



ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SWEETWATER UNION HIGH SCHOOL DISTRICT

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SWEETWATER UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sweetwater Union High School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity'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 Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sweetwater Union High School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 16 of the financial statements, the District has suffered from significant deficit spending and inadequate cash flow in the General Fund that has resulted in significant interfund borrowing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regards to these matters is described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison schedule on page 78, schedule of changes in the District's total OPEB liability and related ratios on page 79, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 80, schedule of the District's proportionate share of the net pension liability on page 81, and the schedule of District contributions on page 82, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sweetwater Union High School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2018, on our consideration of the Sweetwater Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Sweetwater Union High School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sweetwater Union High School District's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2018



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This section of Sweetwater Union High School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The *Fund Financial Statements* of the District include:

GOVERNMENTAL	PROPRIETARY	FIDUCIARY
Governmental funds are used to track information on resources associated with the district's basic services and educational objectives.	Proprietary funds are for tracking district activities similar to those used in private sector accounting due to their income-producing character.	Fiduciary funds account for assets held on behalf of another party for which the district has some discretionary authority.
<p>General Fund</p> <ul style="list-style-type: none"> ▪ Restricted ▪ Unrestricted <p>Special Revenue Funds</p> <ul style="list-style-type: none"> ▪ Adult Education Fund ▪ Cafeteria Fund ▪ Deferred Maintenance Fund <p>Capital Projects Funds</p> <ul style="list-style-type: none"> ▪ Building Fund ▪ Capital Facilities Fund ▪ County School Facilities Fund ▪ Special Reserve Fund for Capital Outlay Projects ▪ Capital Projects Fund for Blended Component Units <p>Debt Service Funds</p> <ul style="list-style-type: none"> ▪ Bond Interest and Redemption Fund ▪ Debt Service Fund for Blended Component Units 	<p>None</p>	<p>Trust Funds</p> <ul style="list-style-type: none"> ▪ Foundation Private-Purpose Trust Fund <p>Agency Funds</p> <ul style="list-style-type: none"> ▪ Student Body Fund (ASB)

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$96,976,532 million for the fiscal year ended June 30, 2018, reflecting a decrease of 27 percent from prior year. Of this amount, \$(561,429,873) million was an unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	(as Restated) 2017
Assets		
Current and other assets	\$ 274,225,299	\$ 306,937,139
Capital assets	988,335,730	972,165,753
Total Assets	1,262,561,029	1,279,102,892
Deferred Outflows of Resources	180,038,472	125,175,311
Liabilities		
Current liabilities	30,828,081	45,915,146
Long-term obligations	776,482,168	760,983,709
Net pension liability	504,790,467	446,291,212
Total Liabilities	1,312,100,716	1,253,190,067
Deferred Inflows of Resources	33,522,253	18,509,399
Net Position		
Net investment in capital assets	619,618,527	564,886,742
Restricted	38,787,878	42,469,095
Unrestricted	(561,429,873)	(474,777,101)
Total Net Position	\$ 96,976,532	\$ 132,578,736

The \$(561,429,873) million in unrestricted deficit net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by 18 percent (\$(561.4) million compared to \$(474.8) million).

Net Pension Liability (NPL)

At year end, the District had a net pension liability of \$504.8 million as a result of the implementation of GASB Statement No. 68.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 17. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 3,095,503	\$ 3,187,315
Operating grants and contributions	103,784,980	95,920,946
Capital grants and contributions	234,378	188,773
General revenues:		
Federal and State aid not restricted	289,762,919	289,478,831
Property taxes	145,647,280	136,977,498
Other general revenues	15,191,308	20,019,238
Total Revenues	557,716,368	545,772,601
Expenses		
Instruction	330,680,233	306,681,117
Instruction-related	88,933,877	79,662,825
Pupil services	60,735,828	55,665,606
Administration	33,203,661	46,077,193
Plant services	46,376,745	40,104,526
Interest on long-term obligations	23,261,560	16,272,022
Other	10,126,668	11,450,867
Total Expenses	593,318,572	555,914,156
Change in Net Position	\$ (35,602,204)	\$ (10,141,555)

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

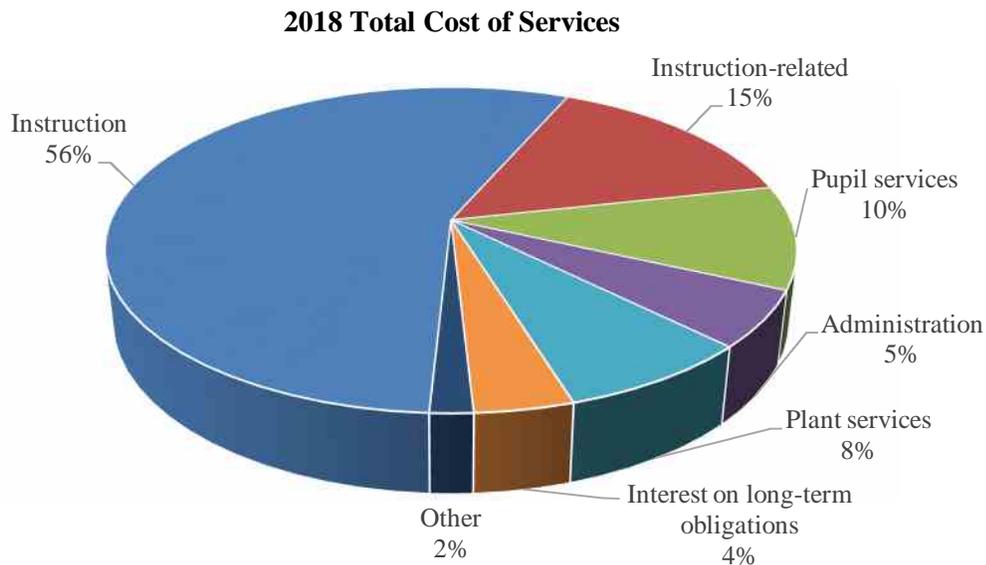
Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was \$593.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$145.6 million because the cost was paid by those who benefited from the programs (\$3.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$104.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$305.0 million in State funds, and with other revenues, like interest and general entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 330,680,233	\$ 306,681,117	\$ 268,287,940	\$ 245,356,400
Instruction-related	88,933,877	79,662,825	73,353,313	63,903,097
Pupil services	60,735,828	55,665,606	44,380,654	37,695,311
Administration	33,203,661	46,077,193	31,202,562	44,545,949
Plant services	46,376,745	40,104,526	36,732,763	38,622,620
Interest on long-term obligations	23,261,560	16,272,022	23,261,560	16,272,022
Other	10,126,668	11,450,867	8,984,919	10,221,723
Total	\$ 593,318,572	\$ 555,914,156	\$ 486,203,711	\$ 456,617,122



SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$251.4 million, which is a decrease of \$17.2 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 21,469,748	\$ 465,472,765	\$ 494,172,097	\$ (7,229,584)
Building Fund	47,369,487	28,922,887	26,052,455	50,239,919
Special Reserve Fund for Capital Outlay Projects	20,277,738	12,028,297	15,672,359	16,633,676
Capital Project Fund for Blended Component Units	128,748,506	30,761,368	15,584,471	143,925,403
Non-Major Governmental Funds	50,756,163	73,014,116	75,938,153	47,832,126
Total	\$ 268,621,642	\$ 610,199,433	\$ 627,419,535	\$ 251,401,540

The primary reasons for these changes are as follows:

1. The General Fund: The negative fund balance of \$7,229,584 reflects the decrease in revenues attributed to the decline in student average daily attendance and restatement of the unduplicated student percentage. These are key variables in the calculation of the Local Control Funding Formula calculation for the fiscal year. Similar to prior years, the District also incurred higher than expected expenditures, primarily in the category of salaries and benefits, that the reserves for economic uncertainties was not able to be maintained at the two percent level.
2. The Building Fund: The Proposition O Series 2018 C issuance increase the fund balance by \$28 million and capital project expenditures funded by Proposition O decreased the fund balance by \$26 million (The District-Wide HVAC Project makes up 67 percent of the fund's expenditures).
3. The Special Reserve Fund for Capital Outlay Projects: The second apportionment from the Proposition 39 California Clean Energy Jobs Act increase the fund balance by \$8.17 million. Expenditures of \$6.1 million for facilities, \$2.5 million for debt service and a \$7 million transfer to the district's general fund decreased the total fund balance by \$15.7 million.
4. The Capital Project Fund for Blended Component Units: The increase in revenue was mainly attributed to the special tax prepayment of apartment projects within CFD Nos. 6, 18 and 20 and the new development of over 575 dwelling units. Revenues exceeded expenditures by \$15.2 million.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on March 12, 2018, as noted in the Second Interim report (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 78.)

The key differences between the original budget, final and the actual results are the restatement of the Local Control Funding Formula due to decreased average daily attendance and the unduplicated student percentage.

Restricted Federal and State resources may have apportioned funds that may carry forward to the subsequent year. The reallocation of restricted carryover is initiated after the financial records from the prior year are closed. Since the original budget is adopted before the prior year is closed, the revenues and expenditures associated with the carryover will be reflected within the final budget and actual results.

Similar to prior years, the District also incurred higher than expected expenditures, primarily in the category of salaries and benefits, that the reserves for economic uncertainties was not able to be maintained at the two percent level.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$988.3 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$16.2 million, or 1.7 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	\$ 333,498,304	\$ 323,005,097
Buildings and improvements - net	648,946,526	642,761,485
Furniture and equipment - net	5,890,900	6,399,171
Total	\$ 988,335,730	\$ 972,165,753

This year's additions of \$57.6 million (see Note 5) included several completed and in progress construction projects for modernization and site improvements and the acquisition of vehicles and equipment. The District will use general obligation bond proceeds, CFD (Community Facilities District) special taxes, redevelopment funds and developer fees (Statutory Level I fees) for construction and modernization of existing school facilities.

Several capital projects are planned for the 2018-2019 year. We anticipate capital additions to be \$31.9 million for the 2018-2019 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

SWEETWATER UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**Long-Term Obligations**

At the end of this year, the District had \$776.5 million in long-term obligations versus \$761.0 million last year, an increase of 2.0 percent. The obligations consisted of:

Table 6

	Governmental Activities	
	2018	(as Restated) 2017
General obligation bonds (including accreted interest and premium)	\$ 470,093,022	\$ 449,774,079
Certificates of participation (including premium)	35,006,735	39,438,539
Special tax revenue bonds (including premium)	59,193,935	64,236,321
Lease revenue bonds	34,200,000	35,690,000
Qualified zone academy bonds	7,545,000	7,875,000
Capitalized lease obligations	13,692,018	15,178,329
Compensated absences	10,232,430	9,638,609
Early retirement incentive	273,399	592,884
Net other postemployment benefits (OPEB) liability	146,245,629	138,559,949
Total	\$ 776,482,168	\$ 760,983,710

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

Other obligations include certificates of participation, qualified zone academy bonds, lease revenue bonds, compensated absences payable, capital leases, early retirement incentive, and net other postemployment benefits (OPEB) liability. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the governing board and management used the following criteria:

The key revenue forecast assumptions are as follows:

1. The budget was initially based on the Governor's May Revise and subsequently revised on October 8, 2018 in accordance with *Education Code* Section 42127 (d)(3):

Local Control Funding Formula

- Enrollment 39,400
- Funded ADA 7-8 10,680
- Funded ADA 9-12 27,000

One-Time Discretionary Funding \$184 per prior year average daily attendance

Unduplicated % (3 year average) 60.6 percent

Cost-of-Living-Adjustment 3.70 percent

Low Performing Students Block Grant

2. The District's major source of income is from the Local Control Funding Formula.

Expenditures were based on the following:

1. Staffing ratios:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades six through eight	28:1	11,565
Grades nine through twelve	28:1	27,835

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Financial Officer, Dr. Jenny Salkeld, 1130 Fifth Avenue, Chula Vista, California, 91911, or e-mail at jenny.salkeld@sweetwaterschools.org.

