FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

San Diego County Office of Education

Extraordinary Audit of the Sweetwater Union High School District

June 17, 2020

Michael H. Fine
Chief Executive Officer



FCMAT

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Paul Gothold, Superintendent
San Diego County Office of Education
6401 Linda Vista Road
San Diego, CA 92111

Dear Superintendent Gothold:

In February 2019, the San Diego County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 extraordinary audit of the Sweetwater Union High School District to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred. Based on discussions with the county office the work performed under the agreement includes the following:

1. Review the district's use of Mello-Roos proceeds for internal borrowing including interfund borrowing practices for fiscal years 2016-17 through 2018-19 and the authority to make such borrowing.
2. Review budget entries identified in FCMAT's December 17, 2018 Fiscal Health Risk Analysis and evaluate the potential for possible manipulation of the district's 2017-18 budget through the use of unsubstantiated budget entries.
3. Review 2017-18 payroll transactions to determine if a correlation exists between general ledger posting and suspected understated budget. Review of the process and internal controls related to posting payroll transactions to the general ledger.

The attached final report contains the team's findings and recommendation. FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the San Diego County Office of Education and Sweetwater Union High School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

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Introduction

Background

The Sweetwater Union High School District is located south of San Diego near the southern border of California and serves approximately 40,364 students in grades 7-12 at 29 school campuses. Leadership of the Business Services department was consistent until the longstanding chief financial officer, the position serving as chief business official, retired after serving in the district for approximately eight years. To fill the vacancy, the district promoted the director of fiscal services into the chief financial officer position (referred to in this report as the CFO) and the former budget analyst into the director of fiscal services position (referred to as the director), both of whom retired in August 2018. In August 2018, a replacement (current CFO) was seated. Significant budget and related fiscal concerns came to light after the replacement (current) CFO was seated, during the preparation of the district's unaudited actuals.

The district's original 2018-19 adopted budget and accompanying multiyear financial projection submitted June 22, 2018 were disapproved by the San Diego County Office of Education (county office). In a letter dated September 18, 2018, the county office required the district to provide a revised adopted budget that contained revisions necessary to maintain fiscal solvency and meet its reserve requirements by October 8, 2018. The deficiencies in the district's 2017-18 budget were so significant that the district's fiscal health became compromised to the point of fiscal distress. Consistent with the 2018-19 Budget Act, disapproval of a district budget by the county superintendent is one of the triggers for FCMAT to conduct a Fiscal Health Risk Analysis (FHRA). In September 2018, the district entered into an agreement with FCMAT to conduct an FHRA.

The FHRA is a high-level analysis of key systems and processes that, when deficient, most commonly contribute to the decline in a district's fiscal health and potentially the need for state intervention. The results of the FHRA are intended to help the district and the county office focus on the deficiencies that present the greatest vulnerability to the deterioration of fiscal health.

During FCMAT's work on the FHRA, several concerns were identified relative to the district's ongoing borrowing from Mello-Roos funds maintained in the capital projects fund for blended component units (Fund 49). The district developed an ongoing and increasing dependency on internal borrowing from this fund to cover cash deficiencies in other funds. Increasing frequency and volume of these borrowings raised questions as to the district's ability to repay the outstanding balances in compliance with Education Code Section 42603.

Questions were also raised about budget revision entries that appeared to reduce budgeted expenditure projections in the 2017-18 fiscal year budget, primarily in the area of salaries and benefits. District personnel were unable to locate sufficient documentation supporting the budget reduction entries made to the 2017-18 budget and to develop the 2018-19 budget, calling into question the legitimacy of the district's financial position as presented by the former business administration. FCMAT's FHRA report further identified concerns relative to the timeliness of posting payroll transactions to the district's general ledger.

The dramatic shift in the district's financial position and the findings in the FHRA report raised questions as to potential intentional manipulation of the district's budget and financial position. As a result, in December 2018, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the San Diego County Superintendent of Schools for an Assembly Bill (AB) 139 extraordinary audit of the Sweetwater Union High School District. Under the provisions of Education Code Section 1241.5, on February 1, 2019, FCMAT entered into an agreement with the county office to conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred at the district.

Study and Report Guidelines (AB 139 Audit Authority)

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. This review or audit is known as an AB 139 extraordinary audit, or fraud audit. Education Code Section 42638(b) states that on completion of the fraud audit:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

The purpose of a extraordinary audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, and to document the findings for referral to the local district attorney's office and further investigation by law enforcement if needed.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon, and capitalizes relatively few terms.

Scope, Procedures and Audit Fieldwork

Fraud audits consist of gathering adequate information about specific allegations, establishing an audit plan, and performing audit test procedures, often based on sampling of transactions, using the team's judgment and experience to determine whether fraud, misappropriation of funds, or other illegal fiscal practices may have occurred; evaluating the loss associated with the inappropriate activity; and determining who was involved and how it may have occurred. A fraud audit is conducted based on the study team's experience and judgment.

Extraordinary audits have many components including: obtaining and examining available original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

Allegations of potential fraud were asserted by the county superintendent and are directed toward the former director and/or CFO seated during the 2017-18 fiscal year. Specific assertions made are that the former director and/or CFO may have intentionally misrepresented the district's projected financial position for the purpose of either:

1. demonstrating financial feasibility to influence the governing board's decision to authorize a salary increase that the district could not otherwise afford, and/or

2. acquiring a more favorable bond rating to influence the results or likelihood of a bond sale.

It is further asserted that the district superinendent was or became knowledgeable of the district's compromised fiscal condition and did not immediately take corrective action.

FCMAT focused on the presentation of fiscal position in the district's 2017-18 budget, the timing of recorded payroll transactions in the district's general ledger and the financial information provided to bond rating agencies during the same time frame to determine if the concerns raised by the county office were valid.

The team conducted fieldwork April 30 through May 2, 2019 and March 3 through March 5, 2020, with additional offsite fieldwork through the end of March 2020. During fieldwork, FCMAT conducted interviews, collected data, and reviewed documents. FCMAT interviewed county office staff, district administrative personnel, both past and present district office staff and external contractors to obtain an understanding of the district's general business practices and events that transpired during the period under review, including any alleged financial mismanagement, fraud, or abuse. FCMAT was unable to make contact with the former director of fiscal services. The CFO declined, through her legal counsel, to meet with FCMAT.

During interviews, FCMAT team members asked questions pertaining to policies and procedures; job responsibilities; budget and financial accounting activities and the internal control structure, including control activities, lines of authority and oversight of financial activities. Open-ended questions were designed to elicit information about other possible irregularities related to the scope of work. FCMAT also conducted interviews with the consultant that provides the district with financial system support services to obtain an understanding of system design and functionality.

To investigate the allegations, several testing and analytical procedures were developed to provide an analysis and understanding of the allegations and potential outcomes. FCMAT reviewed, analyzed, and tested business records including payroll disbursement transaction entries, budget and financial reports, board policy and administrative regulations, board meeting minutes, and other relevant documents secured from various departments and from independent sources.

Fraud audit scope, objectives, and substantive transaction testing were based on the team's experience and professional judgment and did not include the testing of all available transactions and records. Sample testing and examination results are intended to provide reasonable but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify if fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

Study Team

The study team was composed of the following members:

Marisa A. Ploog, CPA, CFE, CICA, CGMA
FCMAT Intervention Specialist

Lori Raineri, President
Government Financial Strategies
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Roberta Montalbano
FCMAT Intervention Specialist

Laura Haywood
FCMAT Technical Writer

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendation.

Occupational Fraud, Internal Control and Fiduciary Duties

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. While the board and all employees in the district have some responsibility for internal control, the superintendent, board, and other key management personnel have a higher ethical standard, fiduciary duty, and responsibility to safeguard the assets of the district.

Occupational Fraud

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Occupational fraud occurs when an organization's owners, executives, managers, or employees use their position within the organization to deliberately misuse or misapply the employer's resources or assets for personal benefit.

