cliff" issues could affect consumer, business and investor confidence and negatively impact the ongoing economic recovery. In addition, the 2013-14 Budget Overview notes that there is uncertainty regarding the projected improvement in the State's housing market and construction industry, which is assumed in the 2013-14 Proposed State Budget, as such projections could be negatively affected by the tax increases under the Temporary Tax Measure.

With respect to the Proposition 98 budget plan in the 2013-14 Proposed State Budget, the 2013-14 Budget Overview commends the Governor's approach to dedicate $1.9 billion in fiscal year 2013-14 to paying down school and community college deferrals (while using the remainder for programmatic increases) which balanced approach would allow the State to eliminate all school and community college deferrals by fiscal year 2016-17. The LAO, though, notes that the 2013-14 Proposed State Budget does not address an outstanding mandate backlog of $1.9 billion. The 2013-14 Budget Overview also finds many strong components with the Governor's proposed changes to K-12 funding, finding that the new approach, if implemented, would replace a complicated, top-down system with one that is more transparent, better linked with student costs and locally driven. Nonetheless, the LAO believes that the proposed K-12 funding plan can be strengthened with some modifications, such as the inclusion (and not exclusion) of the Targeted Instructional Improvement Grant and Home-to-School Transportation programs in the new formula, and the implementation of procedures to ensure that supplemental funds are used by school districts to benefit disadvantaged children. The LAO also notes some concerns with respect to the Proposition 98 budget plan in the 2013-14 Proposed State Budget, including, but not limited to, concerns about the inclusion of Proposition 39 revenues (including those revenues required to be spent on energy efficiency projects) in the Proposition 98 calculation. The 2013-14 Budget Overview provides that such application of Proposition 39 revenues is a departure from how revenues should be treated for Proposition 98 and contrary to what voters were told regarding Proposition 39. The LAO, accordingly, recommends that the State Legislature exclude all Proposition 39 revenues required to be used on energy efficiency projects ($450 million) from the Proposition 98 calculation.

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 changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for 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 during fiscal year 2012-13 and in future fiscal years. Continued State budget shortfalls in fiscal year 2012-13 and future fiscal years could have a material adverse financial impact on the District.

Changes in State Budget

The final fiscal year 2013-14 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, the District cannot predict the impact that the final fiscal year 2013-14 State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2013-14 State budget will be affected by national and State economic conditions and other factors which the District cannot predict.

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 base revenue limit 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 base revenue limit 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." School districts that receive some State aid are commonly referred to as "revenue limit districts."

The District is not a "basic aid district." Local property tax revenues account for approximately 25% of the District's aggregate revenue limit income, and are budgeted to be $55,378,184, or 17.6% of total general fund revenue in fiscal year 2012-13. 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 Section 41010 of the California Education Code, 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 D 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, 2012 are attached hereto as APPENDIX D. 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, Christy White, a Professional Accountancy Corporation, San Diego, California, 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 D attached hereto). Christy White, a Professional Accountancy Corporation's involvement has been limited to the preparation of the District's audited financial statements included herein as APPENDIX D 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 D. 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 and 2012-13 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, 2010 through June 30, 2012. These summary statements are unaudited and 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 2010-09 through 2011-12

	FISCAL YEAR		
	2009-10	**2010-11**	**2011-12**
REVENUES			
General Revenues			
Revenue Limit	$226,318,343	$240,183,930	$236,478,953
Federal Revenue	36,573,698	29,768,589	32,150,022
Other State Revenue	50,531,667	56,090,989	56,175,909
Miscellaneous	28,992,428	31,688,988	30,520,584
Total Revenues	**$342,416,136**	**$357,732,496**	**$355,325,468**
EXPENDITURES			
Certificated Salaries	$181,591,785	$177,972,821	$171,908,185
Classified Salaries	62,403,012	61,503,242	57,044,314
Employee Benefits	61,145,085	66,129,709	62,218,062
Books and Supplies	11,850,317	12,775,231	14,020,700
Services and Other Operating Expenditures	28,077,937	28,274,988	27,772,848
Capital Outlay	316,960	505,927	1,117,384
Outgo (excluding Transfers of indirect Costs)	2,695,079	3,385,351	3,355,872
Outgo – Transfers of Indirect Costs	(1,212,837)	(967,032)	(126,357)
Total Expenditures	**$346,867,340**	**$349,580,237**	**$337,311,008**
Revenues Over (Under) Expenditures	$ (4,451,204)	$ 8,152,270	$ 18,013,560
Other Financing Sources (Uses)	(116,747)	(11,994,431)	(22,427,368)
Interfund transfers in	11,036,434	0	**71,988**
Interfund transfers out	(16,153,181)	(14,009,037)	(22,499,356)
All other financing sources	5,000,000	2,014,606	0
All other financing uses	0	0	0
Total Other Financing Sources and Uses	(116,747)	(11,994,431)	(22,427,368)
Other Restatements	0	1,670,500	0
Net Change in Fund Balances	(4,567,951)	(3,842,161)	(4,413,808)
Beginning Fund Balances	42,015,883	37,447,932	35,276,271
Ending Fund Balances	**$ 37,447,932**	**$ 35,276,271**	**$ 30,862,463**

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, 2012 are attached as APPENDIX D to this Official Statement. A material variance between the table above and the current audited Statement of Income, Expenditures, and Changes in Fund Balance is the inclusion in the category "Other State Revenue", pursuant to GASB, of the State contribution of 4.517% of teacher payroll to CalSTRS. See APPENDIX C – "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 and 2011-12.