SWEETWATER UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 251,300,565
Receivables	22,098,966
Stores inventories	825,768
Capital assets	
Nondepreciable capital assets	333,498,304
Capital assets being depreciated	853,408,165
Accumulated depreciation	(198,570,739)
Total Capital Assets	<u>988,335,730</u>
Total Assets	<u>1,262,561,029</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	26,658,508
Deferred outflows of resources related to pensions	153,379,964
Total Deferred Outflows of Resources	<u>180,038,472</u>
LIABILITIES	
Accounts payable	19,525,166
Accrued interest	8,004,322
Unearned revenue	3,298,593
Long-term obligations:	
Current portion of long-term obligations other than pensions	27,352,470
Noncurrent portion of long-term obligations other than pensions	749,129,698
Total Long-Term Liabilities	<u>776,482,168</u>
Aggregate net pension liability	<u>504,790,467</u>
Total Liabilities	<u>1,312,100,716</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	1,105,186
Deferred inflows of resources related to pensions	32,417,067
Total Deferred Inflows of Resources	<u>33,522,253</u>
NET POSITION	
Net investment in capital assets	619,618,527
Restricted for:	
Debt service	14,356,271
Capital projects	23,980,837
Other activities	123,740
Other restrictions	327,030
Unrestricted	(561,429,873)
Total Net Position	<u>\$ 96,976,532</u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 330,680,233	\$ 1,401,809	\$ 60,756,106	\$ 234,378	\$ (268,287,940)
Instruction-related activities:					
Supervision of instruction	36,868,723	279,713	10,263,442	-	(26,325,568)
Instructional library, media, and technology	6,160,143	4,792	411,493	-	(5,743,858)
School site administration	45,905,011	73,561	4,547,563	-	(41,283,887)
Pupil services:					
Home-to-school transportation	10,380,450	-	67,807	-	(10,312,643)
Food services	13,438,330	1,018,981	10,790,912	-	(1,628,437)
All other pupil services	36,917,048	83,056	4,394,418	-	(32,439,574)
Administration:					
Data processing	16,134,621	-	-	-	(16,134,621)
All other administration	17,069,040	96,898	1,904,201	-	(15,067,941)
Plant services	46,376,745	43,340	9,600,642	-	(36,732,763)
Facility acquisition and construction	193,566	-	-	-	(193,566)
Ancillary services	7,907,223	80,698	203,961	-	(7,622,564)
Community services	346,034	-	-	-	(346,034)
Interest on long-term obligations	23,261,560	-	-	-	(23,261,560)
Other outgo	1,679,845	12,655	844,435	-	(822,755)
Total Governmental Activities	\$ 593,318,572	\$ 3,095,503	\$ 103,784,980	\$ 234,378	(486,203,711)
General revenues and subventions:					
					90,238,053
Property taxes, levied for general purposes					25,815,572
Property taxes, levied for debt service					29,593,655
Taxes levied for other specific purposes					289,762,919
Federal and State aid not restricted to specific purposes					3,119,094
Interest and investment earnings					12,072,214
Miscellaneous					
Subtotal, General Revenues					450,601,507
Change in Net Position					
					(35,602,204)
Net Position - Beginning, as restated					132,578,736
Net Position - Ending					\$ 96,976,532

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 25,934,447	\$ 50,010,651	\$ 26,174,966
Receivables	19,839,752	204,455	101,294
Due from other funds	13,294,397	110,044	1,232,750
Stores inventories	591,470	-	-
Total Assets	\$ 59,660,066	\$ 50,325,150	\$ 27,509,010
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 17,531,898	\$ 85,231	\$ 267,593
Due to other funds	46,059,159	-	10,607,741
Unearned revenue	3,298,593	-	-
Total Liabilities	66,889,650	85,231	10,875,334
Fund Balances:			
Nonspendable	743,470	-	-
Restricted	686,020	50,239,919	-
Committed	-	-	-
Assigned	-	-	16,633,676
Unassigned	(8,659,074)	-	-
Total Fund Balances	(7,229,584)	50,239,919	16,633,676
Total Liabilities and Fund Balances	\$ 59,660,066	\$ 50,325,150	\$ 27,509,010

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

Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ 100,615,309	\$ 48,565,192	\$ 251,300,565
512,955	1,440,510	22,098,966
43,547,707	5,808,543	63,993,441
-	234,298	825,768
<u>\$ 144,675,971</u>	<u>\$ 56,048,543</u>	<u>\$ 338,218,740</u>
\$ 750,568	\$ 889,876	\$ 19,525,166
-	7,326,541	63,993,441
-	-	3,298,593
<u>750,568</u>	<u>8,216,417</u>	<u>86,817,200</u>
-	246,253	989,723
143,925,403	46,792,200	241,643,542
-	793,673	793,673
-	-	16,633,676
-	-	(8,659,074)
<u>143,925,403</u>	<u>47,832,126</u>	<u>251,401,540</u>
<u>\$ 144,675,971</u>	<u>\$ 56,048,543</u>	<u>\$ 338,218,740</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds		\$ 251,401,540
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,186,906,469	
Accumulated depreciation is	<u>(198,570,739)</u>	
Net Capital Assets		988,335,730
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		
		(8,004,322)
This represents the deferred charge on refunding as a result of refunding of bonds. The difference between the amount that was sent to the escrow agent for the repayment of the old debt and the actual remaining debt obligation will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This represents the unamortized balance as of year-end.		
		26,658,508
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District Funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	45,242,907	
Net change in proportionate share of net pension liability	8,814,963	
Differences between projected and actual earnings on pension plan investments	4,947,987	
Differences between expected and actual experience in the measurement of the total pension liability.	6,462,119	
Changes of assumptions	<u>87,911,988</u>	
Total Deferred Outflows of Resources Related to Pensions		153,379,964
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(14,788,812)	
Differences between projected and actual earnings on pension plan investments	(9,634,590)	
Differences between expected and actual experience in the measurement of the total pension liability.	(6,309,620)	
Changes of assumptions	<u>(1,684,045)</u>	
Total Deferred Inflows of Resources Related to Pensions		(32,417,067)

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, (Continued)
JUNE 30, 2018**

Deferred inflows of resources related to OPEB represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year-end consist of changes of assumptions.		\$	(1,105,186)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.			(504,790,467)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.			
Long-term obligations at year-end consist of:			
General obligation bonds	\$		415,294,921
Premium on general obligation bonds			24,608,424
Certificates of participation			31,395,000
Premium on certificates of participation			3,611,735
Special tax revenue bonds			88,845,000
Premium on special tax revenue bonds			4,548,935
Qualified zone academy bonds			7,545,000
Capital leases payable			13,692,018
Compensated absences (vacations)			10,232,430
Early retirement incentive			273,399
Net other postemployment benefits (OPEB) liability			146,245,629
In addition, the District has issued 'capital appreciation' bonds. The accretion of interest on those bonds to date is as follows:			30,189,677
Total Long-Term Obligations			<u>(776,482,168)</u>
Total Net Position - Governmental Activities		\$	<u>96,976,532</u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES			
Local Control Funding Formula	\$ 360,881,812	\$ -	\$ -
Federal sources	24,267,761	-	-
Other State sources	39,460,497	-	8,174,137
Other local sources	28,348,767	652,744	3,854,160
Total Revenues	452,958,837	652,744	12,028,297
EXPENDITURES			
Current			
Instruction	288,800,957	-	-
Instruction-related activities:			
Supervision of instruction	32,959,818	-	-
Instructional library, media, and technology	5,537,275	-	-
School site administration	38,479,212	-	-
Pupil services:			
Home-to-school transportation	9,960,715	-	-
Food services	71	-	-
All other pupil services	32,654,774	-	-
Administration:			
Data processing	15,751,357	-	-
All other administration	15,342,969	-	-
Plant services	36,011,481	780,036	4,316,575
Ancillary services	7,508,359	-	-
Community services	327,436	-	-
Other outgo	1,023,538	-	-
Facility acquisition and construction	13,397	24,951,817	1,769,170
Debt service			
Principal	7,266,054	-	1,490,000
Interest and other	386,298	320,602	1,096,614
Total Expenditures	492,023,711	26,052,455	8,672,359
Excess (Deficiency) of Revenues Over Expenditures	(39,064,874)	(25,399,711)	3,355,938
Other Financing Sources (Uses)			
Transfers in	7,064,185	270,143	-
Other sources - proceeds from capital leases	5,449,743	-	-
Other sources - proceeds from bond issuance	-	28,000,000	-
Other sources - premium on issuance of debt	-	-	-
Transfers out	(2,148,386)	-	(7,000,000)
Net Financing Sources (Uses)	10,365,542	28,270,143	(7,000,000)
NET CHANGE IN FUND BALANCES	(28,699,332)	2,870,432	(3,644,062)
Fund Balances - Beginning	21,469,748	47,369,487	20,277,738
Fund Balances - Ending	\$ (7,229,584)	\$ 50,239,919	\$ 16,633,676

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

Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 360,881,812
-	11,745,992	36,013,753
-	15,427,577	63,062,211
30,639,514	30,124,806	93,619,991
<u>30,639,514</u>	<u>57,298,375</u>	<u>553,577,767</u>
-	8,155,511	296,956,468
-	1,378,317	34,338,135
-	250,606	5,787,881
-	3,901,628	42,380,840
-	-	9,960,715
-	13,113,312	13,113,383
-	957,544	33,612,318
-	-	15,751,357
-	790,894	16,133,863
948,893	3,003,158	45,060,143
-	-	7,508,359
-	-	327,436
-	656,307	1,679,845
1,652,071	5,951,026	34,337,481
-	18,340,000	27,096,054
-	19,101,668	20,905,182
<u>2,600,964</u>	<u>75,599,971</u>	<u>604,949,460</u>
<u>28,038,550</u>	<u>(18,301,596)</u>	<u>(51,371,693)</u>
121,854	15,013,893	22,470,075
-	-	5,449,743
-	-	28,000,000
-	701,848	701,848
(12,983,507)	(338,182)	(22,470,075)
<u>(12,861,653)</u>	<u>15,377,559</u>	<u>34,151,591</u>
15,176,897	(2,924,037)	(17,220,102)
128,748,506	50,756,163	268,621,642
<u>\$ 143,925,403</u>	<u>\$ 47,832,126</u>	<u>\$ 251,401,540</u>

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, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ (17,220,102)**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 34,143,915	
Depreciation expense	<u>(17,973,938)</u>	
Net Expense Adjustment		16,169,977

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Assets. (5,449,743)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were special termination benefits paid in the amount of \$319,485. Vacation earned was more than the amounts paid by \$593,821. (274,336)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (16,074,962)

In governmental funds, OPEB costs are based on employer contributions made to OPEB Plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year: (8,790,866)

Proceeds received from issuance of general obligation bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities. (28,000,000)

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (Continued) FOR THE YEAR ENDED JUNE 30, 2018

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

Premium on issuance of general obligation refunding bonds	\$ (701,848)	
Amortization of debt premium	2,207,014	
Amortization of deferred charge on refunding	<u>(1,468,800)</u>	\$ 36,366

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

General obligation bonds	9,665,000
Certificates of participation	4,120,000
Special tax revenue revenue bonds	4,555,000
Lease revenue bonds	1,490,000
Qualified zone academy bonds	330,000
Capital lease obligations	6,936,054

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds, special tax bonds, and certificates of participation increased by \$404,673, and second, \$2,689,919, of additional interest was accreted on the District's capital appreciation general obligation bonds.

	<u>(3,094,592)</u>
Change in Net Position of Governmental Activities	<u>\$ (35,602,204)</u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Agency Funds	Scholarship Trust
ASSETS		
Deposits and investments	\$ 4,211,641	\$ 12,953
Receivables	173,683	72
Prepaid expenses	48,214	-
Stores inventories	223,545	-
Total Assets	\$ 4,657,083	13,025
LIABILITIES		
Accounts payable	\$ 108,477	-
Due to student groups	4,548,606	-
Total Liabilities	\$ 4,657,083	-
NET POSITION		
Unreserved		13,025
Total Net Position		\$ 13,025

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2018**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 196</u>
Change in Net Position	196
Net Position - Beginning	<u>12,829</u>
Net Position - Ending	<u><u>\$ 13,025</u></u>

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Other Related Entities

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

Basis of Presentation Fund Accounting

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

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

Major Governmental Funds

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

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Non-Major Governmental Funds

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

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

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) 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.).

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

Basis of Accounting – Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county investment pools are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

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

Interfund Balances

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method.

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for OPEB related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances – Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Unassigned – all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$38,787,878 of restricted net position, which is restricted by enabling legislation.