Asset misappropriation includes the theft or misuse of district assets and may take place in the form of taking cash, inventory, or other assets, and/or fraudulent disbursements. Asset misappropriation is the largest category of occupational fraud and includes numerous fraudulent disbursement schemes. Corruption schemes involve an employee(s)/board member(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud is the deliberate misrepresentation of the financial condition of an organization and includes the intentional misstatement or omission of material information in financial reports.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, is more likely to occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation or intentional false and willful representation(s) of a material fact
- Reliance on weaknesses in the internal control structure, including when an individual relies on the fraudulent information
- Concealment to hide the act or facts
- Damages, loss, or injury by the deceived party

This report presents the team's findings regarding the presence of factors including opportunity, rationalization/attitude, and capability to manipulate the district's budget and falsely represent the district's financial position for personal or organizational benefit.

Internal Control

The accounting industry defines the term "internal control" as it applies to organizations, including school agencies. Internal control is "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance." [The Committee of Sponsoring Organizations of the Treadway Commission – May 2013] The reference to achievement of objectives fundamentally refers to an organization's work of planning, organizing, directing, and performing routine tasks relative to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets, and performance expectations. Several factors influence the effectiveness of internal control, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

Internal control provides the framework for an effective fraud prevention program. An effective internal control structure includes the board policy and administrative regulations established by the board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five integrated components of internal control and their summarized characteristics are included in the table below.

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures providing the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization's objectives and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning; ensures deficiencies are evaluated and corrective actions are implemented.

The five components of internal control are supported by underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their relative principles must be present and functioning in an integrated manner to be effective. An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives.

Control Environment

The internal control environment establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values, and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and internal control.

Control Activities

Control activities are a fundamental component of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of a district's assets, including preventing any employee from overriding system controls. Examples of control and transaction activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete, and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.
5. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Employees should be regularly trained in what constitutes fraud and how it damages the organization. Employees should have several avenues for reporting improprieties and should be encouraged not to ignore warning signs. Risk awareness training about suspicious situations that merit reporting will help create a districtwide culture that supports appropriate reporting.

The district should also implement common fraud detection methods such as a third-party anonymous tip hotline, surprise audits or fraud risk assessments. Knowing that someone is checking or could anonymously report suspicious behavior can deter fraudulent activity.

Fiduciary Responsibilities

A fiduciary duty is the highest standard of care. The person who has a fiduciary duty is called the fiduciary, and the person to whom he or she owes the duty is typically referred to as the principal or the beneficiary. (Source: https://www.law.cornell.edu/wex/fiduciary_duty)

A fiduciary also may be a person who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). In other words, a fiduciary takes care of money or other assets for another. District board members, administrators and management are examples of those who have fiduciary responsibilities or a fiduciary duty. The Cornell law source cited above further describes several components of fiduciary duties, which FCMAT summarizes and applies to districts as follows:

Duty of Care: Before making a decision, collect all evidence and information available. Do your due diligence and review all the information and evidence available – do not just accept the information as it is presented. Assess information with a critical eye and ask the questions: who? what? when? and where? A fiduciary's responsibility is to protect the assets of the district.

Duty of Loyalty: Do not use your position in the organization to further your private interests. Avoid anything that might injure the district.

Duty of Good Faith: Advance the interests of the district. Do not violate the law. Fulfill your duties and responsibilities.

Duty of Confidentiality: Keep confidential matters confidential and never disclose confidential information for your own benefit or to avoid personal liability.

Duty of Prudence: Be trustworthy, with the degree of care and skill that a prudent board member, member of management, or fiduciary would exercise. Prudent means acting with wisdom and care, including exercising good judgment.

Duty of Disclosure: Act with complete candor. Be open, sincere, honest, and transparent. Disclose all financial interests on Form 700, Statement of Economic Interests.

A system of strong internal control is among the most important aspects of any fraud prevention program. Superintendents, chief financial officers/chief business officials and other managers are in a position of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the district to ensure that their activities are conducted in compliance with all applicable board policies, laws, and regulations.

Management personnel are entrusted to safeguard the district's assets and ensure that internal controls function as intended. The internal control environment includes ethical values and integrity displayed by the governing board and management, as well as the underlying tone established by the organization's site administrators. While the governing board and all district employees have some responsibility for internal controls, the superintendent, CFO and other financial management have a fiduciary duty and responsibility to manage and oversee the finances of the district and to ensure that the governing board fiscal policies and procedures are applied and conducted responsibly and ethically and that all laws and regulations are adhered to.

Fiscally Accountable School Districts

School districts that wish to manage their finances independent of the county office may apply for either fiscal independence (Education Code Section 42647) or for fiscal accountability (Education Code Section 42650). The table below outlines the main differences between fiscal independence and fiscal accountability:

Fiscal Independence (Education Code 42647)	Fiscal Accountability (Education Code 42650)
Allows district to process all warrants, except debt service payments, independent of the county office of education (COE).	Allows districts to process warrants in categories designated by the COE, such as vendor warrants and/or payroll warrants, except debt service payments, independent of the COE.
Approved by the Superintendent of Public Instruction.	Approved by the county superintendent of schools and the county auditor.
Upon receipt of a written application, the county superintendent shall cause a survey to be made of the district's accounting controls by an independent certified public accountant.	

Education Code Section 42650 provides the legal basis for a district to issue its own payroll and/or vendor warrants. With the approval of the county office and the county auditor, the governing board of a school district may cause warrants to be drawn on the county treasury against designated funds, except debt service. The limited approval for independent warrant processing, either payroll and/or vendor warrants, does not require the approval of the SPI.

The San Diego County Office of Education granted fiscal accountability status to the Sweetwater Union High School District in October 2007. The district maintained this designation until February 12, 2019, when the county office revoked its approval based on an independent risk assessment. Once a district is granted fiscal independence or fiscal accountability, the county office is not responsible for producing reports, statements or other data relating to or based on payments of the district's expenses.

While a district may be authorized as fiscally independent or accountable, AB 1200, county office fiscal oversight, and AB 2756, county office approval of school district balanced budgets in accordance with criteria and standards pursuant to Education Code Section 33127, continue to apply. Likewise, Government Code Sections 3540, et al., pertaining to the disclosure and certification of collectively bargained agreements continue to apply. Because the district manages its finances outside the county office financial system, the county office's duties associated with oversight are significantly impacted due to the loss of direct visibility to financial information.

To ensure that the financial information presented to the county office for review at budget adoption, interim and unaudited actual reporting periods is complete, current and a true reflection of the LEA's recorded transactions and financial position, county offices must enhance their review processes. The financial data provided in financial reports must be verified to ensure it is complete. For example, when an LEA presents its interim report, the COE should require general ledger exports that tie to the actuals through the reporting period presented. The system exports should provide enough detail so that the county office can verify that beginning fund balances are up to date and/or tie to the district's audited actuals and that all transactions recorded during the reporting period are included.

Balance sheet activity should be reviewed to determine if asset and liability accounts are being monitored and outstanding balances are resolved timely; this would include confirming that interfund borrowing is repaid in compliance with Education Code Section 42603.

Accounting & System(s)

Most school districts statewide rely on their county office of education for financial system and support services. Most county offices host centralized financial system software that their districts use to develop and maintain budgets, process, record and retain employment and compensation data and financial transactions, and prepare financial reporting exports. While the county office hosts the system, district administration usually determines and assigns access permissions based on job responsibilities of their employees.

District employees log in to the system for data management, budget development and management and processing routine financial transaction details. Data is extracted from that system for budget and financial reporting. Because the financial system is centralized, the county office has access to all financial data, transactions, and records. This visibility provides for efficient fiscal oversight because original financial records can be easily accessed, reviewed, traced through the general ledger accounts and verified. Authorization and/or posting controls are often established for many functions. Utilizing a financial system hosted by the county office enhances transparency and the district's system of internal control.

Sweetwater UHSD does not utilize the county office financial system to account for all financial transaction activity. Rather, it chooses to host its own financial system called Truecourse. However, as a condition of granting fiscal accountability, the county office requires the district to process all payroll transactions using the county office's Human Capital Management (HCM) system. HCM integrates with the county office's PeopleSoft financial system but does not integrate with the Truecourse financial system. As a result, all payroll expenditure transactions must be posted to the district's financial system using journal entries, which are subject to user input error and/or manipulation. The HCM application was implemented by the county office in January 2017 and the district transitioned to this system in 2017-18. A previous application managed by the county office also did not integrate with the district's financial system.