SWEETWATER UNION HIGH SCHOOL DISTRICT
Summary of General Fund Balance Sheet
Fiscal Years 2010-11 and 2011-12

	Fiscal Year 2010-11	Fiscal Year 2011-12
ASSETS		
Cash	$ 13,462,081	$ 15,298,076
Accounts receivable	85,881,199	104,575,357
Due from other funds	2,968,558	3,571,393
Inventories	189,948	226,557
Prepaid expenditures	520,025	490,532
Total Assets	$103,021,811	$124,161,915
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 7,932,583	$ 8,613,699
Due to other funds	51,343,525	83,205,062
Deferred revenue	8,469,433	1,480,692
Total Liabilities	67,745,541	93,299,453
Fund Balances		
Nonspendable	734,967	742,083
Restricted	5,049,667	5,013,122
Committed	--	--
Assigned	16,070,478	8,370,619
Unassigned	13,421,158	16,736,638
Total Fund Balances	$35,276,270	$30,862,462
Total Liabilities and Fund Balances	$103,021,811	$124,161,915

Source: District Audited Financial Reports for fiscal years 2010-11 through 2011-12.

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 notes 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 2010-11, 2011-12 and 2012-13 and audited actuals for fiscal years 2010-11 and 2011-12.

SWEETWATER UNION HIGH SCHOOL DISTRICT
General Fund Budgets for Fiscal Years 2010-11 through 2012-13, Unaudited Actuals for Fiscal Years 2010-11 and 2011-12[1]

	2010-11 Adopted Budget	2010-11 Audited Actuals	2011-12 Original Adopted Budget	2011-12 Audited Actuals	2012-13 Original Adopted Budget
Revenues:					
Revenue Limit Sources	$225,666,913	$240,183,930	$237,177,154	$236,478,954	$218,195,090
Federal Sources	21,487,537	29,768,589	28,426,357	32,150,022	18,283,939
Other state revenues	46,074,262	63,564,712	48,417,888	56,175,910	47,685,216
Other local sources	27,201,840	31,688,988	24,811,362	30,520,582	24,674,846
Total Revenues	320,430,552	365,206,219	338,832,761	355,325,468	308,839,091
EXPENDITURES					
Certificated salaries	164,099,820	177,972,820	158,123,427	171,908,180	144,228,768
Classified salaries	53,885,196	61,503,238	57,853,969	57,044,315	51,274,028
Employee benefits	57,838,113	73,603,430	57,500,057	62,218,064	62,372,213
Books and supplies	15,487,171	12,775,230	11,918,742	14,020,699	10,030,220
Services and operating expenditures	26,244,941	28,274,987	26,935,398	--	26,909,502
Expenditures	--	--	--	27,772,851	--
Capital outlay	--	505,927	--	1,117,385	--
Other outgo					
Excluding Transfers of indirect costs	2,430,819	3,385,350	2,765,431	3,355,872	2,157,645
Transfers of indirect costs	(1,202,546)	(967,032)	(1,250,074)	(126,357)	(1,208,494)
Total Expenditures	318,783,514	357,053,950	313,846,950	337,311,909	295,763,882
Excess (Deficiency) of Revenues Over Expenditures	1,647,038	8,152,269	24,985,811	18,013,559	13,075,209
Other Financing Sources (Uses):					--
Other sources	--	2,014,606	--	71,989	--
Transfers out	(13,841,064)	(14,009,037)	(13,982,420)	(22,499,356)	(12,980,999)
Net Financing Sources (Uses)	(13,841,064)	(11,994,431)	(13,982,420)	(22,427,367)	(12,980,999)
NET CHANGE IN FUND BALANCES	(12,194,026)	(3,842,162)	11,003,391	(4,413,808)	94,210
Fund Balance – Beginning, as Originally	37,447,932	37,447,932	35,276,270	35,276,270	30,862,462
Fund Balance – Adjustments	--	1,670,500	--	--	--
Fund Balance – Beginning, as Restated	37,447,932	39,118,432	35,276,270	35,276,270	--
Fund Balance – Ending	$25,253,906	$35,276,270	$46,279,661	$30,862,462	$30,956,672

(1) As set forth in the audited financial statements for the year ended June 30, 2012 attached as APPENDIX D to this Official Statement. This statement is a summary statement only. The District's Basic Financial Statements, including the notes to the Audited Financial Statements, are an integral part of and necessary to a complete understanding of this statement.

(2) For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement 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. This Statement 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.

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, 2012, is shown below:

	Balance July 01, 2011	Accretion/ Additions	Deductions	Balance June 30, 2012	Balance Due In One Year
Governmental Activities					
General Obligation (GO) Bonds	$350,968,579	$27,519,760	$27,710,000	$350,778,339	$6,000,000
Unamortized Premium on Issuance	6,522,489	--	270,458	6,252,031	270,458
Total General Obligation Bonds	357,491,068	27,519,760	27,980,458	357,030,370	6,270,458
Certificates of Participation (COPs)	3,730,000	--	1,825,000	1,905,000	1,905,000
Special Revenue Bonds	213,785,000	--	7,970,000	205,815,000	8,590,000
Qualified Zone Academy Bond	4,710,000	--	290,000	4,420,000	295,000
Capital leases	5,454,839	--	2,201,109	3,253,730	1,545,177
Net OPEB obligation	19,127,906	3,360,952		22,488,858	
Early Retirement Incentive	12,070,478	--	4,977,787	7,092,691	967,691
Compensated Absences	6,125,301	269,768		6,395,069	--
Total	622,494,592	31,150,480	45,244,354	608,400,718	19,573,326

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. 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 that authorization consisting of $153,570,000 in serial bonds and $33,439,415 in capital appreciation bonds, with interest rates ranging from 2.5% to 5.27%. There is no remaining authorization under such Proposition BB Bonds.

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 pursuant to a bond measure known as "Proposition O". On March 12, 2008, Series A amounting to $180,000,000 were issued under that authorization consisting of $17,265,000 in serial bonds and $162,735,000 in term bonds with state interest rates ranging from 3% 5.5%. The Series 2008A Bonds are, to date, the only issue under the 2006 Bond Authorization. The District has a remaining $464,000,000 aggregate principal amount of general obligation bonds authorized but unissued.