Interfund Activity

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 251,300,565
Fiduciary funds	4,224,594
Total Deposits and Investments	\$ 255,525,159

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 20,571,289
Cash in revolving	163,955
Investments	234,789,915
Total Deposits and Investments	\$ 255,525,159

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Policies and Practices**

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

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

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Interest Rate Risk**

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

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

Investment Type	Reported Amount	Average Maturity in Days/ Maturity Date
San Diego County Treasury Investment Pool	\$ 230,368,901	345
Blackrock Institutional Funds Money Market Funds	479	39
Fortis Funding LLC Commercial Paper	4,420,535	10/01/18
Total	\$ 234,789,915	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the San Diego County Treasury Investment Pool has been rated AAAsf/S1 by Standard and Poor's Investor Service as of June 30, 2018. The investment in Blackrock Institutional Money Market Funds has been rated AAAM by Standard and Poor's Investor Service as of June 30, 2018. The investment in Fortis LLC Commercial Paper has been rated P-1 by Standard and Poor's Investor Service as of June 30, 2018.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$18,349,955 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Custodial Credit Risk – Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in Fortis Funding LLC Commercial Paper of \$4,420,535, the District has a custodial credit risk exposure of \$4,420,535 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 – FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized – Investments in the San Diego County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Uncategorized
San Diego County Treasury Investment Pool	\$ 230,368,901	\$ 230,368,901
Blackrock Institutional Funds Money Market Funds	479	479
Fortis Funding LLC Commercial Paper	4,420,535	4,420,535
Total	\$ 234,789,915	\$ 234,789,915

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Capital Project Fund for Blended Component Units</u>
Federal Government				
Categorical aid	\$ 10,285,709	\$ -	\$ -	\$ -
State Government				
Categorical aid	88,690	-	-	-
Lottery	1,632,450	-	-	-
Special education	623,487	-	-	-
Local Government				
Interest	37,910	204,455	101,294	512,655
Other Local Sources	<u>7,171,506</u>	<u>-</u>	<u>-</u>	<u>300</u>
Total	<u>\$ 19,839,752</u>	<u>\$ 204,455</u>	<u>\$ 101,294</u>	<u>\$ 512,955</u>

	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>	<u>Fiduciary Funds</u>
Federal Government			
Categorical aid	\$ 1,053,828	\$ 11,339,537	\$ -
State Government			
Categorical aid	234,891	323,581	-
Lottery	-	1,632,450	-
Special education	-	623,487	-
Local Government			
Interest	120,461	976,775	59
Other Local Sources	<u>31,330</u>	<u>7,203,136</u>	<u>173,624</u>
Total	<u>\$ 1,440,510</u>	<u>\$ 22,098,966</u>	<u>\$ 173,683</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 144,894,678	\$ -	\$ -	\$ 144,894,678
Construction in progress	178,110,419	33,905,055	23,411,848	188,603,626
Total Capital Assets Not Being Depreciated	323,005,097	33,905,055	23,411,848	333,498,304
Capital Assets Being Depreciated:				
Land improvements	9,917,040	950,750	-	10,867,790
Buildings and improvements	799,180,221	22,461,098	-	821,641,319
Furniture and equipment	20,660,196	238,860	-	20,899,056
Total Capital Assets Being Depreciated	829,757,457	23,650,708	-	853,408,165
Total Capital Assets	1,152,762,554	57,555,763	23,411,848	1,186,906,469
Less Accumulated Depreciation:				
Land improvements	6,366,732	220,553	-	6,587,285
Buildings and improvements	159,969,044	17,006,254	-	176,975,298
Furniture and equipment	14,261,025	747,131	-	15,008,156
Total Accumulated Depreciation	180,596,801	17,973,938	-	198,570,739
Governmental Activities Capital Assets, Net	\$ 972,165,753	\$ 39,581,825	\$ 23,411,848	\$ 988,335,730

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

Governmental Activities	
Instruction	\$ 16,176,544
Supervision of instruction	898,697
All other pupil services	898,697
Total Depreciation Expenses Governmental Activities	\$ 17,973,938

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – 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, 2018, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From			Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	
General Fund	\$ -	\$ 10,607,741	\$ 2,686,656	\$ 13,294,397
Building Fund	110,044	-	-	110,044
Special Reserve Fund for Capital Outlay Projects	1,135,263	-	97,487	1,232,750
Capital Project Fund for Blended Component Units	39,005,309	-	4,542,398	43,547,707
Non-Major Governmental Funds	5,808,543	-	-	5,808,543
Total	<u>\$ 46,059,159</u>	<u>\$ 10,607,741</u>	<u>\$ 7,326,541</u>	<u>\$ 63,993,441</u>

A balance of \$2,171,690 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from the reimbursement of benefits, indirect costs, and other operating costs.

A balance of \$2,398 due to the Capital Projects Fund for Blended Component Units from the Adult Education Non-Major Governmental Fund resulted from interest owed on a temporary loan.

A balance of \$100,396 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from the reimbursement of benefits, indirect costs, and other operating costs.

A balance of \$65,308 due to the General Fund from the Capital Facilities Non-Major Governmental Fund resulted from administrative charges for developer fee collections.

A balance of \$3,607,741 due to the General Fund from the Special Reserve Fund for Capital Outlay Projects resulted from the reimbursement of project costs.

A balance of \$7,000,000 due to the General Fund from the Special Reserve Fund for Capital Outlay Projects resulted from funds received from a legal settlement.

A balance of \$349,262 due to the General Fund from the County School Facilities Non-Major Governmental Fund resulted from the transfer of unused site fees.

A balance of \$1,135,263 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from RDA funds received.

A balance of \$1,444,093 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from a program contribution.

A balance of \$96,111 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from catering revenues and reimbursement of operating costs.

A balance of \$496,506 due to the Adult Education Non-Major Governmental Fund from the General Fund resulted from a program contribution.

A balance of \$2,359,662 due to the Adult Education Non-Major Governmental Fund from the General Fund resulted from federal, state and local revenues related to adult education programs.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interfund Receivables/Payables (Due To/Due From), Continued

A balance of \$40,421 due to the Capital Projects Fund for Blended Component Units from the General Fund resulted from the reimbursement of qualifying expenditures.

A balance of \$34,446 due to the Building Fund from the General Fund resulted from revenues received to be distributed.

A balance of \$75,598 due to the Building Fund from the General Fund resulted from the reimbursement of qualifying expenditures.

A balance of \$1,395,153 due to the Capital Facilities Non-Major Governmental Fund from the General Fund resulted from developer fee revenues received to be distributed.

A balance of \$17,018 due to the County School Facilities Non-Major Governmental Fund from the General Fund resulted from program revenues received to be distributed.

A balance of \$97,487 due to the Special Reserve Fund for Capital Outlay Projects from the Deferred Maintenance Non-Major Governmental Fund resulted from the reimbursement of qualifying project costs.

A balance of \$36,200,000 due to the Capital Projects Fund for Blended Component Units from the General Fund resulted from a temporary loan to meet cash flow needs.

A balance of \$1,450,000 due to the Capital Projects Fund for Blended Component Units from the Adult Education Non-Major Governmental Fund resulted from a temporary loan to meet cash flow needs.

A balance of \$3,090,000 due to the Capital Projects Fund for Blended Component Units from the Cafeteria Non-Major Governmental Fund resulted from a temporary loan to meet cash flow needs.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ 7,000,000	\$ -	\$ 64,185	\$ 7,064,185
Building Fund	1,623	-	-	268,520	270,143
Capital Project Fund for Blended Component Units	116,377	-	-	5,477	121,854
Non-Major Governmental Funds	2,030,386	-	12,983,507	-	15,013,893
Total	<u>\$ 2,148,386</u>	<u>\$ 7,000,000</u>	<u>\$ 12,983,507</u>	<u>\$ 338,182</u>	<u>\$ 22,470,075</u>

The General Fund transferred to the Adult Education Non-Major Governmental Fund as a program contribution.	\$ 496,506
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for program contribution and reimbursment of costs.	1,533,880
The General Fund transferred to the Building Fund for the reimbursement of operating costs.	1,623
The General Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	116,377
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for funds received from a legal settelment.	7,000,000
The Capital Project Fund for Blended Component Units transferred to the Debt Service Fund for Blended Component Units Non-Major Governmental Fund for debt service payments.	12,983,507
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for oversight fees.	64,185
The County School Facilities Non-Major Governmental Fund transferred to the Building Fund for project match costs.	268,520
The Adult Education Non-Major Governmental Fund transferred to the Capital Project Fund for Blended Component Units for interest earned on interfund loans.	5,477
Total	<u>\$ 22,470,075</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units
Salaries and benefits	\$ 6,807,922	\$ 6,462	\$ -	\$ 4,823
LCFF apportionment	2,340,864	-	-	-
Materials and supplies	3,340,276	-	-	86,084
Construction	-	53,492	267,593	199,661
Charter schools	1,909,173	-	-	-
Services and other operating payables	3,133,663	25,277	-	460,000
Total	<u>\$ 17,531,898</u>	<u>\$ 85,231</u>	<u>\$ 267,593</u>	<u>\$ 750,568</u>

	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 237,034	\$ 7,056,241	\$ -
LCFF apportionment	-	2,340,864	-
Materials and supplies	306,133	3,732,493	-
Construction	99,739	620,485	-
Charter schools	-	1,909,173	-
Services and other operating payables	246,970	3,865,910	108,477
Total	<u>\$ 889,876</u>	<u>\$ 19,525,166</u>	<u>\$ 108,477</u>

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund
Federal financial assistance	\$ 13,587
State categorical aid	3,282,605
Other local	2,401
Total	<u>\$ 3,298,593</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – LONG-TERM OBLIGATIONS

Summary

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

	(as Restated)			Balance June 30, 2018	Due in One Year
	Balance	Additions	Deductions		
	July 1, 2017				
General obligation bonds	\$ 424,459,679	\$ 30,689,919	\$ 9,665,000	\$ 445,484,598	\$ 11,310,000
Premium on general obligation bonds	25,314,400	701,848	1,407,824	24,608,424	-
Certificates of participation	35,515,000	-	4,120,000	31,395,000	3,090,000
Premium on certificates of participation	3,923,539	-	311,804	3,611,735	-
Special tax revenue bonds	59,200,000	-	4,555,000	54,645,000	4,900,000
Premium on special tax revenue bonds	5,036,321	-	487,386	4,548,935	-
Lease revenue bonds	35,690,000	-	1,490,000	34,200,000	1,500,000
2005 Qualified zone academy bonds	5,000,000	-	-	5,000,000	-
2010 Qualified zone academy bonds	2,875,000	-	330,000	2,545,000	340,000
Capital leases	15,178,329	5,449,743	6,936,054	13,692,018	5,939,071
Compensated absences	9,638,609	593,821	-	10,232,430	-
Early retirement incentive	592,884	-	319,485	273,399	273,399
Net other postemployment benefits (OPEB) liability	138,559,949	13,062,164	5,376,484	146,245,629	-
	<u>\$ 760,983,710</u>	<u>\$ 50,497,495</u>	<u>\$ 34,999,037</u>	<u>\$ 776,482,168</u>	<u>\$ 27,352,470</u>

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018
10/21/04	08/01/29	2.50-5.27%	\$ 96,999,415	\$ 60,184,679	\$ -	\$ 2,689,919	\$ 5,495,000	\$ 57,379,598
03/12/08	08/01/47	3.00-5.50%	180,000,000	2,355,000	-	-	1,180,000	1,175,000
12//14/11	08/01/25	3.22%	23,835,000	16,320,000	-	-	1,590,000	14,730,000
07/16/14	08/01/29	3.00-5.00%	82,270,000	79,890,000	-	-	1,400,000	78,490,000
03/24/16	08/01/47	4.00-5.00%	168,710,000	168,710,000	-	-	-	168,710,000
03/24/16	08/01/40	2.00-4.00%	97,000,000	97,000,000	-	-	-	97,000,000
04/04/18	08/01/47	3.50-5.00%	28,000,000	-	28,000,000	-	-	28,000,000
				<u>\$ 424,459,679</u>	<u>\$ 28,000,000</u>	<u>\$ 2,689,919</u>	<u>\$ 9,665,000</u>	<u>\$ 445,484,598</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

General Obligation Bonds Election 2000, Series C

On October 21, 2004, the District issued \$96,999,415 aggregate original principal amount of General Obligation Bonds, Election of 2000, Series C. The bond issues are part of a \$187 million authorization as approved pursuant to an election of District voters on November 7, 2000. The bonds were issued to finance modernization projects at 19 schools, including planning, design, and construction costs for the facilities to be completed at all schools. The bonds mature through August 1, 2029, with interest yields from 2.50 to 5.27 percent. At June 30, 2018, the principal balance outstanding of the general obligation bonds was \$57,379,598. Unamortized premium received on issuance of the bonds amounted to \$1,667,764 as of June 30, 2018.

General Obligation Bonds Election 2006, Series 2008A

In November 2006, the District voters approved Proposition O, which authorized \$644 million in general obligation bonds. On March 12, 2008, the District issued \$180,000,000 Series A bonds consisting of \$17,265,000 in serial bonds, and \$162,735,000 in term bonds. The bonds were issued for the construction, reconstruction, and equipping schools as described in the Long Range Facilities Plan. The bonds originally matured through August 1, 2047, with interest yields from 3.00 to 5.50 percent. On March 24, 2016, the District issued 2016 General Obligation Refunding Bonds to advance refund and defease certain maturities of the District's General Obligation Bonds, Election of 2006, Series 2008A in the amount of \$163,375,000. The remaining bonds mature through August 1, 2018, with interest yields from 4.00 to 5.5 percent. At June 30, 2018, the principal balance outstanding of the remaining general obligation bonds was \$1,175,000.

General Obligation Refunding Bonds, Series 2011

On December 14, 2011, the District issued \$23,835,000 Series 2011 Refunding Bonds pursuant to a Placement Agreement between the District and Capital One Public Funding, LLC. The bonds were issued for the purpose of defeasing and refunding the District's \$38,000,000 Election of 2000 General Obligation Bonds, Series A and paying the related financing costs with the issuance. The bonds mature through August 1, 2025, with a stated interest yield of 3.22 percent. At June 30, 2018, the principal balance outstanding of the general obligation bonds was \$14,730,000.