To obtain a greater understanding of the district's financial system and its functionality, FCMAT spoke with the system development/support consultant (consultant). The Truecourse financial system was developed and marketed in early 2000. The system was initially intended to be designed as a wide-range financial system application. Sweetwater was the first client that invested in licensing the software under the leadership of the CFO seated at that time, who was reported to be extensively involved in the development of the product.

Interviews with the consultant indicate that after the district was heavily invested in Truecourse the company folded. Sweetwater owned licensing rights and proceeded to use the software. Initially the district independently contracted with two members of the original software development team to provide support for the base product and to develop additional functionality specific to the needs of the district; now only one consultant supports the application.

The system administration of Truecourse described by the consultant is like most financial system applications whereby system accesses are assigned to each user based on their roles and responsibilities. Specific user and administrative rights are controlled by Information Technology department staff and the consultant, who resides outside the United States. The consultant reports having greater involvement with establishing user accounts and access permissions over the past year.

Access controls limit what each user may see and do in the system. Each user has a unique identification number that is recorded with all user activity. Access groups are established to define accessible documents and establish account protections. User assignments determine the functional components of the system accessible to the user and are attached to access groups. This ensures that users can only use those system functions connected to each assignment appointed to their user account. Document writing controls determine the level of access permitted to each user for each assignment and include view, edit, and write accesses depending on the user's job role. Whenever an entry is created it is electronically stamped with the user ID and the relation to the assignment (e.g., created, approved, etc.) is identified.

Entries recorded in the financial system are based on transaction definitions. Depending on the transaction type, general ledger accounts will have debit and credit entries based on posting actions. Some account postings are not visible to the user and take place in the background when an account number falls within a specified masked range. For example, a user who initiates the payment of a vendor invoice using the accounts payable process does not see the background entries that set up and relieve the liability or post to cash when the check is ultimately cut; they only see the accounts in which the payment is expensed.

While the permission settings described to FCMAT appear consistent with most financial systems, the internal control they offer is dependent on the permissions assigned to each individual user. Inappropriate assignment or lack of monitoring and modification based on changes in employee duties or level of responsibilities diminishes the strengths of these controls. FCMAT did not review or evaluate employee permission settings; however, weaknesses were apparent during interviews with staff when inquiring about their accesses and capabilities when working within the financial system. For example, some employees have the ability to create and approve general ledger entries; no review and/or secondary approval is required.

Users have the ability to post directly to cash (9110) and fund balance (9790/9791); typically system back-end balancing entries. The system also permits unbalanced entries to post to the general ledger and the system automatically creates unbalanced entries by deleting invalid account strings and amounts in entries rather than posting the offset to a suspense account. Posting unbalanced entries to the general ledger presents a significant challenge in reconciling and is subject to user detection and correction.

Budget and Accounting

Budgeting and accounting are two separate but integrated processes. A budget is a fiscal plan of anticipated revenue and expenditures. It is developed based on factors that are known at the time it is developed, including historical activity and trends, along with assumptions or estimates of what is not yet certain. Budgets should be routinely updated as new information becomes available. Accounting is the recording of actual financial activity. Effective fiscal oversight requires these two processes to be thoughtfully monitored and routinely assessed.

The actual financial activity of an LEA is recorded in a general ledger through multiple processes and/or systems ideally integrated within a financial system. Regardless of the process or system used to record financial activity, each entry must be balanced with a debit and a credit for financial records to be complete.

Throughout the year the LEA will encumber (reserve) portions of the budget, typically using automated purchase orders and automated payroll encumbrance systems to encumber remaining salary and benefit commitments. When these processes take place in real time, they allow an LEA to monitor the fiscal plan at any point in the fiscal year by comparing the budget to actual expenditures and encumbrance commitments. Access to reliable budget balances available for expenditure is greatly diminished when a nonintegrated system is used if transactions and/or encumbrances are not posted to the general ledger and/or appropriately adjusted in the financial system in a timely manner.

When a budget deficiency occurs, this indicates that either a budget adjustment is needed to increase the allowable spending commitment or a correction of a recorded transaction is necessary. A budget deficiency serves as a "red flag" that should indicate to those monitoring financial information that further analysis is required.

Salary and Benefit Budgets

On average, salary and benefit costs account for more than 85% of unrestricted general fund expenditures for local educational agencies (LEAs) in California. For this reason, it is imperative that LEAs accurately manage personnel data, develop budget projections, account for expenditures, and generate reasonable cost projections for multiyear financial projections; all these functions must be timely. Weaknesses in any of these areas present risk to the accuracy of an LEA's financial position.

It is best practice and industry standard for LEAs to develop and maintain a position control system to account for all board authorized positions and employment data for each employee hired by the district. Each position authorized should be identifiable by a unique control number and an assigned budget allocation. Each employee hired by the district should be assigned to a position by full-time equivalent.

The annual cost of salaries and benefits can be accurately projected when a position control system is properly maintained and used for budget development. Once employment contracts are executed, staffing is in place and payroll is being disbursed, a reconciliation between three systems (position control, budget and payroll posted to the general ledger) should be performed. This ensures that:

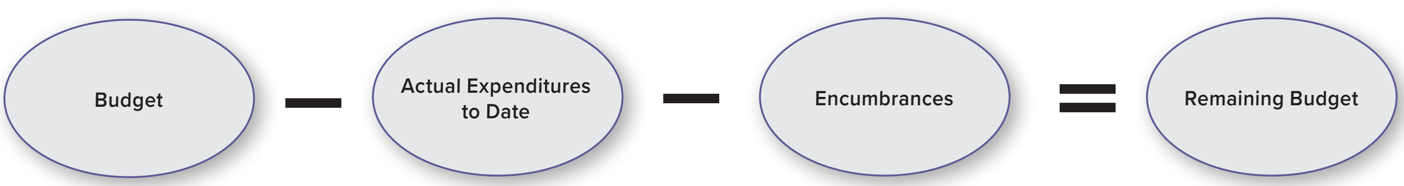
- salary and benefit costs for all employees receiving a paycheck are assigned to board authorized positions and accounted for in the position control system,
- all board authorized positions (including vacant positions unless expressly frozen) are included in the budget, and
- employee payroll is allocated to the proper expenditure budgets.

All new expenditure decisions made by a governing board should be heavily influenced by the LEA's ability to afford the additional financial burden either on a one-time or ongoing basis, depending on the nature of the expenditure being considered. Because LEAs have little influence over securing new revenue sources, when the costs of a new expenditure cannot be sustained on an ongoing basis, a district must identify achievable expenditure reductions to offset the cost of the new financial commitment.

While the district uses the county office's HCM system for processing payroll and also maintains personnel data in a human resources application called Infor, it was reported by staff and the external consultant that the data from these systems is not used to develop the district's salary and benefit budgets.

Budget Encumbrances and Expenditures

As described earlier, a budget is a spending plan. As the district commits to or otherwise authorizes an expenditure against this plan, it does so by encumbering the commitment. This allows users to know the remaining budget available for future expenditures.



Integrated purchase order systems are designed to encumber each transaction. Once goods and/or services are received, the district initiates payment through the accounts payable process. When a payment transaction is processed through the accounts payable system, the budget encumbrance is relieved and general ledger transactions are created. Some of these entries are not visible to the user on entry screens; rather, they are created and are posted in the background.

Unlike other expenditure budgets, salary and benefit budgets are typically encumbered at the beginning of the fiscal year and adjusted to relieve the related encumbrance as payroll is recorded. Systems for this process vary depending on the accounting software used by the LEA. In some systems, it is more practical to cancel all encumbrances for salaries at the time payroll expenditures are posted and to re-encumber the adjusted amounts for the remainder of the year; this is how payroll encumbering works for the Sweetwater UHSD.