The following table summarizes the debt service requirements for the outstanding Proposition BB Bonds and the Series 2008A Bonds (assuming no optional redemption):

Bond Year Ending August 1	Annual Debt Service Proposition BB Bonds	Annual Debt Service Series 2008A Bonds	Combined Annual Debt Service
2013	$ 11,520,055.00	$ 10,040,512.50	$ 21,560,567.50
2014	12,047,065.00	10,096,412.50	22,143,477.50
2015	12,586,702.50	10,048,443.76	22,635,146.26
2016	13,134,946.26	10,146,843.76	23,281,790.02
2017	13,703,202.50	10,099,643.76	23,802,846.26
2018	14,289,127.50	10,047,443.76	24,336,571.26
2019	14,888,852.50	9,522,818.76	24,411,671.26
2020	15,509,690.00	8,995,281.26	24,504,971.26
2021	16,156,412.50	8,761,281.26	24,917,693.76
2022	16,635,093.76	8,761,281.26	25,396,375.02
2023	17,136,293.76	8,761,281.26	25,897,575.02
2024	17,642,331.26	8,761,281.26	26,403,612.52
2025	18,167,531.26	8,761,281.26	26,928,812.52
2026	18,701,218.76	8,761,281.26	27,462,500.02
2027	19,250,031.26	8,761,281.26	28,011,312.52
2028	19,820,612.50	8,761,281.26	28,581,893.76
2029	19,068,000.00	8,761,281.26	27,829,281.26
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
20	-	14,447,937.50	14,447,937.50
2047	-	14,449,500.00	14,449,500.00
Total	$270,257,166.32	$418,034,931.52	$688,292,097.84

Certificates of Participation. The District has certificates of participation (COP) outstanding as of June 30, 2011 for a total principal balance of $3,730,000. The Certificates of Participation were executed and delivered on July 13, 2006 in the amount of $11,875,000, with interest rates ranging from 3.7% to 4.01%, to advance refund various lease purchases for relocatable buildings and equipment. The outstanding principal balance as of June 30, 2012 amounted to $1,905,000. The annual requirements to amortize the certificates of participation, outstanding as of June 30, 2012, consisted of the principal balance of $1,905,000 and interest balance of $85,725.

Special Revenue Bonds - Community Facilities District Obligations. The Sweetwater Union High School District Financing Corporation has caused the execution and delivery of certain certificates of participation payable from general fund lease payments, for which special taxes are pledged, and certain special tax revenue bonds to which special tax revenues are pledged, as authorized by the Mello Roos Community Facilities Act of 1982, as amended, and the Mark Roos Local Bond Pooling Act of 1985. The debt is payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. The outstanding obligations amounted to $205,815,000 as of June 30, 2012. For additional information, see Note 10 to the District's financial statements attached hereto as APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012." The annual requirements to amortize the CFD obligations, outstanding as of June 30, 2012, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	$ 8,590,000	$ 7,923,231	$ 16,513,231
2014	8,920,000	7,577,042	16,497,042
2015	9,130,000	7,205,308	16,335,308
2016	9,255,000	6,816,135	16,071,135
2017	9,725,000	6,400,965	16,125,965
2018 - 2021	53,050,000	24,911,820	77,961,820
2023 - 2027	55,470,000	11,170,575	66,640,575
2028 - 2030	18,025,000	1,157,888	19,182,888
Total	$172,165,000	$73,162,964	$245,327,964

The Community Facilities District Obligations do not constitute a general fund obligations of the District. The annual lease payments associated with each series, and principal and interest on such bonds, payable from a pledge of special taxes levied on property within the Community Facilities Districts and pledged to such payments.

Development Revenue Bond Obligations. On February 1, 2005, the California Statewide Communities Development Authority and Plan Nine Partners, LLC, a nonprofit public benefit corporation issued Series A and B in variable rate special revenue bonds in the amounts of $25,415,000 and $8,235,000, respectively. Payments of principal and interest are secured by an irrevocable direct pay letter of credit between the District (and Plan Nine Partners, LLC) and the bank and which expires February 2, 2035 in the amount of $34,129,962. The proceeds were used to purchase a 23.82 acre parcel of land in the city of Chula Vista, California (see Note 5 to the District's financial statements attached hereto as APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012"). The land is held in the name of Plan Nine Partners, LLC, until such time as the bonds are paid off and the land is conveyed to the District pursuant to an exchange agreement. The District will lease the project from Plan Nine Partners and the District is obligated under a lease agreement to pay rent equal to the debt service on the bonds. The principal balance outstanding on June 30, 2012 is $33,650,000 as only interest payments have been made to date. For additional information, see Note 10 to the District's financial statements attached hereto as APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

Capital Leases. The District s leases for facilities and equipment under agreements with options to purchase as described in Note 10 to the District's financial statements attached hereto as APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

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

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

Early Retirement Incentive. In 2010-11, the District offered an early retirement incentive to 102 certificated employees, 150 classified employees and to 17 management employees at a cost of $17,875,534. The outstanding balance will be paid in accordance with the schedule below:

Fiscal Year Ended June 30,	Total
2013	$ 967,691
2014	875,000
2015	875,000
2016	875,000
2017	875,000
2018 - 2021	2,625,000
Total	$ 7,092,691

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, 2011, an actuarial valuation for the entire system, including enhanced benefits, showed an estimated unfunded actuarial liability of $64.5 billion, an increase of $8.5 billion from the June 30, 2010 valuation. 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.

CalSTRS has developed options to address the shortfall but most would require legislative action. In addition, in the Governor's 2005–06 proposed State budget and the 2005-06 May revise of the 2005-06 proposed State budget, the Governor previously proposed increasing the fixed contribution rate from 8.25% to 10.25% for school districts. Subsequently, the final 2005-06 State budget was adopted with a contribution rate of 8.25%. In addition to such prior proposal by the Governor to increase the fixed contribution rate for school districts, other proposals have previously been suggested that would modify the District's obligation to make contributions to CalSTRS to closely parallel the full cost of the retirement benefits provided by CalSTRS, which proposals would include components for unfunded liability. If such proposals were adopted, the District's annual obligations to CalSTRS would likely increase substantially. Governor Brown, however, has recently signed a pension reform measure that is expected to reduce future pension obligations of public employers like the District. See "–Governor's Pension Reform" below.