General Obligation Refunding Bonds, Series 2014

On July 16, 2014, the District issued \$82,270,000 Series 2014 Refunding Bonds pursuant to a Placement Agreement between the District and Capital One Public Funding, LLC. The bonds were issued for the purpose of defeasing and refunding the District's \$45,835,000 Election of 2000 General Obligation Bonds, Series B and the current interest bonds of \$39,425,000 Election of 2000 General Obligation Bonds, Series C, and paying the related financing costs associated with the issuance. The bonds mature through August 1, 2029, with interest yields from 3.00 to 5.00 percent. At June 30, 2018, the principal balance outstanding of the general obligation bonds was \$78,490,000. Unamortized premium received on issuance of the bonds amounted to \$8,430,024 as of June 30, 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

2016 General Obligation Refunding Bonds

On March 24, 2016, the District issued \$168,710,000 in 2016 General Obligation Refunding Bonds. The bonds were issued to advance refund and defease certain maturities of the District's General Obligation Bonds, Election of 2006, Series 2008A, and paying the related financing costs associated with the issuance. The bonds mature through August 1, 2047, with interest yields from 4.00 to 5.00 percent. The refunding resulted in a cumulative cash flow saving of \$43,152,031 over the life of the new debt and an economic gain of \$43,152,031 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 3.74 percent. At June 30, 2016, the principal balance outstanding of the general obligation refunding bonds was \$168,710,000. Unamortized premium received on issuance of the bonds amounted to \$13,123,821 as of June 30, 2018.

General Obligation Bonds, Election of 2006, Series 2016B

On March 24, 2016, the District issued \$97,000,000 in General Obligation Bonds, Election of 2006, Series 2016B. The bonds were issued to provide funds, together with other funds on deposit, to pay and defease the District's 2013 General Obligation Bond Anticipation Notes in the aggregate principal amount of \$32,820,000, issued under the authorization of the Election of 2006, to fund additional Proposition O projects, and to pay the related financing costs associated with the issuance. The bonds mature through August 1, 2040, with interest yields from 2.00 to 4.00 percent. At June 30, 2016, the principal balance outstanding of the general obligation refunding bonds was \$97,000,000. Unamortized premium received on issuance of the bonds amounted to \$691,017 as of June 30, 2018.

General Obligation Bonds, Election of 2006, Series 2018C

On April 4, 2018, the District issued \$28,000,000 in General Obligation Bonds, Election of 2006, Series 2018C. The bonds were issued to provide funds for authorized capital projects, fund capitalized interest on the bonds, and to pay certain costs of issuing the bonds. The bonds mature through August 1, 2047, with interest yields from 3.50 to 5.00 percent. At June 30, 2018, the principal balance outstanding of the general obligation bonds was \$28,000,000. Unamortized premium received on issuance of the bonds amounted to \$695,798 as of June 30, 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest to Maturity	Total
2019	\$ 11,155,093	\$ 154,907	\$ 15,466,979	\$ 26,776,979
2020	12,186,125	488,875	15,528,599	28,203,599
2021	12,603,832	856,168	15,328,574	28,788,574
2022	12,813,454	1,256,546	15,105,995	29,175,995
2023	13,130,133	1,649,867	14,858,020	29,638,020
2024-2028	92,130,961	8,129,039	68,413,348	168,673,348
2029-2033	74,370,000	-	49,785,480	124,155,480
2034-2038	65,555,000	-	36,598,530	102,153,530
2039-2043	73,650,000	-	22,455,645	96,105,645
2044-2048	77,890,000	-	8,135,600	86,025,600
Total	<u>\$ 445,484,598</u>	<u>\$ 12,535,402</u>	<u>\$ 261,676,770</u>	<u>\$ 719,696,770</u>

Certificates of Participation (COPs)

The outstanding Certificates of Participation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	COPs Outstanding July 1, 2017	COPs Redeemed	COPs Outstanding June 30, 2018
02/23/17	09/01/29	2.00-5.00%	\$ 35,515,000	<u>\$ 35,515,000</u>	<u>\$ 4,120,000</u>	<u>\$ 31,395,000</u>

2017 Refunding Certificates of Participation

On February 23, 2017, the District issued \$35,515,000 in 2017 Refunding Certificates of Participation under the terms of a lease agreement with the Corporation. The Certificates were issued to prepay the District's rental and/or installment obligations with respect to the Special Tax Revenue Bonds, Series 2005 and the Certificates of Participation, Series 2005 Refinancing. The Certificates are payable from lease payments made by the District to the Corporation as rental for certain school facilities pursuant to a lease agreement. The District is required under the lease agreement to make payments from certain Special Taxes levied in and collected from various Community Facilities Districts. The certificates are due to mature through September 1, 2029 with interest rates ranging from 2.00 to 5.00 percent. The refunding resulted in a cumulative cash flow saving of \$7,227,087 over the life of the new debt and an economic gain of \$6,334,485 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.62 percent. At June 30, 2017, the principal balance outstanding of the certificates was \$31,395,000. Unamortized premium received on issuance of the certificates amounted to \$3,611,735 as of June 30, 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Debt Service Requirements to Maturity

The certificates mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 3,090,000	\$ 1,390,050	\$ 4,480,050
2020	2,760,000	1,273,050	4,033,050
2021	2,800,000	1,147,850	3,947,850
2022	2,455,000	1,016,475	3,471,475
2023	2,250,000	898,850	3,148,850
2024-2028	12,240,000	2,742,250	14,982,250
2029-2030	5,800,000	204,400	6,004,400
Total	<u>\$ 31,395,000</u>	<u>\$ 8,672,925</u>	<u>\$ 40,067,925</u>

Special Tax Revenue Bonds

The outstanding special tax revenue bond debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Special Tax Bonds Outstanding July 1, 2017	Redeemed	Special Tax Bonds Outstanding June 30, 2018
10/30/13	09/01/27	3.00-5.00%	\$ 72,140,000	<u>\$ 59,200,000</u>	<u>\$ 4,555,000</u>	<u>\$ 54,645,000</u>

2013 Special Tax Refunding Revenue Bonds

On October 30, 2013, the Authority issued \$72,140,000 in 2013 Special Tax Refunding Revenue Bonds, pursuant to an agreement between the District and the Authority. The bonds, together with other available funds, were issued to refund certain outstanding certificates of participation. The bonds are payable from the revenue pledged, consisting primarily of installment payments made by the District for the acquisition and construction of certain school facilities. The District's obligation to make installment payments is payable solely from Special Taxes levied in and collected from various Community Facilities Districts. The bonds are due to mature through September 1, 2027 with interest rates ranging from 3.00 to 5.00 percent. At June 30, 2018, the principal balance outstanding of the certificates was \$54,645,000. Unamortized premium received on issuance of the 2013 special tax refunding revenue bonds amounted to \$4,548,935 as of June 30, 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Debt Service Requirement to Maturity

The special tax revenue bonds mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 4,900,000	\$ 2,556,376	\$ 7,456,376
2020	5,735,000	2,290,500	8,025,500
2021	5,810,000	2,001,875	7,811,875
2022	6,320,000	1,698,625	8,018,625
2023	6,550,000	1,376,875	7,926,875
2024-2028	25,330,000	2,361,062	27,691,062
Total	<u>\$ 54,645,000</u>	<u>\$ 12,285,313</u>	<u>\$ 66,930,313</u>

2016 Lease Revenue Refunding Bonds, Series 2016

On November 8, 2016, the Authority issued \$35,690,000 in Lease Revenue Refunding Bonds, Series 2016, pursuant to an agreement between the District and the Authority. The bonds, together with other available funds, were issued to prepay the District' rental under a lease agreement between the District and Plan Nine Partners, LLC and refund the related California Statewide Communities Development Authority Demand Revenue Bonds. The bonds are payable from the revenue received, consisting primarily of base rental payments made by the District for the acquisition and certain school facilities. The District's obligation to make installment payments is payable solely from base rental payments pursuant to the lease agreement. The bonds are due to mature through October 1, 2035 with interest rates ranging from 1.23 to 3.95 percent. At June 30, 2018, the principal balance outstanding of the certificates was \$34,200,000.

Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,500,000	\$ 1,051,823	\$ 2,551,823
2020	1,500,000	1,027,816	2,527,816
2021	1,600,000	999,460	2,599,460
2022	1,600,000	967,260	2,567,260
2023	1,600,000	931,292	2,531,292
2024-2028	8,900,000	3,959,238	12,859,238
2029-2033	10,300,000	2,409,490	12,709,490
2034-2036	7,200,000	435,050	7,635,050
Total	<u>\$ 34,200,000</u>	<u>\$ 11,781,429</u>	<u>\$ 45,981,429</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Qualified Zone Academy Bonds****2005 Qualified Zone Academy Bonds**

On August 1, 2005, the District, pursuant to a sublease agreement with the Corporation, issued \$5,000,000 Certificates of Participation, 2005 Series A (Qualified Zone Academy Bonds). The District has been granted authorization from the State Superintendent of Public Instruction to issue securities in an aggregate principal amount not to exceed \$5,000,000 in accordance with the qualified zone academy bonds tax credit program found in Section 1397E of the Internal Revenue Code of 1986 and State regulations, to finance certain projects at qualified zone academies within the District. The District and the Corporation, in order to facilitate the financing of projects qualified under the QZAB Program, entered into a lease arrangement by which the District will lease to the Corporation those certain parcels of real property located within the District and pursuant to a sublease, the Corporation will sublease the property to the District, with the District required to pay base rental to the Corporation. The annual base rental payment of \$312,500 to begin September 29, 2006, will be deposited with US Bank into an interest generating investment to produce sufficient income to repay the \$5,000,000 certificates upon maturity on September 29, 2021. At June 30, 2018, the principal balance outstanding was \$5,000,000.

2010 Qualified Zone Academy Bonds

On April 1, 2010, the District entered into a Trust Agreement, under which the Trustee agrees to execute and deliver \$5,000,000 aggregate principal amount of Certificates of Participation, 2010 Series A (Qualified Zone Academy Bonds), each evidencing a direct, undivided fractional interest in lease payments to be paid by the District under the Lease. The annual requirements to amortize the QZAB outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 340,000	\$ 58,535	\$ 398,535
2020	345,000	50,784	395,784
2021	355,000	42,721	397,721
2022	365,000	34,615	399,615
2023	370,000	26,620	396,620
2024-2025	770,000	26,692	796,692
Total	<u>\$ 2,545,000</u>	<u>\$ 239,967</u>	<u>\$ 2,784,967</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Capital Leases

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

	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Balance, July 1, 2017	\$ 15,378,179	\$ 469,269	\$ 15,847,448
Additions	5,518,035	-	5,518,035
Payments	(7,016,296)	(273,084)	(7,289,380)
Balance, July 1, 2018	<u>\$ 13,879,918</u>	<u>\$ 196,185</u>	<u>\$ 14,076,103</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2019	\$ 7,221,297
2020	5,436,789
2021	1,418,017
Total	14,076,103
Less: Amount Representing Interest	(384,085)
Present Value of Minimum Lease Payments	<u>\$ 13,692,018</u>

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2018, amounted to \$10,232,430.

Early Retirement Incentive

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

<u>Year Ending June 30,</u>	<u>Total</u>
2019	<u>\$ 273,399</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 143,266,218	\$ 1,105,186	\$ 9,185,839
Medicare Premium Payment (MPP) Program	2,979,411	-	394,973
Total	<u>\$ 146,245,629</u>	<u>\$ 1,105,186</u>	<u>\$ 9,580,812</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	229
Active employees	<u>4,017</u>
	<u>4,246</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Sweetwater Education Association (SEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, SEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$3,738,177 in benefits.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Total OPEB Liability of the District

The District's total OPEB liability of \$143,266,218 was measured as of June 30, 2018, and the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.50 percent
Healthcare cost trend rates	6.50 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the RPH 2014 mortality table with generational improvements using scale MP2017.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 135,185,565
Service cost	8,248,940
Interest	4,813,224
Changes of assumptions or other inputs	(1,243,334)
Benefit payments	<u>(3,738,177)</u>
Net change in total OPEB liability	<u>8,080,653</u>
Balance at June 30, 2018	<u>\$ 143,266,218</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.40 percent in 2017 to 3.50 percent in 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Total OPEB Liability
1% decrease (2.5%)	\$ 156,094,369
Current discount rate (3.5%)	143,266,218
1% increase (4.5%)	131,332,010

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (5.5%)	\$ 126,178,220
Current healthcare cost trend rate (6.5%)	143,266,218
1% increase (7.5%)	163,472,762

OPEB Expense and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$9,185,839. At June 30, 2018, the District reported deferred inflows of resources for changes of assumptions of \$1,105,186.

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ 138,148
2020	138,148
2021	138,148
2022	138,148
2022	138,148
Thereafter	414,446
	\$ 1,105,186

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities and OPEB Expense

At June 30, 2018, the District reported a liability of \$2,979,411 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.7082 percent, and 0.7210 percent, resulting in a net decrease in the proportionate share of 0.0128 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$394,973.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Actuarial Methods and Assumptions**

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 3,298,416
Current discount rate (3.58%)	2,979,411
1% increase (4.58%)	2,669,111

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 2,692,354
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	2,979,411
1% increase (4.7% Part A and 5.1% Part B)	3,263,601

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 152,000	\$ -	\$ -	\$ -	\$ 11,955	\$ 163,955
Stores inventories	591,470	-	-	-	234,298	825,768
Total Nonspendable	743,470	-	-	-	246,253	989,723
Restricted						
Legally restricted programs	686,020	-	-	-	450,770	1,136,790
Capital projects	-	50,239,919	-	143,925,403	23,980,837	218,146,159
Debt services	-	-	-	-	22,360,593	22,360,593
Total Restricted	686,020	50,239,919	-	143,925,403	46,792,200	241,643,542
Committed						
Deferred maintenance program	-	-	-	-	793,673	793,673
Assigned						
Capital projects	-	-	16,633,676	-	-	16,633,676
Unassigned						
Remaining unassigned	(8,659,074)	-	-	-	-	(8,659,074)
Total	\$ (7,229,584)	\$ 50,239,919	\$ 16,633,676	\$ 143,925,403	\$ 47,832,126	\$ 251,401,540

At June 30, 2018, the General Fund reported a deficit net position of \$7,229,584.