Findings

Analysis of Budget and Financial Accounting and Reporting

FCMAT sought to identify deficiencies in the district's budgeting practices and a potential correlation in timing between an understated expenditures budget and delays in payroll expenditure transactions posted to the general ledger during the 2017-18 fiscal year. This could present a budget that erroneously aligns with actual expenditures and encumbrances, projecting a more favorable financial position by presenting a higher available fund balance. If that condition was present, further analysis was performed to determine if it occurred at a point in time where either:

1. the governing board authorized a salary increase that the district could not otherwise afford; thereby benefiting one or more employee(s), or
2. a potentially more favorable bond rating was issued by an external agency

To determine if the salary and benefit budgets were understated, FCMAT reviewed and analyzed the certified budget reports for each reporting cycle from July 1, 2016 through October 8, 2019. FCMAT also reviewed financial projections submitted with the district's June 23, 2017 Disclosure of Collective Bargaining Agreement (DCBA), which were certified by the superintendent and CFO. FCMAT reviewed the changes in budgeted expenditures for each reporting period to identify significant changes. FCMAT's findings are described in the pages that follow.

Budget and Financial Reporting

FCMAT's review of the district's board approved budgets and unaudited actuals financial reports for fiscal years 2016-17 through 2017-18 indicates that the salary and benefit budgets were not properly revised to reflect the new commitments; this includes increases in salary and benefit expenditures resulting from negotiated agreements for all employee groups for 2016-17 and 2017-18.

Numerous factors influence both increases and decreases to expenditure budgets. FCMAT did not evaluate assumptions presented at each reporting period to determine if they came to fruition; this includes proposed expenditure reductions presented in the DCBA to support the cost of the proposed salary agreements. The table below presents a summary of the district's financial position for the combined general fund during the above noted period. The full version of this comparison is presented in Appendix A.

	2016-17 Adopted Budget 6/23/16	2016-17 First Interim 12/6/16	2016-17 Second Interim 3/8/17	2016-17 Estimated Actuals 6/23/17	2016-17 Audited Actuals 2/22/18	2017-18 Adopted Budget 6/23/17	2017-18 First Interim 12/7/17	2017-18 Second Interim 3/12/18	2017-18 Estimated Actuals 6/22/18	2017-18 Audited Actuals 12/5/18
Net Increase/(Decrease) In Fund Balance	$ 1,151,205	$ (4,862,328)	$ (10,204,217)	$ (5,872,311)	$ (14,815,350)	$ 694,802	$ (5,321,965)	$ (1,924,427)	$ (6,137,056)	$ (28,699,332)
Beginning Balance	$ 38,361,127	$ 38,361,127	$ 38,361,127	$ 38,361,127	$ 36,285,100	$ 30,412,788	$ 26,093,901	$ 26,093,901	$ 24,683,517	$ 21,469,748
Audit Adjustments		$ (2,076,027)	$ (2,076,027)	$ (2,076,027)			$ (2,076,027)	$ (5,289,793)	$ (3,213,765)	
Other Restatements							$ 665,637	$ 665,637		
Ending Balance	$ 39,512,331	$ 31,422,772	$ 26,080,883	$ 30,412,788	$ 21,469,750	$ 31,107,590	$ 19,361,546	$ 19,545,319	$ 15,332,696	$ (7,229,584)
Increase/(Decrease)		$ (8,089,560)	$ (5,341,889)	$ 4,331,906	$ (8,943,039)	$ 9,637,841	$ (11,746,045)	$ 183,773	$ (4,212,623)	$ (22,562,280)
% Increase/(Decrease)		-20.5%	-17.0%	16.6%	-29.4%		-37.8%	0.9%	-21.6%	-147.2%
$ Decrease in Ending Balance 2016-17 vs 2017-18 Adopted				$ (8,404,741)						
% Decrease in Ending Balance 2016-17 vs 2017-18 Adopted				-21.27%						
2016-17 Budget Prior to Salary Increase vs 2017-18 Audited Actuals						$ (33,310,467)				
						-127.72%				

Salary and Benefit Increases – Classified and Management

The district's governing board authorized a 3.75% salary increase for classified and management staff on December 12, 2016, effective January 1, 2017. Governing board approval of the district's 2016-17 first interim budget report and acceptance of the district's 2015-16 audit followed later that same evening. The order of presentation of these items to the governing board obscures the significant fiscal impact on the district's financial position. The negotiated settlement was approved prior to presenting the impact of changes in the first interim budget (-$8,089,560), which included an unfavorable audit adjustment of -$2,076,027.

Furthermore, the district did not prepare and submit to the governing board a DCBA prior to board ratification to disclose the projected fiscal impact of the salary increase. Additionally, the district did not submit any disclosures to the county office, which is contrary to statewide practice and the county office's own guidance to districts. The failure to prepare and submit a DCBA is also inconsistent with the district's prior practice. This violates both Government Code and Education Code (specifics provided in Appendix B).

A DCBA should have been prepared and should have included the projected costs for all employees affected by the increase including the classified and management settlement. Review of the board agenda item indicates that only the settlement for the National Association of Government Employees (NAGE) and confidential unit members amounting to $1,546,136 was presented. It is unclear whether that amount reflected only the impact on the 2016-17 fiscal year or the impact for both 2016-17 and 2017-18. The projected cost of the California School Employees Association (CSEA) settlement was not presented in the board materials. The fiscal impact of the settlement for CSEA, as discussed further below, was an additional $2,245,561 ($1,062,090 affecting 2016-17 and $1,564,025 affecting 2017-18). No documentation was provided demonstrating the multiyear impact of the settlement. Because no DCBA was prepared, there was no certification by the CFO and the superintendent as required by the Education Code.

Appropriate budget revisions should have been made within 45-days of approval as required by Education Code Section 42142. The district incorporated a board approved settlement for CSEA into a DCBA prepared after settling negotiations with certificated bargaining units on June 26, 2017. Review of the information presented in the DCBA indicates that the calculated cost of the classified settlement affecting the 2016-17 budget was included in the district's 2016-17 second interim budget revision approved by the governing board on March 8, 2017, nearly 85 days after the governing board approved the classified agreement. The disclosure prepared did not appear to include the impact of the increase for NAGE and confidential unit staff.

County offices should annually notify districts regarding the above-referenced disclosures requirements including certifications, timelines for submitting data to their office within 45 days of adopting a collective bargaining agreement, revisions to the district's current year budget that are needed as a result of the contract settlement, and the consequences of inaction. The county office should follow up with districts regarding the status of negotiations throughout the year and remind them of the requirements to forward a DCBA as they approach settlements.

Once the county office receives the disclosure document and copies of the collective bargaining contract settlement(s), it should immediately assess the financial impact on the district by reviewing updated multiyear financial projections, if provided, against current financial ledgers, payroll activity reports/summaries, and any recent interim or budget multiyear projections using currently known budget assumptions to determine the accuracy of the anticipated adjustments in the disclosure documents.

County offices should also review the actual bargaining unit agreement to ensure that all potential costs and/or savings are identified in the disclosure document and updated multiyear projections. Questions should be asked of the district CBO if the financial impact is unclear or if it does not identify how the district will continue to maintain fiscal solvency in all years.

County offices should validate that the district is correctly accounting for the full ongoing fiscal impact of the agreement. This would include showing the ongoing effect of the increase in subsequent fiscal years, which should be demonstrated in a multiyear financial projection. A review of the documents provided to and reviewed by the county office indicates the lack of a thorough review by the county office. The documents provided were incomplete and did not demonstrate the impact on the district's financial position on an ongoing basis and/or for the duration of the agreement. Specific deficiencies are cited below.

Certificated Salary and Benefit Increases

On June 12, 2017, the district's governing board approved three-year agreements with the certificated bargaining unit (SEA) and the counselor bargaining unit (SCGA) in which all members received a 3.75% salary increase retroactive to January 1, 2017. In the same meeting, the governing board also approved the 3.75% salary increase retroactive to January 1, 2017 for unrepresented management employees. In addition, the board approved increasing the work year by three days for teachers, counselors, psychologists and assistant principals beginning in fiscal year 2017-18, resulting in an additional salary increase of approximately 1.5%.