The District's employer contributions to CalSTRS for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 were $16,233,633, $15,352,587, $15,020,515 and $14,457,279, respectively, and were equal to 100% of the required contributions for each year. The District has budgeted employer contributions to CalSTRS of $12,646,712 for fiscal year 2012-13.

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.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2010, the CalPERS Plan for Schools had a funded ratio of 69.5% on a market value of assets basis. The funded ratio as of June 30, 2009, June 30, 2008 and June 30, 2007 was 65.0%, 93.8% and 107.8%, respectively. In June 2009, the CalPERS Board of Administration adopted a new employer rate smoothing methodology for local governments and school employer rates. It was designed to ease the impact of the investment losses which were then expected in fiscal year 2008-09 on affiliated public employers while strengthening the long-term financial health of the pension fund. Under the new methodology, investment losses will be amortized and paid off over a fixed and declining 30-year period instead of a rolling 30-year amortization period.

On March 14, 2012, the CalPERS Board of Administration voted to reduce the 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.

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 is expected to increase beginning in fiscal year 2012-13. The District has budgeted employer contributions to CalPERS of $6,574,694 for fiscal year 2012-13.

CalPERS issues a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS CAFR and actuarial valuations may be obtained from CalPERS Financial Services Division. The information set forth therein 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 D – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012, Note 13."

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 D – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012, Note 13."

GASB 25 and 27. On July 8, 2011, the Governmental Accounting Standards Board ("GASB") released its exposure draft of proposed changes in pension accounting and financial reporting standards for state and local governments (GASB 25 and 27), and if implemented, these changes will impact the accounting treatment of pension plans, such as CalSTRS and CalPERS, in which state and local governments, like the District, participate. 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. Following public comments on the exposure draft in 2011, new standards could be adopted in final form in 2012 and are expected to take effect in fiscal years beginning mid-2013 for most employers. The District cannot predict whether GASB will implement these proposed changes in its accounting standards.

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 D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012" 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	(1,263,313)
Annual OPEB cost (expense)	5,774,124
Contributions made	(2,413,172)
Increase in net OPEB obligation	3,360,952
Net OPEB obligation, beginning of the year	19,127,906
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 governing board. For fiscal year 2011-12, the District contributed $2,413,172. 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)
2012	$5,774,124	$2,413,172	42%	$22,488,858
2011	5,964,136	1,684,471	28	19,127,906
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 following the notes 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 the 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 D – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012, Note 15."

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 XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA 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 XIIIA 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 XIIIA 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 XIIIA. 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 XIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. 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 XIIIB 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 XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB 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 XIIIB 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 XIIIB, 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 estimates an appropriations limit for the 2012-13 fiscal year of $224,404,098. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIIIC and Article XIIID 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 XIIIC and XIIID ("Article XIIIC" and "Article XIIID," 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 XIIIC 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 XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID 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 XIIIA 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 XIIIB 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 XIIIB 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 XIIIB 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 XIIIA, Article XIIIB, Article XIIIC, Article XIIID, 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.

APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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SWEETWATER UNION HIGH SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012

A PROFESSIONAL ACCOUNTANCY CORPORATION

SWEETWATER UNION HIGH SCHOOL DISTRICT
OF SAN DIEGO COUNTY

CHULA VISTA, CALIFORNIA

JUNE 30, 2012

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

GOVERNING BOARD

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

DISTRICT ADMINISTRATORS

Dr. Edward Brand
Interim Superintendent

Dianne Russo
Chief Financial Officer

Sandra Huezo
Assistant Superintendent, Human Resources

SWEETWATER UNION HIGH SCHOOL DISTRICT
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FINANCIAL SECTION

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Licensed by the California
State Board of Accountancy

INDEPENDENT AUDITORS' REPORT

Governing Board
Sweetwater Union High School District
Chula Vista, California

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2012 on our consideration of Sweetwater Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Christy White Associates

San Diego, California
December 15, 2012

SWEETWATER UNION HIGH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

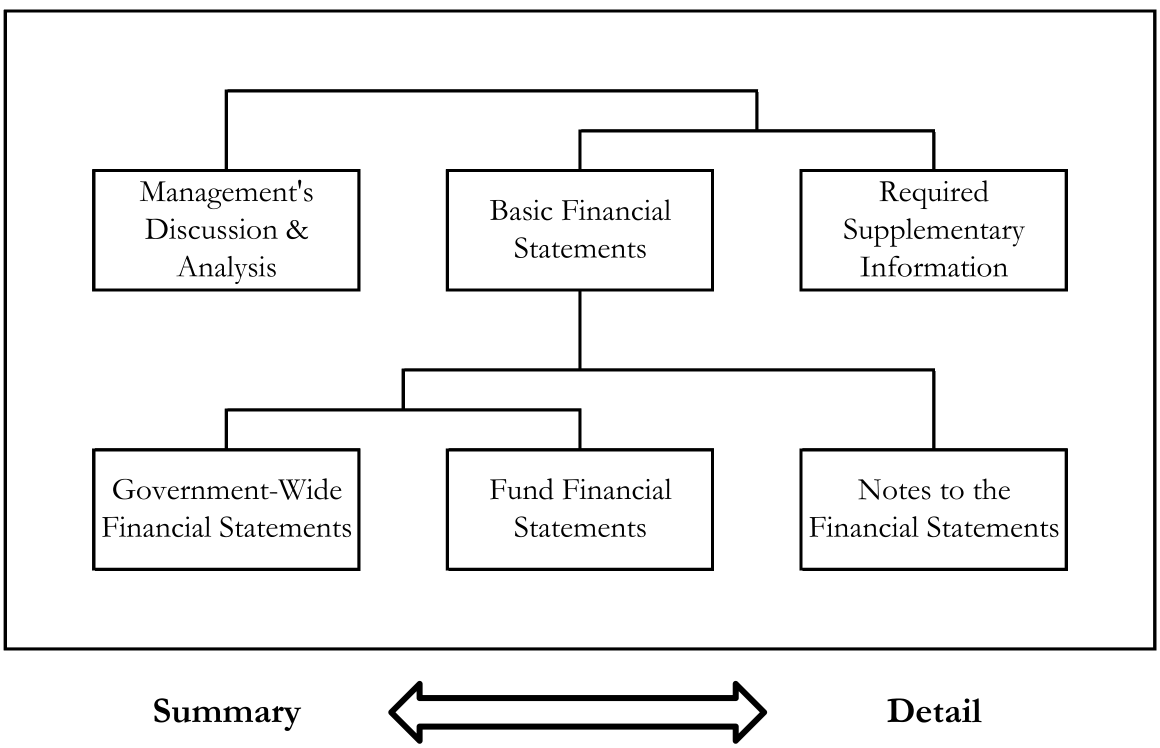
Our discussion and analysis of Sweetwater Union High School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