NOTE 11 – RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. The District participates in the San Diego County Schools Risk Management JPA for health and welfare, workers' compensation, and for property and liability coverage. See Note 16 for additional information relating to public entity risk pools.

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

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 361,756,779	\$ 109,846,772	\$ 30,208,078	\$ 36,232,947
CalPERS	143,033,688	43,533,192	2,208,989	25,084,922
Total	<u>\$ 504,790,467</u>	<u>\$ 153,379,964</u>	<u>\$ 32,417,067</u>	<u>\$ 61,317,869</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.430%	14.430%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payrolls using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$32,674,329.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 361,756,779
State's proportionate share of the net pension liability associated with the District	<u>214,012,254</u>
Total	<u><u>\$ 575,769,033</u></u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.3912 percent and 0.4054 percent, resulting in a net decrease in the proportionate share of 0.0142 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$36,232,947. In addition, the District recognized pension expense and revenue of \$21,542,388 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 32,674,329	\$ -
Net change in proportionate share of net pension liability	8,814,963	14,263,868
Differences between projected and actual earnings on pension plan investments	-	9,634,590
Differences between expected and actual experience in the measurement of the total pension liability	1,337,812	6,309,620
Change of assumptions	67,019,668	
Total	\$ 109,846,772	\$ 30,208,078

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (8,009,592)
2020	6,060,900
2021	873,945
2022	(8,559,843)
Total	\$ (9,634,590)

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 9,645,962
2020	9,645,962
2021	9,645,962
2022	9,645,960
2023	8,175,673
Thereafter	9,839,436
Total	\$ 56,598,955

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 531,173,800
Current discount rate (7.10%)	361,756,779
1% increase (8.10%)	224,263,385

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$12,568,578.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$143,033,688. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.5992 percent and 0.5995 percent, resulting in a net decrease of 0.0003 percent in the proportionate share.

For the year ended June 30, 2018, the District recognized pension expense of \$25,084,922. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 12,568,578	\$ -
Net change in proportionate share of net pension liability	-	524,944
Differences between projected and actual earnings on pension plan investments	4,947,987	-
Differences between expected and actual experience in the measurement of the total pension liability	5,124,307	-
Changes of assumptions	20,892,320	1,684,045
Total	<u>\$ 43,533,192</u>	<u>\$ 2,208,989</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (134,073)
2020	5,708,904
2021	2,082,672
2022	(2,709,516)
Total	<u>\$ 4,947,987</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 8,028,193
2020	8,566,288
2021	7,213,157
Total	<u>\$ 23,807,638</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 210,448,391
Current discount rate (7.15%)	143,033,688
1% increase (8.15%)	87,107,547

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$17,403,787 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

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, 2018.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**Construction Commitments**

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Olympian High School - Relocatable Classroom	\$ 158,598	06/30/18
District Wide - HVAC Project	1,000,000	09/30/18
L Street Property - HVAC Project	8,957	10/31/18
National City Middle School - PE Site Restoration	121,143	10/31/18
Chula Vista High School - Modernization (Relocatables)	34,539	12/30/18
Chula Vista High School - Tennis Court Resurfacing	121,620	12/30/18
Eastlake High School - HVAC Replacement & Reroof Projects	904,441	12/30/18
Granger Junior High - Emergency Abatement Project	90,677	12/30/18
Hilltop High School - Tennis Court Upgrades	353,004	12/30/18
Hilltop High School - Title IX, Girls Team Room	98,794	12/30/18
Montgomery HS and Southwest HS - Overhang Assessment & Remediation	167,801	12/30/18
Rancho Del Rey Middle School - Boys Locker Room Fans	7,850	12/30/18
SESS-MVA	19,404	12/30/18
SHC II Relo Classrooms 2017	84,884	12/30/18
Sweetwater High School - Old Gym Roof	162,457	12/30/18
San Ysidro High School - ROTC Relocation Assessment	7,231	12/30/18
Hilltop High School - Modernization, Artificial Track & Field Improvements	76,001	12/31/18
District Office - HVAC Project	19,928	01/01/19
Eastlake High School - Key Fob Entry (Gym/PE Facilities)	184,783	06/30/19
Palomar High School - Site Master Plan	16,000	06/30/19
Sweetwater High School - Modernization, Title IX, Softball Field Modifications	5,808	06/30/19
Eastlake High School - Drop-off/Pick-up Zone	50,058	09/30/19
Montgomery Adult School - Relocatable Classroom & Restroom	207,341	09/30/19
Eastlake High School - Relocatable Classrooms	170,303	12/30/19
Hilltop Middle School - Modernization Phase 1	95,666	12/30/19
Olympian High School - Track & Field	127,590	12/30/19
Palomar High School - Administration Building Structural Assessment	16,315	12/30/19
Sweetwater High School - Food Services Facilities	45,712	12/30/19
Bonita Vista High School - Modernization, Artificial Track & Field	6,040	06/01/20
Mar Vista High School - ROTC Building Modernization	84,743	12/30/20
Mar Vista High School - Pool Replacement	10,739	12/30/20
Proposition 39 Energy Upgrade Project	29,300	12/30/20
	<u>\$ 4,487,727</u>	

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

During the year ended June 30, 2018, the District made payments totaling \$8,938,076 for annual premiums.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 222,762,899
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(90,184,163)</u>
Net Position - Beginning as Restated	<u><u>\$ 132,578,736</u></u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 16 - GOING CONCERN

The District's current trend of deficit spending continued in the current year, marking two consecutive years where expenditures significantly exceeded revenues. The ongoing trend of increased expenditures without new dedicated revenue sources resulted in concerns regarding the District's ability to generate sufficient cash flow to meet obligations as they become due, raising concerns about the District's financial condition.

The significant factors contributing to the District's financial condition include: 1) internal borrowings that reflect the significant cash flow shortages in the General Fund, 2) unsustainable salary, benefits, and pension increases that create significant deficit spending, and 3) declining local enrollment of students.

The District has grown reliant on utilizing inter-fund cash borrowings to maintain positive cash balances in the General Fund. Throughout the year, the District was dependent on engaging in short-term borrowing from the Capital Project Fund for Blended Component Units (CFD funds) totaling \$168,110,550. While the District has engaged in this practice in the past, the amount of short-term borrowings doubled in the current year. The District ended the year with a balance due to the Capital Project Fund for Blended Component Units of \$36,200,000, as compared to \$5,218,550 in the prior year. Cash flow and deficit spending issues are also prevalent in the District's Cafeteria Fund. In the current year, the Cafeteria Fund has also borrowed from the Capital Project Fund for Blended Component Units totaling \$4,910,000, of which \$3,090,000 remained unpaid at year-end. It is critical to note that the Cafeteria Fund has held a balance due to the Capital Project Fund for Blended Component Units beyond one year and with ongoing deficit spending, it is unlikely that the Cafeteria Fund will be able to repay this loan. Lastly, the District's Adult Education Fund engages in cash borrowings from the Capital Project fund for Blended Component Units. For the current year, the Adult Education Fund borrowed \$5,255,568, of which \$1,450,000 remained unpaid at year-end. Like the Cafeteria Fund, the Adult Education Fund is deficit spending and may experience difficulty in repaying this loan. The issues in the Cafeteria Fund and Adult Education Fund directly impact the General Fund, if these other funds are unable to repay the Capital Project Fund for Blended Component Units.

The District began a trend of deficit spending in the prior year. As noted in the prior year financial statements, the General Fund deficit spent by \$14,815,350 and ended the year with just \$21,469,748 in fund balance. The District negotiated salary increases for certificated employees of 3.75 percent, retroactively to January 2017, of which half was applied during 2017-2018. In addition, the District negotiated an additional 3.75 percent increase for certificated employees during 2017-2018. The salary increases combined with step and column increases of approximately 1.5 percent, resulted in an increase in salaries from fiscal year-ended June 30, 2017 to June 30, 2018 of \$23,130,089. With total revenues remaining fairly stagnant (only \$2,537,366 increase in revenues between 2017 and 2018), the District was unable to pay for these negotiated salary increases. As a result, the District pattern of deficit spending continued in the current year with a deficit spending total for 2017-2018 of \$28,699,332.

Revenues from the State are dependent on enrollment/average daily attendance (ADA) of students. Any significant increases in revenues beyond the current year LCFF formula are dependent on the District's growth in ADA since the District is funded on a per ADA basis. Likewise, decreases in funding occur with a decline in ADA. The District has experienced declines in student ADA over the past few years. In the current year, the District reported ADA of 37,309 at the Second Period Report of Attendance was a decrease of 146 from the prior year.

SWEETWATER UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

As a result, the District ended the year with negative fund balance in the General Fund of \$(7,229,584). When non-spendable and restricted fund balance components are factored in, the District's remaining unassigned fund balance is actually \$(8,659,074). The District has no available reserves, which for a District this size, should be maintained at no less than 2 percent of total outgo (expenditures) in the General Fund as recommended by the State. For Sweetwater Union High School District, a 2 percent reserve in 2017-2018 would equate to \$9,883,442. This means that in order to make the District "whole" again, the District needs to recover by \$18,542,516 (after factoring in current non-spendable and restricted resources).

The District is working with the San Diego County Office of Education and Fiscal Crisis Management Team to assist and prepare a fiscal stabilization plan. The priority of the plan is for the district to obtain the minimum reserve requirement of two percent by 2019-2020 and eliminate the trend of deficit spending. The plan will describe various financial assumptions to obtain this goal. The District will continue to monitor and implement the financial stabilization plan for the current and future years.

REQUIRED SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive
				(Negative)
				Final
				to Actual
REVENUES				
Local Control Funding Formula	\$ 368,931,496	\$ 365,109,440	\$ 360,881,812	\$ (4,227,628)
Federal sources	18,438,113	27,216,037	24,267,761	(2,948,276)
Other State sources	32,856,330	40,758,083	39,460,497	(1,297,586)
Other local sources	29,477,183	31,319,640	28,348,767	(2,970,873)
Total Revenues	449,703,122	464,403,200	452,958,837	(11,444,363)
EXPENDITURES				
Current				
Certificated salaries	211,547,863	216,009,514	230,931,638	(14,922,124)
Classified salaries	74,001,658	74,573,135	78,711,841	(4,138,706)
Employee benefits	107,480,182	113,955,913	117,335,191	(3,379,278)
Books and supplies	14,522,870	17,292,074	14,060,295	3,231,779
Services and operating expenditures	31,287,816	36,737,360	37,327,606	(590,246)
Other outgo	(48,955)	52,486	237,110	(184,624)
Capital outlay	4,348,969	4,844,449	5,767,678	(923,229)
Debt service - principal	7,132,458	7,232,904	7,266,054	(33,150)
Debt service - interest	319,741	391,760	386,298	5,462
Total Expenditures	450,592,602	471,089,595	492,023,711	(20,934,116)
Excess (Deficiency) of Revenues				
Over Expenditures	(889,480)	(6,686,395)	(39,064,874)	(32,378,479)
Other Financing Sources (Uses)				
Transfers in	15,000	15,000	7,064,185	7,049,185
Other sources	4,143,232	4,143,232	5,449,743	1,306,511
Transfers out	(1,920,809)	(1,816,397)	(2,148,386)	(331,989)
Net Financing Sources (Uses)	2,237,423	2,341,835	10,365,542	8,023,707
NET CHANGE IN FUND BALANCES	1,347,943	(4,344,560)	(28,699,332)	(24,354,772)
Fund Balances - Beginning	21,469,748	21,469,748	21,469,748	-
Fund Balances - Ending	\$ 22,817,691	\$ 17,125,188	\$ (7,229,584)	\$ (24,354,772)

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 8,248,940
Interest	4,813,224
Changes of assumptions	(1,243,334)
Benefit payments	(3,738,177)
Net change in total OPEB liability	8,080,653
Total OPEB liability - beginning	135,185,565
Total OPEB liability - ending	\$ 143,266,218
Covered payroll	N/A ¹
District's total OPEB liability as a percentage of covered payroll	N/A ¹

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
OPEB LIABILITY – MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018**

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.7082%</u>
District's proportionate share of the net OPEB liability	<u>\$ 2,979,411</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data becomes available, ten years of information will be presented.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.3912%	0.4054%
District's proportionate share of the net pension liability	\$ 361,756,779	\$ 327,893,539
State's proportionate share of the net pension liability associated with the District	214,012,254	186,663,943
Total	\$ 575,769,033	\$ 514,557,482
District's covered - employee payroll	\$ 208,093,887	\$ 198,562,171
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	174%	165%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
 CalPERS		
District's proportion of the net pension liability	0.5992%	0.5995%
District's proportionate share of the net pension liability	\$ 143,033,688	\$ 118,397,673
District's covered - employee payroll	\$ 74,308,504	\$ 68,973,791
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	192%	172%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

Note: In the future, as data becomes available, ten years of information will be

<u>2016</u>	<u>2015</u>
<u>0.4148%</u>	<u>0.3936%</u>
<u>\$ 279,234,412</u>	<u>\$ 229,996,406</u>
<u>147,684,222</u>	<u>138,881,760</u>
<u>\$ 426,918,634</u>	<u>\$ 368,878,166</u>
<u>\$ 190,006,892</u>	<u>\$ 177,278,733</u>
<u>147%</u>	<u>130%</u>
<u>74%</u>	<u>77%</u>
<u>0.5995%</u>	<u>0.6002%</u>
<u>\$ 88,370,365</u>	<u>\$ 68,138,218</u>
<u>\$ 65,725,707</u>	<u>\$ 63,027,229</u>
<u>134%</u>	<u>108%</u>
<u>79%</u>	<u>83%</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
CalSTRS		
Contractually required contribution	\$ 32,674,329	\$ 26,178,211
Contributions in relation to the contractually required contribution	(32,674,329)	(26,178,211)
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 226,433,326	\$ 208,093,887
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
 CalPERS		
Contractually required contribution	\$ 12,568,578	\$ 10,319,965
Contributions in relation to the contractually required contribution	(12,568,578)	(10,319,965)
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 80,925,749	\$ 74,308,504
Contributions as a percentage of covered - employee payroll	15.53%	13.89%

Note: In the future, as data becomes available, ten years of information will be presented.