The governing board adopted the 2017-18 proposed budget on June 26, 2017, 15 days after the approval of these negotiated increases. The district prepared a DCBA (Appendix C) that was signed by the CFO and superintendent on June 12, 2017 and June 13, 2017, respectively. The disclosure erroneously states that the agreements were going to the board for its consideration at its meeting on June 26, 2017; however, the governing board approved the tentative agreements for SEA, SCGA and unrepresented management at its June 12, 2017 board meeting and the DCBA was not included in the board materials presented for this meeting. Furthermore, the fiscal impact of each agreement in total did not agree with the DCBA, did not include the cost of the settlement for unrepresented management and significantly understated the projected cost when compared to the impact presented in the DCBA.

The June 12, 2017 DCBA incorporated adjustments for settlements authorized by the governing board for CSEA and NAGE (classified staff) approved December 12, 2016, six months prior. The faults identified relative to the public disclosure of collective bargaining are egregious and are violations of Government and Education codes.

The tables below present a summarized version of the district-prepared DCBA.

Summary of SUHSD 6-26-17 Disclosure of Collective Bargaining Agreement

	Prior to Proposed Agreement	Fiscal Impact of Proposed Agreement		Total	
CERTIFICATED		**16-17**	**17-18**		
Step/Column	$ 160,856,538.00	$ -	$ 2,073,789.00		1.3%
Salary Schedule Inc/(Dec)	160,856,538.00	3,016,060.00	3,031,542.00	**$ 6,047,602.00**	3.76%
Other Compensation Inc/(Dec)	160,856,538.00	-			
Stat Benefits Inc /(Dec)	25,656,618.00	481,062.00	964,397.00	**$ 1,445,459.00**	
H&W Inc/(Dec)	-	-			
Total Compensation Inc/(Dec)	**$ 186,513,156.00**	**$ 3,497,122.00**	**$ 6,069,728.00**	**$ 7,493,061.00**	
Total Number of Represented Employees	2201	2201	2201		
Total Compensation Inc/(Dec) per Employee	$ 84,740.19	$ 1,588.88	$ 2,757.71		
CLASSIFIED		**16-17**	**17-18**		
Step/Column	$ 45,877,369.00	$ -	$ 380,554.00		0.8%
Salary Schedule Inc/(Dec)	45,877,369.00	860,201.00	866,973.00	**$ 1,727,174.00**	3.76%
Other Compensation Inc/(Dec)	45,877,369.00	-			
Stat Benefits Inc/(Dec)	10,767,418.00	201,889.00	316,498.00	**$ 518,387.00**	
H&W Inc/(Dec)	-	-			
Total Compensation Inc/(Dec)	**$ 56,644,787.00**	**$ 1,062,090.00**	**$ 1,564,025.00**	**$ 2,245,561.00**	
Total Number of Represented Employees	1507	1507	1507		
Total Compensation Inc/(Dec) per Employee	$ 37,587.78	$ 704.77	$ 1,037.84		
COMBINED (Inclusive of Step/Column)		**16-17**	**17-18**		
Salaries Certificated	**$ 160,856,538.00**	**$ 3,016,060.00**	**$ 5,105,331.00**	**$ 8,121,391.00**	
Salaries Classified	**$ 45,877,369.00**	**$ 860,201.00**	**$ 1,247,527.00**	**$ 2,107,728.00**	
Benefits Certificated	$ 25,656,618.00	$ 481,062.00	$ 964,397.00	**$ 1,445,459.00**	
Benefits Classified	10,767,418.00	201,889.00	316,498.00	**$ 518,387.00**	
Total Benefits	**$ 36,424,036.00**	**$ 682,951.00**	**$ 1,280,895.00**	**$ 1,963,846.00**	
Total		**$ 4,559,212.00**	**$ 7,633,753.00**	**$ 12,192,965.00**	

	2016-17 Board Approved Budget Before Settlement	Adjustments related to Settlement	Other Revisions	Total Impact on Budget
LCFF Sources	$ 359,630,823.00		$ (73,113.00)	**$ 359,557,710.00**
Remaining Revenue	93,482,129.00		1,284,286.00	**94,766,415.00**
Total Revenue	**$ 453,112,952.00**	**$ -**	**$ 1,211,173.00**	**$ 454,324,125.00**
Certificated Salaries	$ 209,571,216.00	$ 3,016,060.00	$ (2,692,679.00)	**$ 209,894,597.00**
Classified Salaries	72,068,228.00	860,201.00	26,882.00	**72,955,311.00**
Benefits	98,255,550.00	682,951.00	66,755.00	**99,005,256.00**
Books & Supplies	31,293,631.00		(4,943,036.00)	**26,350,595.00**
Services & Other Ops	41,470,818.00		(1,646,217.00)	**39,824,601.00**
Capital Outlay	6,746,807.00		9,821,694.00	**16,568,501.00**
Other	7,208,338.00		2,364,058.00	**9,572,396.00**
Total Expenditures	**$ 466,614,588.00**	**$ 4,559,212.00**	**$ 2,997,457.00**	**$ 474,171,257.00**
Operating Surplus/(Deficit)	$ (13,501,636.00)	$ (4,559,212.00)	$ (1,786,284.00)	**$ (19,847,132.00)**
Other Sources & Transfers In	4,359,507.00		10,300,623.00	**14,660,130.00**
Increase/(Decrease) EFB	$ (9,142,129.00)	$ (4,559,212.00)	$ 8,514,339.00	**$ (5,187,002.00)**
		(2)	(3)	
Beginning Balance	$ 36,285,100.00			
Ending Balance	**$ 27,142,971.00**	**$ 22,583,759.00**	**$ 31,098,098.00**	
	(1)			

(1) Classified salary and benefit budgets presented in DCBA prior to settlement were adjusted to remove the effect of the negotiated increase from the board approved 2016-17 2nd interim budget.

(2) 2016-17 budget adjustments tie to individual DCBA worksheets (Benefits in total) base salaries used for calculations could not be verified

(3) Revisions made to bring revenue and expense budgets in line with estimated actuals accompanying 2017-18 adopted budget

The table below presents FCMAT's extrapolation of the negotiated settlement, compared to district certified financial reports for 2016-17 and 2017-18. This extrapolation excludes revisions included in the Other Adjustments column of the DCBA, which were noted as revisions to the district's 2016-17 budget for estimated actuals that accompanied the 2017-18 adopted budget.

	2016-17 Before Increase *	2016-17 Projected Cost of Increase *	2017-18 Cost of Increase & Step/Col *	Extrapolated Revised Total^	2017-18 Adopted	Adopted Budget Over/(Under) Revised Total^	2017-18 Audited Actuals	Actuals (Over)/Under Adopted Budget
Certificated Salaries	$ 209,571,216	$ 3,016,060	$ 5,105,331	$ 217,692,607	$ 211,547,863	$ (6,144,744)	$ 230,931,638	$ (19,383,775)
Classified Salaries	72,068,228	860,201	1,247,527	74,175,956	74,001,658	(174,298)	78,711,841	(4,710,183)
Benefits	98,255,550	682,951	1,280,895	100,219,396	107,480,182	7,260,786	117,335,191	(9,855,009)
	$ 379,894,994	**$ 4,559,212**	**$ 7,633,753**	**$ 392,087,959**	**$ 393,029,703**	**$ 941,744**	**$ 426,978,670**	**$ (33,948,967)**

** Source: District prepared Disclosure of Collective Bargaining Agreement*

^ FCMAT extrapolation based on DCBA projected costs excludes "Other Revisions" provided in the DCBA - for comparative purposes only

FCMAT's extrapolation uses the base salary and benefit budgets provided in the district prepared DCBA. No documentation was provided to support the basis of salary and benefit costs prior to the negotiated settlements, and FCMAT did not prepare an assessment to evaluate the accuracy of that base. Furthermore, no cost analysis and/or disclosure of financial impact was identified for additional negotiated items including but not limited to increases in the number of workdays. As such, the potential impact of those components of negotiated settlements are excluded from FCMAT's analysis. FCMAT used an extrapolated rate for projected statutory benefits based on the district's calculated rate.