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

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

- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

  - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

Government-Wide Statements

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

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

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

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

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

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

CURRENT YEAR BUDGET 2011-12

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

Table A-4	Governmental Activities		
	2012	2011	Net Change
CAPITAL ASSETS			
Land	$ 116,142,178	$ 116,142,178	$ -
Construction in progress	363,007,374	355,903,044	7,104,330
Land improvements	6,831,171	6,831,171	-
Buildings & improvements	477,174,372	459,355,871	17,818,501
Furniture & equipment	21,242,376	20,138,780	1,103,596
Accumulated depreciation	(116,730,537)	(105,290,256)	(11,440,281)
Total Capital Assets	$ 867,666,934	$ 853,080,788	$ 14,586,146

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

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

Table A-5

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- At the state level, the budget situation continues to reflect challenging economic times. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose and school agencies maintain the flexibility to shorten the school year until 2014-15.

- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

Total Fund Balance - Governmental Funds		$ 276,746,018
Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:		
Capital assets:		
In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:		
Land held in Plan Nine Partners, LLC	$ 28,652,500	
Capital assets	984,397,471	
Accumulated depreciation	(116,730,537)	896,319,434
Unamortized costs:		
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in net long-term debt on the statement of net assets are:		2,415,439
Unmatured interest on long-term debt:		
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(14,170,457)
Long-term liabilities:		
In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Total general obligation bonds	$ 357,030,370	
Total certificates of participation	1,905,000	
Special revenue bonds	205,815,000	
Qualified zone academy bonds	4,420,000	
Capital leases	3,253,730	
Early retirement incentive	7,092,691	
Compensated absences	6,395,069	
Net OPEB obligation	22,488,858	(608,400,718)
Total Net Assets - Governmental Activities		$ 552,909,716

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

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

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

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

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

Net Change in Fund Balances - Governmental Funds			$ (8,535,719)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:			
Capital outlay:			
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay:	$	26,026,427	
Depreciation expense:		(11,440,281)	14,586,146
Debt service:			
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:			39,996,109
Debt proceeds:			
Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:			(23,835,000)
Debt issue costs:			
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:			(87,502)
Unmatured interest on long-term debt:			
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:			260,493

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

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

Accreted interest on long-term debt:		
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.		(3,684,760)
Compensated absences:		
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:		(269,768)
Postemployment benefits other than pensions (OPEB):		
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		(3,360,952)
Other liabilities not normally liquidated with current financial resources:		
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:		4,977,787
Amortization of debt issue premium or discount:		
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		270,458
Change in Net Assets of Governmental Activities	$	20,317,292

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Component Units

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

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

Accountability:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Component Units (continued)

Scope of Public Service:

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

Financial Presentation:

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

Other Related Entities:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

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

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

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

D. Basis of Accounting – Measurement Focus

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Expenses/Expenditures

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

E. Assets, Liabilities, Fund Balance and Net Assets

Cash and Cash Equivalents

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

Investments

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

Inventories

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets

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

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

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

Interfund Balances

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

Compensated Absences

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Fund Balance
Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance (continued)

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

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

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

Net Assets

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

F. Interfund Activity

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

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

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The San Diego County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $131,272,660 and an amortized book value of $130,887,262. The average weighted maturity for this pool is 343 days.

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2012, the pooled investments in the County Treasury were rated AAAf/S1 by Standard & Poor's.

F. Custodial Credit Risk – Deposits

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

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

NOTE 4 – CAPITAL ASSETS

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

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

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

Instruction	$ 10,296,253
Instruction-related services	572,014
Pupil services	572,014
Total	$ 11,440,281

NOTE 5 – LAND HELD IN PLAN NINE PARTNERS, LLC

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

NOTE 6 – INTERFUND TRANSACTIONS

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

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

	Due From Other Funds				
Due To Other Funds	**General Fund**	**Building Fund**	**Capital Projects Fund for Blended Component Units**	**Non-Major Governmental Funds**	**Total**
General Fund	$ -	$ 18,905	$ 61,587,422	$ 21,598,735	$ 83,205,062
Building Fund	2,324,965	-	-	-	2,324,965
Capital Projects Fund for Blended Component Units	730,216	-	-	231,852	962,068
Non-Major Governmental Funds	516,212	-	3,134,713	1,539,650	5,190,575
Total Due From Other Funds	$ 3,571,393	$ 18,905	$ 64,722,135	$ 23,370,237	$ 91,682,670

