



December 9, 2015

To the Sweetwater Union High School District  
Governing Board and  
Citizens' Oversight Committee  
Chula Vista, California

We have audited the financial statements of the Building Fund (Proposition O) of Sweetwater Union High School District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sweetwater Union High School District are described in Note 1 to the financial statements. There were no significant changes to accounting policies during 2014-2015 and we noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the Building Fund financial statements.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

##### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements of the financial statements.

*Disagreements With Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 9, 2015.

*Management Consultations With Other Independent Accountant*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

As noted in the Independent Audit's Report, the District has restated the beginning fund balance in the Building Fund (Proposition O). The restatement reflects a reduction in the fund balance to exclude funds that are not part of Proposition O, but were previously included in the Proposition O financial statements.

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

*Vavrinak, Irine, Day & Co, LLP*

Rancho Cucamonga, California  
December 9, 2015

**SWEETWATER UNION HIGH SCHOOL DISTRICT**

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**BUILDING FUND (PROPOSITION O)  
FINANCIAL REPORT**

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**JUNE 30, 2015**

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens Oversight Committee  
Sweetwater Union High School District  
Chula Vista, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sweetwater Union High School District's (the District) Building Fund (Proposition O), and the related notes to the financial statements, as of and for the year ended June 30, 2015, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Proposition O) of the Sweetwater Union High School District at June 30, 2015, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of the District Building Fund's (Proposition O) 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund's (Proposition O) internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinck, Irine, Day & Co., LLP*

Rancho Cucamonga, California  
December 9, 2015

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**BALANCE SHEET  
JUNE 30, 2015**

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**ASSETS**

Deposits and investments	\$ 11,720,297
Accounts receivable	14,775
Due from other funds	1
<b>Total Assets</b>	<u><u>\$ 11,735,073</u></u>

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

Accounts payable	\$ 402,777
Due to other funds	8,967
<b>Total Liabilities</b>	<u>411,744</u>

**Fund Balance:**

Restricted	<u>11,323,329</u>
<b>Total Fund Balance</b>	<u>11,323,329</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 11,735,073</u></u>

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

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>REVENUES</b>		
Interest income		\$ 61,406
Other local revenue		4,845,999
<b>Total Revenues</b>		<u>4,907,405</u>
<b>EXPENDITURES</b>		
Plant services		
Salaries and benefits		1,366,440
Supplies and materials		1,227,993
Services and other operating expenditures		810,980
Facilities acquisition and construction		
Professional services and operating expenditures		924,305
Building and improvements to buildings		5,954,382
Equipment		366,821
Debt service		
Interest and other		1,650,173
<b>Total Expenditures</b>		<u>12,301,094</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>		<u>(7,393,689)</u>
<b>FUND BALANCE - BEGINNING</b>		<u>18,717,018</u>
<b>FUND BALANCE - ENDING</b>		<u><u>\$ 11,323,329</u></u>

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

# **SWEETWATER UNION HIGH SCHOOL DISTRICT BUILDING FUND (PROPOSITION O)**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015**

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### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the Sweetwater Union High School District's (the District) Building Fund (Proposition O) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Sweetwater Union High School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

#### **Financial Reporting Entity**

The financial statements include only the Building Fund of the Sweetwater Union High School District used to account for Proposition O projects. This Fund was established to account for the expenditures of general obligation bonds issued under Proposition O. These financial statements are not intended to present fairly the financial position and results of operations of the Sweetwater Union High School District in compliance with accounting principles generally accepted in the United States of America.

#### **Fund Accounting**

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### **Basis of Accounting**

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

#### **Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

**Fund Balance – Building Fund (Proposition O)**

As of June 30, 2015, the fund balance is classified as follows:

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

**Spending Order Policy**

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

**Use of Estimates**

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - INVESTMENTS**

**Policies and Practices**

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

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**General Authorizations**

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

	Amortized Cost	Fair Value	Average Days to Maturity
Deposits with county treasurer	<u>\$ 11,720,297</u>	<u>\$ 11,726,308</u>	<u>356</u>

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment in the San Diego County Investment Pool has been rated AAAf/SI by Standard & Poor's Investor Service as of June 30, 2015.

**NOTE 3 - RECEIVABLES**

Accounts receivable at June 30, 2015, consisted of the following:

Interest	<u>\$ 13,275</u>
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**NOTE 4 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2015, consisted of the following:

Construction	<u>\$ 401,276</u>
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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2015, between governmental funds are as follows:

The balance of \$8,967 due to the General Fund from the Building Fund resulted from the reimbursement of operating costs.

**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2015, the Building Fund (Proposition O) had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Bonita Vista High Track and Field	\$ 22,861	10/31/15
Palomar High School	308,389	12/31/15
South West High School Title IX	2,114	12/31/15
Sweetwater High School Relocatables	20,920	12/31/15
Prop O Miscellaneous	756,548	12/31/15
Southwest Middle School Project 1 Modernization Phase 2	605,060	12/31/16
Mar Vista High School Project 2	694,397	12/31/16
Chula Vista High Title IX	30,989	01/31/17
	<u>\$ 2,441,278</u>	

**Litigation**

The District is not currently a party to any legal proceedings related to the Building Fund (Proposition O).



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***INDEPENDENT AUDITOR'S REPORT***

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

Governing Board and  
Citizens Oversight Committee  
Sweetwater Union High School District  
Chula Vista, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Sweetwater Union High School District (the District) Building Fund (Proposition O), and the related notes of the financial statements as of and for the year ended June 30, 2015, and have issued our report thereon dated December 9, 2015.

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

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sweetwater Union High School District's Building Fund (Proposition O) 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*.

## Purpose of This Report

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

*Vavrinik, Jino, Day & Co, LLP*

Rancho Cucamonga, California  
December 9, 2015

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2015**

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None reported.



**SWEETWATER UNION HIGH SCHOOL DISTRICT  
BUILDING FUND (PROPOSITION O)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015**

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There were no audit findings reported in the prior year's schedule of financial statement findings.