FCMAT did not review the individual rates to verify their accuracy. Significant errors in projected State Teachers' Retirement System (CalSTRS) and Public Employees' Retirement System (CalPERS) obligations are clearly noted in audit adjustments in the independent audit reports for both 2015-16 and 2016-17 fiscal years; however, there was no audit adjustment for CalPERS/CalSTRS in 2017-18. FCMAT also noted that the district failed to budget $2,820,665 in allocated other post employment benefit (OPEB) obligations in 2017-18 until unaudited actuals were prepared.

Unaudited actuals are not finalized for several months after each fiscal year ends and audits are not finalized until December, six months into the new fiscal year. These timing delays also contribute to variances between budget to actual reports. The failure to address the CalPERS/CalSTRS and OPEB obligations until after the fiscal year concludes significantly distorts the district's fiscal position.

Audit findings should not be repeated from one year to the next. The 2015-16 audit finding amounted to a reduction in fund balance of $2,076,027. Both the district and the county office failed ensure corrective action was taken so that the finding did not repeat in the subsequent fiscal year. Failure to correct the omission of these obligations resulted in a repeat audit finding in the 2016-17 fiscal year, reducing the fund balance an additional $3,213,765. The impact of the 2016-17 audit adjustment was not recognized until March 2018 as the result of a delayed audit.

These omissions resulted in the presentation of a more favorable financial position throughout the 2016-17 and 2017-18 fiscal years as the governing board was considering the approval of negotiated salary increases.

Based on the information in the DCBA, the projected costs of the negotiated settlements in the 2016-17 fiscal year were effective January 1, 2017. As such, only the costs of six months (approximately 50%) of the settlement would impact the 2016-17 fiscal year; this calculated to $4,559,212 in ongoing costs. The remaining cost of the increase of $4,862,912, plus estimated step/column of $2,770,841, equals new ongoing costs of $7,633,753 that occur beginning in the 2017-18 fiscal year.

Insufficient supporting documentation accompanied the district's DCBA, such that only a high-level computation could be performed to evaluate the reasonability of the calculations. FCMAT did not validate the pre-settlement base used to calculate the cost projections associated with the agreements. FCMAT found the June 26, 2017 DCBA submitted to the county office for review to be fraught with deficiencies.

FCMAT observed the following during its review of the DCBA:

- The financial information provided under the Board Approved Budget Prior to Settlement column was presented as 2016-17 second interim. However, the budget amounts for classified salaries and benefits did not agree to the second interim report as adopted by the board in March 2017. FCMAT identified the difference as the projected cost of salary and benefit increases related to the classified agreement approved in December 2016 totaling $1,062,089.24, although this was not stated anywhere in the disclosure.

- Application of the 3.75% salary increase was based on an unidentifiable salary base of $160,856,538 for certificated and $45,877,369 for classified employees although budgeted salaries in the second interim budget were $209,571,216 and $72,068,228, respectively. This would mean that the salary increases were not applied to a significant portion ($74,905,537) of budgeted salaries. The absence of documentation to substantiate the projections leaves FCMAT to further question the accuracy of estimated costs for each settlement.

- Additional budget revisions totaling $8,514,339 were presented in the Other Revisions column of the DCBA and were identified by FCMAT as adjustments for 2016-17 estimated actuals that were presented in the 2017-18 adopted budget on June 23, 2017. These revisions had a favorable impact on the projected 2016-17 ending fund balance and the 2017-18 beginning fund balance and fully negated the expenditure increases from the negotiated settlements, resulting in a net increase to the district's projected ending fund balance of $3,955,127. However, the district's June 30, 2017 audited ending fund balance was $8,943,038 less than presented in the estimated actuals; clearly no savings was achieved. This significantly distorted the district's fiscal position.

- The DCBA prepared by the district did not present the multiyear impact of the agreements. Government Code Section 3547.5(b) requires the disclosure to cover the term of the agreement. No multiyear financial projection was provided to demonstrate the impact of the proposed settlement costs into the 2017-18 fiscal year, let alone for the duration of the agreement. The district also failed to disclose and include the impact of the settlements associated with increases for NAGE and confidential units.

- The DCBA presented the effect of the increase for the entire general fund and did not isolate the effect of the increase on the unrestricted and restricted general fund. Had that analysis been presented, it would have been clear that the unrestricted resources could not support the ongoing cost of the increase because the entire ending fund balance was exhausted by the end of the 2016-17 fiscal year. Without significant program reductions, the increased costs to the district's unrestricted general fund would have further impacted the deficit.

- Supplemental information in the DCBA was brief at best and did not provide the reader a reasonable basis for evaluating the disclosure. The supplemental information provided stated that the salary and benefit increases would be covered using funding from the Local Control Funding Formula (LCFF). This funding source is directly tied to district enrollment and student demographics and requires distributions managed through the Local Control Accountability Plan. In 2016-17 the LCFF funding model was close to full implementation, so increases in funding were substantially less than in prior years and demand for those fewer dollars was high. In the absence of a detailed distribution plan, the ability to cover the costs of the salary increase through increased funding from LCFF is highly questionable, especially since the district is experiencing declining enrollment.

- The impact of the negotiated settlement on other funds, including the cafeteria and adult education funds, was not disclosed. It can only be assumed that since LCFF funding was the only funding source identified in the disclosure, other funds would require contributions from the unrestricted general fund to support the increased costs, further increasing the general fund deficit.

The district failed to properly disclose negotiated settlements in compliance with Education and Government codes. The CFO and the superintendent failed to certify the affordability of all negotiated settlements and the county office failed to identify, effectively evaluate and comment on the lack of disclosure and deficiencies of the disclosures.

Salary and benefit budgets presented in the 2017-18 adopted budget did not reflect any change sufficient to indicate that the second portion of the negotiated salary increases was incorporated into the 2017-18 adopted budget. At a minimum, if the base used for the calculations was accurate, the additional six months would have increased salary and benefit costs an additional $4,862,912. Furthermore, the additional costs associated with step and column of approximately $2,770,841 were excluded from the 2017-18 adopted budget. Only increases associated with benefits were notable and were most likely associated, at least in part, with the CalPERS/CalSTRS recognition that had been neglected in the two preceding fiscal years.

The following table presents the district's financial conditions prior to the negotiated settlements and each certified budget report through 2017-18 audited actuals.

	2016-17 Before Increase *	2016-17 Projected Cost of Increase *	2016-17 2nd Interim Budget Revised for Increase	2016-17 Estimated Actuals	2016-17 Audited Actuals	Actuals Under/(Over) Pre-settlement
Certificated Salaries	$ 209,571,216	$ 3,016,060	$ 212,587,276	$ 209,940,959	$ 211,360,566	$ (1,789,350)
Classified Salaries	72,068,228	860,201	$ 72,928,429	73,150,828	74,782,847	(2,714,619)
Benefits	98,255,550	682,951	$ 98,938,501	99,140,721	107,952,526	(9,696,976)
	$ 379,894,994	**$ 4,559,212**	**$ 384,454,206**	**$ 382,232,508**	**$ 394,095,939**	**$ (14,200,945)**

	2017-18 Projected Cost of Increase & Step/Col *	2016-17 Revised for 2017-18 Increase ^	2017-18 Adopted	2017-18 First Interim	2017-18 Second Interim	2017-18 Audited Actuals	Actuals vs Adopted
Certificated Salaries	$ 5,105,331	$ 217,692,607	$ 211,547,863	$ 214,335,340	$ 217,263,837	$ 230,931,638	$ (19,383,775)
Classified Salaries	1,247,527	74,175,956	74,001,658	74,685,782	73,604,231	78,711,841	(4,710,183)
Benefits	1,280,895	100,219,396	107,480,182	113,309,557	113,355,553	117,335,191	(9,855,009)
	$ 7,633,753	**$ 392,087,959**	**$ 393,029,703**	**$ 402,330,678**	**$ 404,223,622**	**$ 426,978,670**	**$ (33,948,967)**

** Source: District prepared Disclosure of Collective Bargaining Agreement - 2016-17 2nd interim w/ classified increase backed out*

^ FCMAT extrapolation based on DCBA projected costs excludes "Other Revisions" provided in the DCBA. This calculation includes a simple extrapolation for statutory benefits and does not take into account other considerable variances in benefit budgets

Revised budget reports presented during the 2017-18 fiscal year indicate that adjustments to salary and benefit budgets were made gradually during each interim budget cycle. This indicates that salary and benefit budgets were being revised after the actual expenditures were recorded, rather than based on a sound salary and benefit cost projection.