<u>2016</u>	<u>2015</u>
\$ 21,305,721	\$ 16,872,612
<u>(21,305,721)</u>	<u>(16,872,612)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 198,562,171</u>	<u>\$ 190,006,892</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 8,171,325	\$ 7,736,573
<u>(8,171,325)</u>	<u>(7,736,573)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 68,973,791</u>	<u>\$ 65,725,707</u>
<u>11.85%</u>	<u>11.77%</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2018, the District major fund exceeded the budgeted amount in total as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	\$ 472,905,992	\$ 494,172,097	\$ 21,266,105

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net/total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net/total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Change of Assumptions – The discount rate changed from 3.40 percent in 2017 to 3.50 percent in 2018.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Basic Education Grants			
Adult Basic Education and ESL	84.002A	14508	\$ 697,334
Adult Secondary Education	84.002	13978	446,799
Adult Education: English Literacy and Civics Education	84.002A	14109	163,446
Total Adult Basic Education Grants			<u>1,307,579</u>
Title I, Part A - Low Income and Neglected	84.010	14329	9,940,149
Title I, Part G - Advance Placement Test Fee Reimbursement	84.330	14831	73,317
Title II, Part A - Supporting Effective Instruction	84.367	14341	797,254
Title II, Part B - CA Mathematics and Science Partnerships	84.366	14512	47,546
English Language Acquisition Grants			
Title III - Immigrant Education Program	84.365	15146	115,899
Title III - English Learner Student Program	84.365	14346	1,256,805
Total English Language Acquisition Grants			<u>1,372,704</u>
Title IV, Part B, 21st Century Community Learning Centers	84.287	14535	2,438,680
Career and Technical Education Grants:			
Career and Technical Education - Secondary Education, Section 131	84.048	14894	625,320
Career and Technical Education - Adult, Section 132	84.048A	14893	486,456
Total Career and Technical Education Grants			<u>1,111,776</u>
Passed through South County SELPA:			
Special Education Cluster			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	6,430,667
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	13379	19,463
Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	432,465
Total Special Education Cluster			<u>6,882,595</u>
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	218,739
Total U.S. Department of Education			<u>24,190,339</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	5,690,676
Especially Needy Breakfast Program	10.553	13526	2,620,134
Summer Lunch Program	10.559	13004	149,757
Commodities	10.555	13396	741,946
Total Child Nutrition Cluster			<u>9,202,513</u>
National School Lunch Equipment Assistance Program	10.579	14906	806
Child and Adult Care Food Program	10.558	13393	748,638
Total U.S. Department of Agriculture			<u>9,951,957</u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Assistance Program			
Medi-Cal Billing Option	93.778	10013	\$ 331,326
Medi-Cal Administrative Activities	93.778	10060	1,517,229
Total Medi-Cal Assistance Program			<u>1,848,555</u>
Total U.S. Department of Health and Human Services			<u>1,848,555</u>
U.S. DEPARTMENT OF DEFENSE			
Passed through CDE:			
Junior Reserve Officer Training Corps	12.000	[1]	292,802
U.S. DEPARTMENT OF INTERIOR FISH AND WILDLIFE SERVICES			
Tijuana Slough Funds	15.000	[1]	11,114
Total Expenditures of Federal Awards			<u>\$ 36,294,767</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018**

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Paula Hall	President	2018
Kevin J. Pike	Vice President	2020
Frank A. Tarantino	Member	2018
Nicholas Segura	Member	2020
Arturo Solis	Member	2018

ADMINISTRATION

Dr. Karen Janney	Superintendent
Dr. Moises Aguirre	Assistant Superintendent, Facilities and Operations
Dr. Thomas Glover	Assistant Superintendent, Human Resource Services
Dr. Joe Fulcher	Assistant Superintendent, Equity, Culture and Support Services
Dr. Dianna Carberry	Assistant Superintendent, Leadership Development and Systems Innovation
Ana Maria Alvarez	Assistant Superintendent, Teaching and Learning
Karen Michel	Chief Financial Officer

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Seventh and eighth	10,733.65	10,697.11
Ninth through twelfth	26,354.32	26,249.47
Total Regular ADA	37,087.97	36,946.58
Extended Year Special Education		
Seventh and eighth	5.33	0.21
Ninth through twelfth	91.94	0.76
Total Extended Year Special Education	97.27	0.97
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	61.68	36.67
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	12.25	12.48
Community Day School		
Seventh and eighth	10.72	11.83
Ninth through twelfth	39.36	38.36
Total Community Day School	50.08	50.19
Total ADA	37,309.25	37,046.89

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 7 - 8	54,000				
Grade 7		61,416	180	-	Complied
Grade 8		61,416	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,790	180	-	Complied
Grade 10		65,790	180	-	Complied
Grade 11		65,790	180	-	Complied
Grade 12		65,790	180	-	Complied

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

	<u>General Fund</u>
NET ASSETS	
Balance, June 30, 2018,	
Unaudited Actuals	\$ (2,872,348)
(Decrease) in:	
Cash in county treasury	(362,972)
Accounts receivable	(5,284,904)
Increase in Accounts payable	<u>1,290,640</u>
Balance, June 30, 2018,	
Audited Financial Statement	<u>\$ (7,229,584)</u>

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget)			
	2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues	\$ 474,721,302	\$ 452,958,837	\$ 450,432,471	\$ 444,535,071
Other sources and transfer in	15,000	12,513,928	13,207,245	7,771,637
Total Revenues and Other Sources	<u>474,736,302</u>	<u>465,472,765</u>	<u>463,639,716</u>	<u>452,306,708</u>
Expenditures	470,915,197	492,023,711	476,974,910	437,287,886
Other uses and transfers out	400,000	2,148,386	1,480,156	783,582
Total Expenditures and Other Uses	<u>471,315,197</u>	<u>494,172,097</u>	<u>478,455,066</u>	<u>438,071,468</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 3,421,105</u>	<u>\$ (28,699,332)</u>	<u>\$ (14,815,350)</u>	<u>\$ 14,235,240</u>
ENDING FUND BALANCE	<u>\$ (3,808,479)</u>	<u>\$ (7,229,584)</u>	<u>\$ 21,469,748</u>	<u>\$ 36,285,098</u>
AVAILABLE RESERVES ²	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,569,101</u>	<u>\$ 11,056,112</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>0.00%</u>	<u>0.00%</u>	<u>2.00%</u>	<u>2.52%</u>
LONG-TERM OBLIGATIONS ³	<u>N/A</u>	<u>\$ 776,482,168</u>	<u>\$ 760,983,710</u>	<u>\$ 696,205,879</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>37,429</u>	<u>37,309</u>	<u>37,455</u>	<u>37,991</u>

The General Fund balance has decreased by \$43,514,682 over the past two years. The fiscal year 2018-2019 budget projects an increase of \$3,421,105 (47.3 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years but anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$80,276,289 over the past two years.

Average daily attendance has decreased by 682 over the past two years. Growth of 120 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund. With the deficit fund balance noted above, the General Fund did not meet the minimum available reserves requirement of two percent in the current year.

³ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

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

See accompanying note to supplementary information.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	\$ 416,692	\$ 1,929,704	\$ 892,667	\$ 3,744,664
Receivables	1,044,610	279,968	4,924	15,497
Due from other funds	2,856,168	1,540,204	-	1,395,153
Stores inventories	-	234,298	-	-
Total Assets	\$ 4,317,470	\$ 3,984,174	\$ 897,591	\$ 5,155,314
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 366,352	\$ 423,785	\$ 6,431	\$ 10,205
Due to other funds	3,624,088	3,190,396	97,487	65,308
Total Liabilities	3,990,440	3,614,181	103,918	75,513
Fund Balances:				
Nonspendable	-	246,253	-	-
Restricted	327,030	123,740	-	5,079,801
Committed	-	-	793,673	-
Total Fund Balances	327,030	369,993	793,673	5,079,801
Total Liabilities and Fund Balances	\$ 4,317,470	\$ 3,984,174	\$ 897,591	\$ 5,155,314

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ 19,220,872	\$ 22,360,593	\$ -	\$ 48,565,192
95,511	-	-	1,440,510
17,018	-	-	5,808,543
-	-	-	234,298
<u>\$ 19,333,401</u>	<u>\$ 22,360,593</u>	<u>\$ -</u>	<u>\$ 56,048,543</u>
\$ 83,103	\$ -	\$ -	\$ 889,876
349,262	-	-	7,326,541
<u>432,365</u>	<u>-</u>	<u>-</u>	<u>8,216,417</u>
-	-	-	246,253
18,901,036	22,360,593	-	46,792,200
-	-	-	793,673
<u>18,901,036</u>	<u>22,360,593</u>	<u>-</u>	<u>47,832,126</u>
<u>\$ 19,333,401</u>	<u>\$ 22,360,593</u>	<u>\$ -</u>	<u>\$ 56,048,543</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES				
Federal sources	\$ 1,794,035	\$ 9,951,957	\$ -	\$ -
Other State sources	14,515,683	715,988	-	-
Other local sources	472,965	1,313,975	31,670	2,190,675
Total Revenues	16,782,683	11,981,920	31,670	2,190,675
EXPENDITURES				
Current				
Instruction	8,155,511	-	-	-
Instruction-related activities:				
Supervision of instruction	1,378,317	-	-	-
Instructional library, media, and technology	250,606	-	-	-
School site administration	3,901,628	-	-	-
Pupil services:				
Food services	-	13,113,312	-	-
All other pupil services	957,544	-	-	-
Administration:				
All other administration	786,428	-	-	4,466
Plant services	1,415,972	87,491	1,064,923	85,622
Other outgo	656,307	-	-	-
Facility acquisition and construction	-	-	1,992,730	645,940
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	17,502,313	13,200,803	3,057,653	736,028
Excess (Deficiency) of Revenues Over Expenditures	(719,630)	(1,218,883)	(3,025,983)	1,454,647
Other Financing Sources (Uses)				
Transfers in	496,506	1,533,880	-	-
Other sources - premium from bond issuance	-	-	-	-
Transfers out	(5,477)	-	-	(64,185)
Net Financing Sources (Uses)	491,029	1,533,880	-	(64,185)
NET CHANGE IN FUND BALANCES	(228,601)	314,997	(3,025,983)	1,390,462
Fund Balances - Beginning	555,631	54,996	3,819,656	3,689,339
Fund Balances - Ending	\$ 327,030	\$ 369,993	\$ 793,673	\$ 5,079,801

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 11,745,992
-	195,906	-	15,427,577
327,467	25,788,054	-	30,124,806
327,467	25,983,960	-	57,298,375
-	-	-	8,155,511
-	-	-	1,378,317
-	-	-	250,606
-	-	-	3,901,628
-	-	-	13,113,312
-	-	-	957,544
-	-	-	790,894
349,150	-	-	3,003,158
-	-	-	656,307
3,312,356	-	-	5,951,026
-	9,665,000	8,675,000	18,340,000
-	14,793,161	4,308,507	19,101,668
3,661,506	24,458,161	12,983,507	75,599,971
(3,334,039)	1,525,799	(12,983,507)	(18,301,596)
-	-	12,983,507	15,013,893
-	701,848	-	701,848
(268,520)	-	-	(338,182)
(268,520)	701,848	12,983,507	15,377,559
(3,602,559)	2,227,647	-	(2,924,037)
22,503,595	20,132,946	-	50,756,163
\$ 18,901,036	\$ 22,360,593	\$ -	\$ 47,832,126

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that have been recorded in the prior year as revenues, but were not spent. These balances were spent in the current year.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 36,013,753
Medi-Cal Billing Option	93.778	281,014
Total Schedule of Expenditures of Federal Awards		\$ 36,294,767

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Sweetwater Union High School District
Chula Vista, California

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweetwater Union High School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Sweetwater Union High School District's basic financial statements, and have issued our report thereon dated _____, 2018.