Due from the General Fund to the Building Fund for reimbursement of expenditures.	$ 18,905
Due from the General Fund to the County School Facilities Fund for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.	5,213,477
Due from the General Fund to the Adult Education Fund for apportionment and grant revenue.	1,785,456
Due from the General Fund to the Cafeteria Special Reserve Fund for assistance and other operating expenditures.	538,891
Due from the General Fund to the Deferred Maintenance Fund for transfer of revenue, district revenue match, and unliquidated balances.	8,209,504
Due from the General Fund to the Special Reserve for Capital Outlay Fund for COP payments and debt reserves.	5,851,408
Due from the General Fund to the Capital Project for Blended Component Units Fund for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.	61,587,421
Due from the Adult Education Fund to the General Fund for PERS reduction, indirect costs, OPEB costs, and other operating expenditures.	331,675
Due from the Adult Education Fund to the Capital Facilities Fund for interest owed.	383
Due from the Adult Education Fund to the Special Reserve Fund for Capital Outlay Projects for interest owed.	12,155
Due from the Adult Education Fund to the Capital Projects Fund for Blended Component Units for interest owed, unliquidated balances, and inability to transfer monies due to county treasury cut-off.	2,207,559
Due from the Cafeteria Special Revenue Fund to the General Fund for unliquidated balances, PERS reduction, OPEB costs, and other operating expenditures.	128,057
Due from the Cafeteria Special Revenue Fund to the Capital Facilities Fund for unliquidated balances, inability to transfer monies due to county treasury cut-off, and interest owed.	1,526,586
Due from the Cafeteria Special Revenue Fund to the Special Reserve Fund for Capital Outlay Projects for interest owed.	527
Due from the Cafeteria Special Revenue Fund to the Capital Projects Fund for Blended Component Units for unliquidated balances and interest owed.	897,122
Due from the Deferred Maintenance Fund to the General Fund for unliquidated balances and inability to transfer monies due to county treasury cut-off.	50,000
Due from the Building Fund to the General Fund for PERS reductions, OPEB costs, and reimbursement of expenditures.	2,324,965
Due from the Capital Facilities Fund to the General Fund for PERS reduction and OPEB costs.	6,481
Due from the Capital Facilities Fund to the Capital Project for Blended Component Units Fund to reclassify operating expenditures.	30,030
Due from the Capital Project Fund for Blended Component Units to the General Fund for CFD allocations and labor corrections.	730,213
Due from the Capital Project Fund for Blended Component Units to the Capital Facilities Fund for planning of OPEB and salaries.	231,855
Total	$ 91,682,670

NOTE 6 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

	Interfund Transfers In				
Interfund Transfers Out	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total
General Fund	$ -	$ -	$ 37,422	$ 22,461,934	$ 22,499,356
Capital Project Fund for Blended Component Units	-	-	-	20,432,400	20,432,400
Non-Major Fund	71,989	47,362,130	4,681	19,649	47,458,449
Total Interfund Transfers	$ 71,989	$ 47,362,130	$ 42,103	$ 42,913,983	$ 90,390,205

Transfer from the General Fund to the Adult Education Fund for apportionment.	$ 12,650,000
Transfer from the General Fund to the Cafeteria Special Revenue Fund for assistance and other operating expenditures.	537,545
Transfer from the General Fund to the Deferred Maintenance Fund for revenue and district matching funds.	3,209,504
Transfer from the General Fund to the Special Reserve Fund for Capital Outlay Projects for COP payments, reversal of debt, and interest owed.	5,851,408
Transfer from the General Fund to the County School Facilities Fund for reimbursement of expenditures.	213,477
Transfer from the General Fund to the Capital Projects Fund for Blended Component Units for interest owed.	37,422
Transfer from the Adult Education Fund to the General Fund for reimbursement of services.	71,989
Transfer from the Adult Education Fund to the Capital Facilities Fund for interest owed.	382
Transfer from the Adult Education Fund to the Special Reserve for Capital Outlay Fund for interest owed.	12,155
Transfer from the Adult Education Fund to the Capital Projects Fund for Blended Component Units for interest owed.	2,559
Transfer from the Cafeteria Special Revenue Fund to the Capital Facilities Fund for interest owed.	6,586
Transfer from the Cafeteria Special Revenue Fund to the Special Reserve for Capital Outlay Fund for interest owed.	527
Transfer from the Cafeteria Special Revenue Fund to the Capital Projects Fund for Blended Component Units for interest owed.	2,121
Transfer from the County School Facilities Fund to the Building Fund for state matching funds.	47,362,130
Transfer from the Capital Projects Fund for Blended Component Units to the County County School Facilities Fund for reimbursement of expenditures.	4,225,855
Transfer from the Capital Projects Fund for Blended Component Units to Debt Service Fund for Blended Component Unit for debt service payments.	16,206,545
Total	$ 90,390,205

NOTE 7 – ACCRUED LIABILITIES

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

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

NOTE 8 – DEFERRED REVENUE

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

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

NOTE 9 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

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

NOTE 10 – LONG-TERM DEBT

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

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

A. Early Retirement Incentive

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

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

NOTE 10 – LONG-TERM DEBT (continued)

B. General Obligation Bonds

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

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

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

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

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

NOTE 10 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

Election of 2006

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

Year Ended June 30,	Principal	Interest	Total
2013	$ 495,000	$ 9,087,838	$ 9,582,838
2014	970,000	9,070,513	10,040,513
2015	1,055,000	9,041,413	10,096,413
2016	1,040,000	9,008,444	10,048,444
2017	1,180,000	8,966,844	10,146,844
2018-2022	3,295,000	44,131,469	47,426,469
2023-2027	-	43,806,406	43,806,406
2028-2032	11,675,000	43,521,656	55,196,656
2033-2037	34,705,000	37,586,406	72,291,406
2038-2042	44,450,000	27,827,407	72,277,407
2043-2047	58,225,000	14,029,874	72,254,874
2048	13,680,000	769,500	14,449,500
Total	$ 170,770,000	$ 256,847,770	$ 427,617,770

NOTE 10 – LONG-TERM DEBT (continued)

C. Certificates of Participation

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

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

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

D. Special Revenue Bonds

Community Facilities District Obligations

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

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

NOTE 10 – LONG-TERM DEBT (continued)

D. Special Revenue Bonds (continued)

Community Facilities District Obligations (continued)

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

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

Development Revenue Bond Obligations

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

NOTE 10 – LONG-TERM DEBT (continued)

E. Capital Leases

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

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

F. Qualified Zone Academy Bond (QZAB)

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

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

NOTE 11 – FUND BALANCES

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

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

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

NOTE 12 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

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

Membership of the plan consisted of the following:

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

*As of July 1, 2010 actuarial study

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

B. Funding Policy

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

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

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

C. Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

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

D. Funded Status and Funding Progress

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

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

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

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

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

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

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

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

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

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

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

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

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Construction Commitments

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

NOTE 15– PARTICIPATION IN JOINT POWERS AUTHORITIES

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

See accompanying note to required supplementary information.