FCMAT's assessment of budgeted salaries and benefits from 2016-17 to 2017-18 indicates that the ongoing, full effect of the agreements for certificated and classified personnel was not included in the 2017-18 adopted budget. Only the amount attributable to the 2016-17 portion of the settlement for classified personnel appeared to be incorporated in the 2017-18 adopted budget.

FCMAT received multiple reports that the 2016-17 settlement for certificated personnel, paid in the 2017-18 fiscal year, was not accrued as a liability in the 2016-17 unaudited actuals. While an audit adjustment was noted in the 2016-17 audited financial statements, it was associated with recognition of CalPERS and CalSTRS obligations. There was no audit finding or adjustment relative to the proper recognition of salaries and benefits associated with the certificated salary increase in the 2016-17 or 2017-18 independent audit. If the retroactive portion of the certificated salary increase was not accrued as a liability and recorded as an expense during the 2016-17 fiscal year, this could explain, in small part, a portion of the increase observed in the district's 2017-18 audited actuals.

Analysis of financial reports from one period to the next indicates that the district could not afford the negotiated agreements. Indicators that should have raised questions include:

1. Significant deficit spending in both restricted and unrestricted resources prior to settlements.
2. Significant dependency from restricted resources on the district's unrestricted general fund. Contributions from the unrestricted general fund budget to general fund restricted program resources prior to the negotiated settlement were $56,224,594.73, leaving a deficit of $3,157,873 and completely exhausting the fund balance in the combined restricted program resources. This clearly indicates that restricted programs could not support the ongoing salary increase without expenditure reductions.
3. Significant and ultimately repeated audit adjustments for understatement of CalPERS and CalSTRS obligations that resulted in a negative impact on the district ending fund balance.
4. Of greatest concern is that actual salary and benefit expenditures for 2016-17 and 2017-18 increased considerably more than otherwise projected in both FCMAT's extrapolation and the district's DCBA.

Comparisons of FCMAT's Extrapolated Revised Budget and the district's adopted budget to the 2017-18 audited actuals identifies increases in salary expenditures that significantly exceed what should have been expected based on the cost of the increase as presented in the DCBA.

	2016-17 Before Increase *	2016-17 Projected Cost of Increase *	2017-18 Cost of Increase & Step/Col *	Extrapolated Revised Total^	2017-18 Adopted	Adopted Budget Over/(Under) Revised Total^	2017-18 Audited Actuals	Actuals (Over)/Under Adopted Budget
Certificated Salaries	$ 209,571,216	$ 3,016,060	$ 5,105,331	$ 217,692,607	$ 211,547,863	$ (6,144,744)	$ 230,931,638	$ (19,383,775)
Classified Salaries	72,068,228	860,201	1,247,527	74,175,956	74,001,658	(174,298)	78,711,841	(4,710,183)
Benefits	98,255,550	682,951	1,280,895	100,219,396	107,480,182	7,260,786	117,335,191	(9,855,009)
	$ 379,894,994	**$ 4,559,212**	**$ 7,633,753**	**$ 392,087,959**	**$ 393,029,703**	**$ 941,744**	**$ 426,978,670**	**$ (33,948,967)**

** Source: District prepared Disclosure of Collective Bargaining Agreement*

^ FCMAT extrapolation based on DCBA projected costs excludes "Other Revisions" provided in the DCBA - for comparative purposes only

FCMAT's budget to actuals comparisons reveal considerable variances for salary and benefit budgets. By the end of each fiscal year, the district expended significantly more than projected. This is a clear indication that either:

1. Calculations of the increases were flawed, and the budget did not accurately incorporate the cost of the salary increase.

2. The application of the negotiated increases was not correctly applied to district payroll, resulting in overpayment to district employees.

3. The payroll expenditures recorded in the general fund contained significant material error.

The district should conduct a detailed audit analysis of all salary and benefit expenditures for the 2016-17 and 2017-18 fiscal year and identify the nature of noted increases.

The district's financial reports reveal an ongoing and increasing deficit that was present both before and after the salary increase. This should have served as a red flag indicating that the salary increase was not feasible on an ongoing basis. These indicators should have been readily visible to senior district administrators, board members and county office analysts.

	2016-17 Adopted ^	2016-17 1st Interim	2016-17 2nd Interim	2016-17 Estimated Actuals	2016-17 Audited Actuals	2017-18 Adopted ^	2017-18 Audited Actuals
Excess/(Deficiency) of Revenues Over Expenditures	$ (928,575)	$ (6,796,982)	$ (13,433,569)	$ (18,494,899)	$ (26,542,439)	$ (1,542,621)	$ (39,064,874)
Net Increase/(Decrease) in Fund Balance *	$ 1,151,205	$ (4,862,328)	$ (10,204,217)	$ (5,872,311)	$ (14,815,350)	$ 694,802	$ (28,699,332)

** The total deficit is offset in part by interfund transfers in; most of which are one-time funding sources.*

^ balances exclude audit adjustments -2016-17 excludes $(2,076,027) from 2015-16 audit, 2017-18 Adopted excludes (3,213,765) from 2016-17 audit.

The DCBA was reviewed by the county office as acknowledged in a letter dated June 22, 2017, which stated the following:

- "the report regarding the impact of the fiscal changes due to this agreement is acceptable."
- "The increase will be included in the 2017-18 Budget to be approved by the Board on June 26, 2017."
- "The District is projecting to meet the standard required minimum reserve of 2% for fiscal year 2017-18 and upcoming fiscal years under the conditions of this agreement."

FCMAT requested all documentation used by the county supporting its review of the DCBA and found it to be insufficient to draw the same conclusions noted in the letter prepared by the county office.

Analysis of "Negative Budget Entries"

FCMAT's December 17, 2018 FHRA report spoke to "negative budget entries" in multiple sections of the Budget Development and Adoption section. Under that section the report indicates that the district's budget development practice was initiated by rolling the prior year (2017-18) budget into the new fiscal year; this is consistent with the observations made by the team for this engagement.

It is not uncommon to use the working budget of the current fiscal year as the initial starting point for the development of a new year budget as this ensures consistency in the use of standardized account codes from one fiscal year to the next. Rolling the current budget into a budget model is often the best and most efficient approach to establishing account strings en masse, eliminating the need to enter each account string manually. However, rolling or exporting a working budget into a budget model is only the initial step in developing a budget projection for a new fiscal year.

Numerous adjustments must be made to increase or decrease projected revenue and expenditure amounts in the budget model. At a minimum, adjustments should be made to revise revenue and expense accounts for one-time items that will not reoccur in the new fiscal year. Revenue projections should be revised based on award and entitlement letters for the new fiscal year. When these are not yet available, calculations based on reasonable factors and/or assumptions including historical experience should be applied.

Salary and benefit accounts also require adjustment for known or projected staffing changes, step and column advancements, and changes in statutory benefits. This information is most reliable when a district properly utilizes a system of position control that is current and up to date.

Interviews with staff and content disclosed through FCMAT's FHRA engagement indicate that the district was not utilizing data from a position control system to project salaries and benefit obligations. Review of financial data for each cycle indicates that in many cases, budget projections for salaries and benefits were updated after expenditures were made, as opposed to being projected based on known commitments.

The term "negative budget entry" is not standard accounting language. Generally, budgets are increased, or they are decreased through debits and credits, the mechanics of which are transposed from those used to record financial activity in the general ledger.

In FCMAT's FHRA report, under the section speaking to the use of negative or contra expenditure accounts, it is stated, "the district discovered over 300 budget reduction entries in the 2018-19 adopted budget …" and indicates that the value of these entries were primarily directed to salary and benefit budgets. The report goes on to state that "several negative budget entries were entered at estimated actuals without explanation."