Emphasis of Matter - Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 16 of the financial statements, the District has suffered from significant deficit spending and inadequate cash flow in the General Fund that has resulted in significant interfund borrowing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regards to these matters is described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 2018-001 through 2018-003, to be material weaknesses.

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. We did not identify any weaknesses in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Sweetwater Union High School District in a separate letter dated _____, 2018.

Sweetwater Union High School District's Response to Findings

Sweetwater Union High School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sweetwater Union High School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Rancho Cucamonga, California
_____, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on Compliance for Each Major Federal Program

We have audited Sweetwater Union High School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sweetwater Union High School District's major Federal programs for the year ended June 30, 2018. Sweetwater Union High School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sweetwater Union High School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Sweetwater Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Sweetwater Union High School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Sweetwater Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Sweetwater Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sweetwater Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sweetwater Union High School District's internal control over compliance.

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

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

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

Rancho Cucamonga, California
_____, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Sweetwater Union High School District
Chula Vista, California

Report on State Compliance

We have audited Sweetwater Union High School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Sweetwater Union High School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Sweetwater Union High School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Sweetwater Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Sweetwater Union High School District's compliance with those requirements.

Basis for Qualified Opinion on School Accountability Report Card and Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Sweetwater Union High School District did not comply with requirements regarding the *School Accountability Report Card as referenced in item 2018-004 and Unduplicated Local Control Funding Formula Pupil Counts as referenced in item 2018-005*. Compliance with such requirements is necessary, in our opinion, for Sweetwater Union High School District to comply with the requirements applicable to that program.

Qualified Opinion on School Accountability Report Card and Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Sweetwater Union High School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Programs

In our opinion, Sweetwater Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

	<u>Procedures Performed</u>
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

This is a high school district and does not offer kindergarten classes; therefore, we did not perform procedures over kindergarten continuance.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

This is a high school district and does not offer K-3 classes; therefore, we did not perform procedures over K-3 Grade Span Adjustment.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District did not offer Independent Study - Course Based; therefore, we did not perform any procedures over Independent Study - Course Based.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Rancho Cucamonga, California
_____, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None Reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, and 10.559	<u>Child Nutrition Cluster</u>
93.778	<u>Medi-Cal Assistance Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 1,088,843
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified
Unmodified for all programs except for the following programs which were qualified:	

<u>Name of Programs</u>
<u>School Accountability Report Card</u>
Unduplicated Local Control
<u>Funding Formula Pupil Counts</u>

SWEETWATER UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control
60000	Miscellaneous

2018-001 Code 60000

Fiscal Stability

Criteria or Specific Requirements

Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government’s ability to continue as a going concern for 12 months beyond the financial statement date.

Condition

The General Fund’s trend of deficit spending (as disclosed in detail in Note 16) has adversely affected the District’s financial condition and its ability to meet future financial obligations. The District incurred deficit spending in the General Fund of \$28,699,332 and \$14,815,350 for fiscal years 2017-2018 and 2016-2017, respectively. In addition, the District has ended the 2017-2018 fiscal year with a negative fund balance of \$(7,229,584) in the General Fund. The Cafeteria Fund and Adult Education Fund also show trends of deficit spending. As also discussed in Note 16, the General Fund, Cafeteria Fund, and Adult Education Fund rely on short-term interfund borrowings from the Capital Project Fund for Blended Component Units. The Cafeteria Fund and Adult Education Fund may not be able to repay these loans, which will create an additional burden on the General Fund.

Questioned costs

There are no questioned costs associated with this finding.

Context

The condition was identified during the final year-end audit procedures of the unaudited actuals. Upon closing the books, the District notified the auditors that there appeared to be a negative ending fund balance in the General Fund. The audit has substantiated this through our substantive audit procedures, which included additional audit adjustments that created a greater deficit than originally reported on the unaudited actuals.

Effect

The District’s deficit spending and inability to generate sufficient cash flow raises substantial doubt about the District’s ability to continue as a going concern.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Cause

The significant factors contributing to the District's financial condition (as noted in Note 16) include:

- 1) internal borrowings that reflect the significant cash flow shortages in the General Fund,
- 2) unsustainable salary increases creating significant deficit spending, and
- 3) declining local enrollment of students, which hinders revenue growth.

Recommendation

The District must continue to analyze both funding sources and expenditure obligations in order to maintain fiscal solvency. A budget stabilization plan must be developed that identifies a viable corrective action plan to ensure fiscal stability can be achieved.

Corrective Action Plan

The District is working with the San Diego County Office of Education and Fiscal Crisis Management Team to assist and prepare a fiscal stabilization plan. The priority of the plan is for the district to obtain the minimum reserve requirement of two percent by 2019-2020 and eliminate the trend of deficit spending. The plan will describe various financial assumptions to obtain this goal. The District will continue to monitor and implement the financial stabilization plan for the current and future years.

2018-002 Code 30000

Accounts Receivable and Accounts Payable

Criteria or Specific Requirements

Under the accrual basis of accounting, amounts due from (accounts receivable) or due to (accounts payable) individuals, businesses or other vendors for services rendered and goods received on or before the close of the fiscal year should be accrued to ensure revenues and expenditures are recorded in the year they are earned or incurred. In addition, once amounts have been received or paid in the subsequent year, the related accruals should be reversed to close the accounts receivable or accounts payable at that time.

Condition

During the current fiscal year, various misstatements were noted during the audit related to accounts receivable and accounts payable. Some of the misstatements noted were a result of the District not properly clearing prior year accrual balances in the current year. Other misstatements were a result of not properly accounting for current year activity specific to the LCFF calculation and amounts due to Charter Schools for in lieu tax payments.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Questioned costs

There are no questioned costs associated with this finding. However, audit adjustments were required as a result of the misstatements.

Context

The condition was identified during our substantive audit procedures performed over the District's accounts receivable and accounts payable balances, which included review of supporting documentation for accruals and related accounts.

Effect

Due to the condition identified, the District's fund balance was reduced by \$4,357,236.

Cause

The cause of the condition identified appears to be a result of lack of monitoring the clearing of the accounts receivable and accounts payable balances.

Recommendation

The District should review the current procedures regarding the establishment and subsequent clearing/monitoring of accounts receivable and accounts payable balances. Personnel assigned responsibility for monitoring these accounts should have a clear understanding of accruals and the journal entries required to account for them properly. In addition, the District should ensure that personnel assigned responsibility for the LCFE calculation and charter school payment calculations understand the closing process to ensure proper accruals are established.

Corrective Action Plan

The District management is continuing to update processes to correctly report and account for accruals. The District will implement procedures to review and monitor accounts payable and accounts receivable balances. To improve accuracy over the year-end accrual processes, procedures will be implemented to systematically reverse accruals and to monitor the clearing of the accrual balances from the accounts receivable and accounts payable accounts. The District is exploring the development of a collections team to help monitor and report on accounts receivables. The District will coordinate with internal departments to ensure all accruals are captured.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

2018-003 Code 30000

Bank Reconciliations and Cash Clearing Processing

Criteria or Specific Requirements

Timely and accurate bank reconciliation preparation and review are a prudent and necessary practice of normal business operations. Bank reconciliations are an important function of cash monitoring. In addition, accurate financial statement reporting is dependent on the District's timely deposit and reconciliation of cash to the county treasury.

Condition

During the current fiscal year, the District was behind on reconciling the cash clearing account and transferring the corresponding revenues to the county treasury. During our initial audit visit in June, the District was in the process of preparing the November 2017 reconciliation. Although the District eventually caught up and completed all reconciliations through June by the time the District closed the books, this type of delay makes it very ineffective in allowing for proper monitoring of cash.

Questioned costs

There were no direct questioned costs associated with the condition identified.

Context

The condition was identified as a result of the auditor's inquiry with the District's personnel and through review of supporting documentation for cash balances reported.

Effect

Monies held in the cash clearing account for an extended period of time are subject to a higher risk of loss or financial statement reporting error. Because the District reconciled most of the year in a small time frame, we noted several journal entries where transactions were consolidated in order to ensure the District could complete the entire reconciliation in time to close the books. In addition, the District forgoes the interest earnings that would've been earned had the funds been deposited to the county treasurer. Lastly, the District has a higher risk of understating revenues at year-end, if amounts deposited in the clearing account are not transferred timely to allow for the reporting of revenues on the general ledger.

Cause

The condition identified appears to have materialized primarily due to the lack of qualified resources committed to completing the task timely. Turnover in recent years is most likely a factor and training may be necessary on a go forward basis to improve the process.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Recommendation

As a good business practice, the District should always perform timely bank reconciliations to ensure that all activities have been properly accounted for and that there are no errors posted. Independent reviews are also an important monitoring function to ensure that bank statements are accurate and all transactions are being recorded. The District should attempt to deposit funds into the bank and transfer funds to the County Treasury on a more regular and consistent basis, at least monthly. The District may need to consider, as a result of the volume of transactions, performing this task more frequently.

Corrective Action Plan

The District recognizes the importance of timely reconciliations and will implement procedures to ensure bank reconciliations are performed and reviewed monthly. Currently, the District contracts with an armored service company to pick-up deposits twice weekly. The District will establish procedures to ensure these funds are transferred to the County Treasury monthly.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SWEETWATER UNION HIGH SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance
72000	School Accountability Report Card

2018-004 Code 72000

Criteria or Specific Requirements

In accordance with *Education Code* §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by *Education Code* §17002. In addition, according to *Education Code* §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition

The School Facility Repair status reported on the SARC for Mar Vista High School, Montgomery High School, and Otay Ranch High School did not match the FIT form. In addition, the data reported under the Instructional Materials section was outdated for all six schools selected.

Questioned Costs

None.

Context

The School Facility Repair error was noted for three of six schools selected as noted above. The Instructional Materials data error was noted for all of the six schools.

Cause

The SARC for Mar Vista High School, Montgomery High School, and Otay Ranch High School reported the "Structural" in Poor condition while the FIT form stated a Good rating.

Effect

Without proper compliance, the public will be misinformed on the status of the school's facilities and instructional materials data.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Recommendation

We recommend that an employee verify the information presented in the SARC. This information is essential to present the image of the school fairly to the public. In addition, the SARCs should be published on an annual basis by February 1st.

Corrective Action Plan

The District's Teaching and Learning Division and Maintenance Department are working together to establish and update the processes surrounding the completion and evaluation of the Facilities Inspection Tool (FIT) and School Accountability Report Card (SARC). The updated processes will include reviewing FIT forms to ensure appropriate version is being used, verifying the information presented in the SARC and cross referencing the information with the FIT form.

Unduplicated Local Control Funding Formula Pupil Counts

2018-005 40000

Criteria or Specific Requirements

California *Education Code* Section 42238.02(b)(4) states that school districts should revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

Condition

The Unduplicated Local Control Funding Formula Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported eligibility for a total of 895 students for Free or Reduced Priced Meals on CALPADS Form 1.18 – FRPM/English Learner/Foster Youth – Student List.

Questioned Costs

The District over claimed the total eligible pupils by 895, resulting in a decrease of approximately \$720,732 in LCFF funding.

Context

The condition identified was determined through a selection of students from Form 1.18 based on the criteria as stated on the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* Section 19849(a)(1): "Select a representative sample, to achieve a high level of assurance, from the students indicated as a 'No' under the 'Direct Certification' column, that are only free or reduced priced meal eligible (FRPM) identified under the 'NSLP Program' column and verify there is supporting documentation such as a Free and Reduced Meal (FRPM) eligibility application under a federal nutrition program or an alternative household income data collection form that indicates the student was eligible for the designation."

SWEETWATER UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Context, (Continued)

The initial sample of 40 students was selected from six sites and lunch applications were obtained for each student. Upon review of the lunch applications, we found six students were not supported by a 2017-2018 meal application or other family size/income information. The auditor inquired further with the District and determined that the District did not make changes to students' eligibility for those students whose status should have been updated from the prior year or as a result of the eligibility verification process under the National School Lunch Program. Under Federal Regulations for the National School Lunch Program, a District has 30 days in a new fiscal year to receive a lunch application from a student who was eligible for free or reduced priced meals in the prior year, during which time the District may continue to provide a free or reduced priced meal to the student. If a student does not turn in a lunch application after 30 days, the student's eligibility status must be changed to paid status. The District was following these Federal Regulations for reporting their CALPADS data and thus did not make the classification change to these students for CALPADS reporting. The District elected to perform a complete review of the population and determined that a total of 596 students whose status was incorrectly reported in CALPADs as free or reduced during the 30-day grace period from the previous year. In addition, 299 students were also incorrectly classified because their eligibility status changed after the eligibility verification process. These exceptions resulted in a combined total of 895 students whose status should have been changed in CALPADs from free or reduced to paid status.

Cause

It appears that the condition identified has materialized as a result of the District not updating the status for students whose eligibility changed from the prior year or from the eligibility verification process from free or reduced to paid.