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

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

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

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

SUPPLEMENTARY INFORMATION

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

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

* - PCS Number not available or not applicable

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

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

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

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

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

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

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

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

OTHER INDEPENDENT AUDITORS' REPORTS

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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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Sweetwater Union High School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sweetwater Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sweetwater Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sweetwater Union High School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as items #2012-1 through #2012-5 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Christy White Associates

San Diego, California
December 15, 2012

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

Governing Board
Sweetwater Union High School District
Chula Vista, California

Compliance

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

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

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

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

Internal Control over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

Christy White Associates

San Diego, California
December 15, 2012

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Sweetwater Union High School District
Chula Vista, California

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

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

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

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

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

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

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

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

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

Christy White Associates

San Diego, California
December 15, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

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

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

STATE AWARDS

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

FIVE DIGIT CODE	AB 3627 FINDING TYPE
20000	Inventory of Equipment
30000	Internal Control

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

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

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

Bonita Vista High School

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

Bonita Vista Middle School

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

Castle Park High School

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

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

Chula Vista Adult School

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

Chula Vista High School

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

Granger Junior High School

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

Hilltop Middle School

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

Mar Vista High School

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

Montgomery High School

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

Montgomery Middle School

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

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

Rancho Del Rey High School

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

Southwest Middle School

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

Southwest High School

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

San Ysidro High School

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

San Ysidro Adult Education

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

Sweetwater High School

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

Hilltop High School

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

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

Palomar High School

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

Otay Ranch High School

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

Cause: Insufficient controls over student body activities.

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

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

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

District Response:

- The District agrees and recognizes the value of strengthening internal controls for cash receipts and cash disbursements. In addition, the majority of findings relate to "club" and "athletic" cash receipts and disbursements. Club advisors and athletic team coaches frequently change, therefore at the beginning of each school year ASB or when there is a change in staff, ASB personnel will review and distribute the District's "club advisor handbook". The club advisors handbook specifically details sound business practices in relation to the receipt and disbursement of cash.

- The District agrees that ASB funds must be spent to benefit students. The Department of Internal Audit as well as staff responsible for ASB Accounting will reinforce this with ASB site personnel. In regards to repair and equipment items, the Board of Trustees has requested that those ASB's with large general fund balances spend down the excess funds on items that provide a long-term benefit to students such as campus beautification.

- The District agrees that games of chances (raffles) are unallowable and has reinforced this with ASB personnel, who in turn have reminded club advisors/coaches that "gambling" is in violation of the Education Code.

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

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

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

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

Cause: Staffing constraints within the District.

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

Perspective: Through inquiry with high level management.

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

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

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

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

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

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

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

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

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

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

FINDING #2012-4: HUMAN RESOURCES (30000)

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

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

Cause: Turnover and staffing constraints within the District.

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

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

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

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

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

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

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

Cause: Turnover and staffing constraints within the District.

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

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

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

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

FIVE DIGIT CODE	**AB 3627 FINDING TYPE**
50000	Federal Compliance

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

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

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

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

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

Cause: 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.

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

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

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

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

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

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

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

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

Chula Vista Middle School

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

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

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

Granger Junior High School

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

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

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

Granger Junior High School

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

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

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

Mar Vista Middle School

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

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

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

National City Middle School

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

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

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

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

National City Middle School (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cause: Inadequate internal control structure within the Cafeteria department.

Effect: Potentially fraudulent behavior can occur within the District.

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

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

Current Status: *Implemented*

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

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

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

- Hilltop Middle School
- Palomar High School

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

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

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

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

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

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

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

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

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

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

Cause: Staffing constraints within the District.

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

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

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

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

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

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

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

Context: 1 of 6 school sites tested

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

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

Questioned Costs: Not applicable

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

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

Current Status: *Implemented*

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

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

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

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

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

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

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

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

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

Context: 8 of 8 school sites tested.

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

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

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

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

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APPENDIX E

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 $32,820,000 aggregate initial principal amount of Sweetwater Union High School District 2013 General Obligation Bond Anticipation Notes (the "Notes"). The Notes are being issued pursuant to the Note Indenture, dated as of March 1, 2013, by and between the District and Union Bank, N.A., as trustee, as originally executed and as it may be amended or supplemented from time to time (the "Indenture"). 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 Notes 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 Indenture, 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 Notes (including persons holding Notes 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 Note 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 March 14, 2013 (including all exhibits or appendices thereto), relating to the offer and sale of Notes.

"Participating Underwriter" shall mean the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

"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 2012-13 Fiscal Year (which is due not later than April 1, 2014), 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 Notes 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.

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 Notes 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 Notes, 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 Notes or other material events affecting the tax status of the Notes;

(ii) modifications to rights of Note Holders;

(iii) optional, unscheduled or contingent Note calls;

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

(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 Notes pursuant to the Indenture.

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 Notes. If such termination occurs prior to the final maturity of the Notes, 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 Notes, 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 Notes, 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 Indenture for amendments to the Indenture 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 Notes.

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 Notes 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 Indenture, 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 Notes.

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 Notes, and shall create no rights in any other person or entity.

Dated: March 27, 2013

SWEETWATER UNION HIGH SCHOOL DISTRICT

By: ____________________________________
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 2013 General Obligation Bond Anticipation Notes
Date of Issuance:	March 27, 2013

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Notes as required by Section 4 of the Continuing Disclosure Certificate of the District, dated March 27, 2013. [The District anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

SWEETWATER UNION HIGH SCHOOL DISTRICT

By: ____________________________________
Superintendent

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APPENDIX F

COUNTY OF SAN DIEGO INVESTMENT POOL DISCLOSURE

This section provides a general description of the County's Investment Policy, current portfolio holdings, and valuation procedures. The information has been prepared by the County Treasurer (the "Treasurer") for inclusion in this Official Statement. Neither the District nor the Underwriters make any representation as to the accuracy or completeness of such information. Further information may be obtained from the Office of the Treasurer, County Administration Center, 1600 Pacific Highway, Room 112, San Diego, California 92101-2479.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors of the County delegated to the 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 such as the District, are required under state law to be deposited into the 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 "County Investment 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 as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The County Investment Pool's Portfolio

As of December 31, 2012, the securities in the County Investment Pool had a market value of $6,794,301,275 and a book value of $6,778,801,164, for a net unrealized gain of $15,500,111.

The effective duration for the County Investment Pool was 0.720 years as of December 31, 2012. "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 0.720 means that for every one percent increase in interest rates the market value of the portfolio would increase by 0.720%.

As of December 31, 2012, approximately 6.63% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 43.73% by the County, 35.16% by K-12 School Districts, 9.95% by Community Colleges, and 4.53% by non-County investment funds.

Standard & Poor's Ratings Group maintains ratings on the Pool's ability to meet its financial commitments of "AAAf" (strong protection against credit defaults) and "S1" (low sensitivity to changing market conditions). 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 County Investment 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 (collateralized, FDIC-insured 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 will be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement will be adjusted no less than quarterly. In addition, reverse repurchase agreements generally may not exceed 20% of the base value of the portfolio and the term of an 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. Therefore, there can be no assurances that the current of future investments in the County Investment Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Depositors, and the third objective is to achieve a return on the funds under the control of the 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. 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 to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. 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 (in contrast to "derivatives") written against them at any one time.

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 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 with another custodian 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.

Certain Information Relating to the Pool

The following table reflects information with respect to the Pool as of the close of business December 31, 2012. 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 tables 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 December 31, 2012, the Pool necessarily would have received the values specified. General information and portfolio statistics on the County Investment Pool can be found at http://www.sdtreastax.com/mcf_generalinfo.html. The information on such website is not incorporated herein by such reference or otherwise.

COUNTY OF SAN DIEGO POOLED MONEY FUND
as of December 31, 2012

	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	0.96	121	121	0.31	64,811,000	64,811,000	1.000	64,811,000	3,557	0.31	0
Commercial Paper	11.43	17	17	0.16	775,000,000	774,940,426	1.000	774,814,098	0	0.16	(126,328)
Fannie Mae	13.59	1,002	526	0.83	916,169,000	921,212,102	1.010	924,899,395	2,753,231	0.79	3,687,294
Fannie Mae Discount Notes	4.87	98	98	0.14	330,000,000	329,885,147	0.999	329,789,150	0	0.14	(95,997)
Federal Farm Credit Bank Discount Notes	4.35	177	177	0.18	295,000,000	294,724,542	0.998	294,303,026	0	0.18	(421,515)
Federal Farm Credit Bank Notes	4.17	377	247	0.31	282,689,000	282,666,436	1.001	282,857,770	167,326	0.31	191,334
Federal Home Loan Bank Discount Notes	4.05	132	132	0.13	275,000,000	274,871,434	0.999	274,812,950	0	0.13	(58,484)
Federal Home Loan Bank Notes	20.20	332	325	0.50	1,367,270,000	1,370,170,214	1.006	1,375,150,224	2,235,391	0.49	4,980,010
Federal Home Loan Mortgage Corp Discount Note	1.92	59	59	0.12	130,000,000	129,973,431	0.999	129,930,710	0	0.12	(42,721)
Federal Home Loan Mortgage Corp Notes	10.05	773	520	0.78	677,183,000	681,019,541	1.011	684,794,444	2,372,091	0.77	3,774,903
Money Market Funds	6.45	1	1	0.05	437,575,000	437,575,000	1.000	437,680,105	12,196	0.05	105,105
Negotiable CD	14.21	22	22	0.18	963,330,000	963,330,000	1.000	963,307,996	158,492	0.18	(22,004)
Repurchase Agreements	0.12	1	0	0.02	8,316,225	8,316,225	1.000	8,316,225	5	0.02	0
U.S. Treasury Notes	3.62	748	748	1.58	242,000,000	245,305,666	1.028	248,834,180	1,158,029	1.58	3,528,514
Totals for December 2012	100.00	349	250	0.43	6,764,343,225	6,778,801,164	1.004	6,794,301,275	8,860,318	0.43	15,500,111
Totals for November 2012	100.00	374	283	0.48	5,834,904,480	5,850,231,129	1.010	5,867,292,338	8,865,736	0.47	17,061,208
Change From Prior Month		(25)	(33)	(0.05)	929,438,745	928,570,035	(0.006)	927,008,937	(5,418)	(0.04)	(1,561,097)
Portfolio Effective Duration	0.720 Years										

	December Return	Annualized Returns	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.037%	0.432%	0.253%	0.502%	0.493%	0.492%
Market Value	0.037%	0.431%	0.251%	0.498%	0.468%	0.467%

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

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 Notes or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Notes, 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"), New York, New York, will act as securities depository for the Notes. The Notes 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 Note will be issued for each maturity of the Notes, 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 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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 Notes 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 Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes 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 Trustee, 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 Trustee 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 Trustee, 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 Notes at any time by giving reasonable notice to the District or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Notes are required to be printed and delivered. The Distinct may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Notes will be printed and delivered to DTC.

SWEETWATER UNION HIGH SCHOOL DISTRICT • 2013 GENERAL OBLIGATION BOND ANTICIPATION NOTES

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UNION HIGH SCHOOL DISTRICT

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