Effect

As a result of our testing, it appears that the District did not update the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the most current free and reduced eligibility information from the Food Services Department. The following table summarizes the exceptions noted.

Total Enrollment	Unduplicated FRPM/EL/Foster Youth Total	Adjustment by Auditor	Adjusted Total Unduplicated Pupil County	Total Adjusted Enrollment
39,579	25,257	(895)	24,362	39,579

SWEETWATER UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Recommendation

The District should emphasize the importance of completing the Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measures are taking place to ensure that CALPADS information is being updated.

Corrective Action Plan

The District management is updating processes to complete the Form 1.18 accurately. A collective working group that includes administrative and school staff has been established to address CALPADS reporting requirements and respective deadlines.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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

Financial Statements Findings

2017-001 Code 30000

Bank Reconciliations and Cash Clearing Processing

Criteria or Specific Requirements

Timely and accurate bank reconciliation preparation and review are a prudent and necessary practice of normal business operations. Bank reconciliations are an important function of cash monitoring. The District should strive to implement procedures and assign personnel to conduct timely reconciliations of all cash accounts.

The District's clearing account should act as a holding account for monies collected at the sites and various departments. Once the District has verified that all checks collected have cleared the bank, the District should issue a check sweeping the monies from the clearing account to the county treasurer. Per California *Education Code* Section 41017, all monies deposited in the clearing account shall be paid directly to the county treasurer. The clearing account should be reconciled periodically and in a timely manner since the delay would generally lead to an omission of revenue recognition.

Condition

Based on our review of the clearing account, while the District has been performing bank reconciliations of the clearing account, the account has not been cleared to the county treasury in a timely manner. It appears as though the delay in clearing the account ranges from 3-4 months from initial deposit. As of May 2017, we noted just under \$8 million in the clearing account that had not yet been cleared. Deposits to the account were from as early as February and March.

In addition, we noted that the District used the cash clearing account for disbursements other than to the county treasury. The clearing account should be used to accumulate receipts for later distribution or deposit into the county treasury only. We noted several transactions for wire transfers used for property title transfers and other general disbursements during the year that were processed through the clearing account totaling \$2,054,553.

Questioned costs

There were no direct questioned costs associated with the condition identified.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Context

The condition was identified as a result of the auditor's inquiry with the District's personnel and through review of supporting documentations for cash balances reported.

Effect

Monies held in the cash clearing account for an extended period of time are subject to a higher risk of loss. In addition, the District forgoes the interest earnings that would've been earned had the funds been deposited to the county treasurer. Lastly, the District has a higher risk of understating revenues at year-end, if amounts deposited in the clearing account are not transferred timely to allow for the reporting of revenues on the general ledger.

With respect to the disbursements made for other purposes, the District is not adhering to *Education Code* Section 41017.

Cause

The condition identified appears to have materialized primarily due to the lack of procedures in place. Additionally, it appears the District has had significant turnover in their accounting department in the past year.

Recommendation

As a good business practice, the District should always perform timely bank reconciliations to ensure that all activities have been properly accounted for and that there are no errors posted. Independent reviews are also an important monitoring function to ensure that bank statements are accurate and all transactions are being recorded. The District should attempt to deposit funds into the bank and transfer funds to the County Treasury on a more regular and consistent basis, at least monthly. The District may need to consider, as a result of the volume of transactions, performing this task more frequently.

In addition, the District should immediately stop the practice of allowing disbursements other than transfers to the county treasury to be processed from the cash clearing account.

Current Status

Not implemented, see current year finding 2018-003.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Awards Findings

2017-002 Code 50000

Federal Program Affected

Program Name: Title IV, Part B, 21st Century Community Learning Centers
CFDA Number: 84.287
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Education

Compliance Requirement

Allowable Costs

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 76, Subpart G, Section 76.702 requires states and subgrantees to use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. Additionally, Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.20 requires grantees and subgrantees to maintain effective control and accountability for all grant and subgrant cash, real and personal property, and other assets and must assure that all such property is used solely for authorized purposes.

Condition

Through review of the District's control procedures over categorical payroll disbursements, it was noted that current fiscal controls are not being adhered to consistently. Two of 40 payroll expenditures tested did not have time sheets or other documentation on file for hours worked by employees. We could not determine if the time sheets were just misplaced or if they never existed. Thus, we could not determine if proper approvals occurred or if the time charged was actually worked. Another employee tested did not have their time sheet approved. A fourth employee's time sheet indicated an error.

Questioned Costs

The exceptions noted above totaled \$5,947 in payroll costs, which is not material to the program.

Context

The condition was identified as a result of inquiry with District personnel in both the payroll department, the categorical department and fiscal services department and through review of supporting documents.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Effect

The District may be charging employees to the program that are not in compliance with program requirements. This is a direct result of the control deficiencies noted above. The District currently assumes all the risk of non-compliance with requirements stated under 34 CFR, Part 76, Subpart G, Section 76.702 and 34, CFR, Part 80, Subpart C, Section 80.20 due to the lack of implemented review and monitoring procedures.

Cause

The condition identified appears to have materialized due to a breakdown in internal controls in relation to requirements under 34 CFR, Part 76, Subpart G, Section 76.702, and 34, CFR, Part 80, Subpart C, Section 80.20.

Recommendation

The District should review the requirements stated in 34 CFR, Part 76, Subpart G, Section 76.702 and 34, CFR, Part 80, Subpart C, Section 80.20 and implement a procedure to address the deficiency currently identified with the District's internal control procedures in regards to payroll disbursements.

Current Status

Implemented.

State Awards Findings

2017-003 Code 72000

Criteria or Specific Requirements

In accordance with *Education Code* §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by *Education Code* §17002. In addition, according to *Education Code* §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.

Condition

The School Facility Repair status reported on the SARC for Hilltop Middle School did not match the FIT form. The SARC for Hilltop Middle School reported the "Structural" in Poor condition while the FIT form stated a Good rating.

SWEETWATER UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Questioned Costs

None.

Context

The error was noted for one of the five schools selected for testing. The auditor obtained both the FIT and the SARC and compared the information for consistency.

Cause

The cause of the condition is unknown.

Effect

As a result, the District is not in compliance with *Education Code* Section 33126.

Recommendation

We recommend that an employee verify the information presented in the SARC. This information is essential to comply with *Education Code* Section 33126.

Current Status

Not implemented, see current year finding 2018-004.

After School Education and Safety Program (ASES)

2017-004 40000

Criteria or Specific Requirements

According to the California *Education Code* Section 8483(a)(1), every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program.

Condition

The District has submitted their attendance report for submission to the state based on sign in sheets and the school's criteria for counting students. However, in reviewing Chula Vista Middle School's After School Program for October, 2016, it was noted that some students who left early did not have proper early release documentation for the day. Since the reason for early release is not documented, it cannot be determined if the early release is consistent with the District's early release policy.

SWEETWATER UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition.

Context

The condition identified resulted from our review of attendance records for the month of October 2016 for Chula Vista Middle School's After School Program. We noted instances where students signed out early without documenting the reason.

Effect

As a result of our testing, the District was not compliant with *Education Code* Section 8483a(2) for the 2016-2017 fiscal year since the students were signing out early without a reason. As such, it could not be determined if the students leaving early were in compliance with the early release policy.

Cause

It appears that the condition identified has materialized as a result of the site not following their own policy for students who are released early.

Recommendation

We recommend the District continue to enforce its early release policy by communicating with parents the importance of documenting the reason for early release.

Current Status

Implemented.

Governing Board
Sweetwater Union High School District
Chula Vista, California

In planning and performing our audit of the financial statements of Sweetwater Union High School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2018, on the government-wide financial statements of the District.

MANAGEMENT OBSERVATIONS

INTERNAL CONTROLS

Revolving Cash Fund

Observation

The process for the recording of the expenditures through the revolving cash should be revisited. Currently, the reconciliation process is inefficient. Fund reimbursements are being processed as an individual check request is being processed, instead of consolidating multiple checks over a period of time in one reimbursement. As a result, the population of checks for the revolving cash was 157 checks issued during the year, which is creating a heavier workload for the person processing the checks and subjecting the process to an increased risk of error. We also noted that the amount established for the revolving cash was increased in a prior year to \$152,000 to allow for a temporary increase in reimbursements that the District anticipated over a short period of time. However, the additional use of the revolving cash is no longer needed and the account may need to be reduced to the original amount of \$25,000. Lastly, the revolving cash reconciliation is not being reviewed.

Recommendation

The District should review the revolving cash procedures to create a process that is more streamlined and efficient. In addition, the District should consider if it still necessary for the revolving cash balance to remain at \$152,000. Lastly, all bank reconciliations should be reviewed timely by a person knowledgeable when it comes to bank reconciliations.

Governing Board
Sweetwater Union High School District

Credit Card Transactions

Observation

During our testing of procedures related to the use of credit cards, it was noted that itemized receipts were not submitted for six of 40 credit card expenditures reviewed. In reviewing the credit card transactions, it was noted that the credit card purchases related to food items. Therefore, we were unable to determine the validity of the purchases.

Recommendation

The District should establish procedures to ensure that itemized receipts and supporting documentation have been turned in before processing payment. This will help to alleviate the risk of unallowable expenditures and also help to ensure that the District is reimbursed by the County in a timely manner.

Vacation Accrual

Observation

The District has a policy of rolling over only 40 days of vacation from prior year to current year. During our vacation testing, we noted that six of 40 employees tested had rolled over more than 40 days' worth of vacation from the prior year which is in violation of the vacation rollover policy.

Recommendation

The District should consider implementing a review procedure where an independent person will review the vacation activity and report vacation in excess of the established policy to the appropriate level of management for remediation. In addition, an independent person should also spot check to ensure there were no errors made in regards to any additions and deletions of hours made on the vacation accrual files.

Benefits Reconciliation

Observation

The reconciliation process for the benefits billing is currently not being documented. According to District personnel, the reconciliation is performed, but the reconciliation process is not being documented to allow for a review. The person responsible for this process stated that the District will be incorporating the PeopleSoft module and will change the current process at that time.

Recommendation

The benefits reconciliation should be fully documented to ensure that reconciliations are performed correctly. Payments to benefit providers should be reconciled to District records and reviewed to ensure that overpayments do not occur.

Governing Board
Sweetwater Union High School District

ASSOCIATED STUDENT BODY (ASB)

National City Middle School

Observation

Physical inventory is not maintained for all student store merchandise. Inventory is only maintained for PE clothes and locks. In addition, variances in physical and perpetual inventory for PE clothes are not investigated. A negative variance of \$1,542.71 in the inventory value did not have an explanation for the difference.

Recommendation

All inventory in the student store should be maintained on a listing and reconciled to items sold. This ensures that any variances between the physical inventory count and items sold can be identified and investigated. Any variances in physical and perpetual inventory should be investigated to determine the cause. This would allow the ASB to implement procedures to limit the amount of unaccounted inventory.

Otay Ranch High School and Learning Center

Observation

Beginning inventory is not reconciled to the prior day's ending inventory. Two of 75 inventory items tested was not complete in regards to ending inventory. Thus, inventory listings are not complete in regards to inventory additions. In addition, the daily sales forms are not mathematically correct. Four of 75 forms tested had ending inventory amounts that did not agree to the difference of the beginning balance and amounts sold.

Recommendation

The site should review inventory procedures to ensure beginning inventory counts are reconciled to previous ending inventory counts and any discrepancies should be investigated. Inventory counts should be reviewed to ensure that all additions and subtractions are accounted for. The site should ensure that daily sales forms are mathematically correct so that any overages and shortages are accurate and can be investigated. All inventory in student store should be maintained on a listing and reconciled to items sold. This ensures that any variances between the physical inventory count and items sold can be identified and investigated.

Observations

1. Out of 23 deposit batches tested, two contained receipts that were not deposited in a timely manner. The delay in deposits was eight days from the date indicated on associated receipts
2. Out of 12 disbursements tested, nine appear to have been purchased without first obtaining proper approvals.

Governing Board
Sweetwater Union High School District

Recommendations

1. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.
2. In order to maintain proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

Montgomery Middle School

Observations

During our review of the ASB procedures, the following issues were noted:

1. Four of seven deposit batches selected for testing contained receipts that were not deposited in a timely manner. Late deposit times ranged from 11 to 23 days.
2. Adequate controls do not exist for ticketed events. While overages and shortages are recorded, explanations are missing regarding such overages and shortages.

Recommendations

1. ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During events of high cash activity, cash should be deposited immediately. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. Also the district should establish cash deposit guidelines that take into consideration holiday and weekend scheduling.
2. The mathematical accuracy of the sales recap should be verified and the cash shortage and overage should be clearly documented. Should the cash variance be large, an explanation should be stated on the form.

Montgomery High School

Observations

During our review of the associated study body procedures, the following issues were noted:

1. Six of 15 deposit batches selected for testing contained receipts that were not deposited in a timely manner. Late deposit times ranged from 14 to 70 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Four of 25 disbursements selected for testing were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

Governing Board
Sweetwater Union High School District

Recommendations

1. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

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

Rancho Cucamonga, California
_____, 2018