Upon review of the FHRA team's workpapers associated with this section of the report, FCMAT found that the above noted statement regarding 300 specific budget reduction entries was a summation of what was reported by district staff during interviews. A specific accounting of exactly 300 entries was not found. Furthermore, the values provided also appear to be a summation of all adjustments applicable to the period under review. FCMAT reanalyzed the file used by the FHRA team supporting their workpapers and found 220 unique transactions as presented in the table below:

Transaction Type	# of Unique Transaction #	Value of Transactions
AB - Adopted Budget & Abatements	50	$ 198,098,531.38
BD - Budget Revision	151	(2,561,456.96)
BT - Budget Transfer	13	-
BX - Budget Transfer	6	-
	220	**$ 195,537,074.42**

The FHRA team requested copies of each individual transaction and supporting documentation for each entry. A second workpaper file containing 312 pdf pages appeared to be an export of budget revision entries for a set time frame, and specific account code criteria. No correlating documentation other than system generated entries was provided to FCMAT, and interviews indicate that for many entries documentation either did not exist or could not be located. Review of this workpaper indicated that each transaction presented in this export was reviewed by the FHRA team during their work and the value expressed in that report was associated with the entries related to salary and benefit adjustments in that report. Because no supporting documentation accompanied the individual entries, transaction testing could not be performed.

The California School Accounting Manual (2019) (CSAM) states, “Generally, a source document is generated when a transaction occurs. These documents are the original records of financial transactions. They provide detailed information about the transactions, such as the nature, date, and amount of the transaction and the parties involved. They are an integral part of the accounting system as they provide a means of verifying the data recorded in the books of accounts. No entry should be made in the books without a supporting source document.”

While this is the case for accounting entries, budgets are developed based on information known at the time in which they are prepared. It is not uncommon for the budget development process to begin as early as six months prior to the close of the current fiscal year. Many assumptions are applied during the development of a budget that may not necessarily be substantiated with supporting documentation. However, some documented rationalization should be prepared and retained where estimates and calculations are used as the basis for a budget projection.

When a budget is being developed for the new fiscal year, the current year operating budget is reassessed and modified to reflect the most up to date information. The current year is presented as estimated actuals and accompanies the budget projections for the new fiscal year. Estimated actuals for the current fiscal year are prepared to project as closely as possible the beginning balances for the new budget year. Revisions for estimated actuals are not commonly supported by a significant amount of documentation.

Analysis of Payroll Transaction Posting

The district uses a time accounting system in Truecourse to account for employee hours worked. The district maintains employee data, including salary schedule placement and budget account distributions, for each employee in this system. Each pay period the district payroll technicians use an extract from Truecourse to enter employee pay data into HCM. Payroll moves through a review, correct, and finalize process between the district and county office staff prior to the payroll being finalized by the county office.

Because the district is required to process payroll using the county office HCM system, payroll transactions are not processed as part of an integrated system where the entries automatically post to the district's general ledger. Rather, the county office financial system generates these entries based on the configurations of its system. Final payroll entries are generated by the HCM system and made available to the district for download.

Interviews with district staff indicate that these entries are uploaded into Truecourse without modification. Payroll entries posted to the district's general ledger are one-sided, meaning only the primary general ledger account is visual in the entry. Truecourse is configured to automatically balance the entry in the background to object 9791, Beginning Balance, or 9110, Cash. Four entries are generated each payroll cycle as follows:

1. Payroll expense account entry: includes the expense accounts for salary and benefit expenses. If an account assigned to the payroll entry is not established in the HCM system, the expense line defaults to a suspense account depending on whether the transaction is a certificated salary, classified salary, or related statutory benefit. Suspense account postings require district staff to research the error and journal entry the amounts into the proper account code.
2. Cash account entry: includes the relief of cash for every payroll expense line.
3. Encumbrance relief entry: clears the encumbrance account balance in place prior to the payroll being processed.
4. Encumbrance setup entry: creates the new encumbrance balance after the payroll for the current cycle is processed. This entry is to account for the expected salary or benefit budget need for the remainder of the fiscal year.

To present a more favorable financial picture for the district's general fund, an omission or manipulation of payroll transactions and encumbrance revision entries would be necessary to ensure correlation between an intentionally understated expenditure budget; any significant differences would otherwise be identifiable by comparing budget to actuals. FCMAT's objective was to determine if there was an identifiable correlation between reported delays in posting payroll transactions and an understatement of the salary and benefit budgets.

FCMAT obtained and reviewed entries provided by the county office to the district for the 2017-18 fiscal year. FCMAT analyzed the number of days from the payroll posting date to the entry date in Truecourse for 2016-17 through May 31, 2019.

The table below is a summary of FCMAT's payroll analysis.

Fiscal Year	# Transactions Posted	Total # Payroll Entries	Total # Correction or Adjustment Entries	Average # Days Between Run Date and Post Date *	0-10 Days	11-15 Days	16+ Days
2016-17	58	48	10	46.63	19	0	29
2017-18	81	48	33	14.54	17	11	20
2018-19 (through 5-31-19)	55	41	14	8.12	29	7	5

* Excludes correction and adjustment entries

While FCMAT's analysis identifies delays in posting dates for payroll, the team was unable to make a determination relative to the general ledger data export time frame used to extract data imported into the Standardized Account Code System (SACS) state reporting software to report actuals at each reporting period. Interviews with staff provided no indication that delays in posting payroll transactions was purposeful. The analysis of the payroll transactions indicates that the district generally posted payroll transactions within 30 days; however, it is best practice to post transactions as soon as possible to provide for effective budget management. FCMAT did note that the time frame for posting payroll transactions was improved in 2017-18 over 2016-17. Posting entry dates improved significantly after attention was drawn to the delays as a result of the FHRA.

Posting delays may have contributed to delays in budget updates if budgets were being modified after expenditures occurred. While FCMAT found the process for establishing and relieving encumbrances to be consistent with industry standard and CSAM guidance, the delays noted in posting these entries affect the district's ability to monitor and evaluate the adequacy of expenditure budgets at any given point in time.

The risk of financial misstatement is much higher when applications used to process financial transactions are not integrated with the financial system. Transactions do not automatically post to the general ledger; they require some degree of manual entry, which subjects them to data entry error. Furthermore, because the entries do not automatically post to the general ledger, timing errors may occur if the posting dates do not accurately reflect the date of the transaction. This is most concerning relative to cash, and significantly impacts the district's system of internal control.

The presentation of the district's financial position at each interim reporting cycle is dependent on the criteria used to export revenue and expenditure data into the SACS software. Financial transactions that are manually entered into the general ledger using journal entries may not be posted in the proper accounting period. As such, exported data may not accurately reflect activity for the reporting cycle.

FCMAT did not audit payroll transaction entries to determine whether actuals were recorded as processed by the county office and extracted properly into district financial reports for each reporting period.

The use of a financial system independent of the county office presents numerous challenges for the county office in exercising its fiscal oversight responsibilities. It eliminates access to and visibility of financial records and activity. For this reason, the county office should extend greater efforts to seek, examine and evaluate the financial information presented by the district. The county should review the financial activity recorded in the district's general ledger to ensure financial reports are complete and accurately present the district's financial position.

At a minimum, detail general ledger exports and system generated financial activity reports should accompany periodic financial reports including budget, interims, and year-end close. However, due to the lack of visibility and the district's current fiscal condition, the county office should review the district's financial data more frequently. The county office should also require the district to provide monthly cash reconciliations for review.

FCMAT found no significant evidence that the payroll transaction postings were being intentionally delayed. These deficiencies are more likely the result of the district's distribution of duties in the business office and weak or insufficient monitoring over duties to ensure that transactions posted to the financial system are accurate and timely.

Bond Ratings

During the 2017-18 fiscal year, the district adopted a new approach to credit ratings for the general obligation bonds sold in April of that year. The approach was a significant departure from industry standard, past district practice, the recommendation of its bond underwriter and board policy. Additionally, the approach appears to have prevented external disclosure of the district's financial stress as early as February 2018.

At the district's February 12, 2018 board meeting, the CFO and financial advisor (who, per Municipal Securities Rulemaking Board Rule G-42 is a fiduciary to the district) recommended to the governing board that for the proposed third issuance of general obligation bonds authorized by 2006's Proposition O, referred to as Series 2018C, a rating be requested only from Fitch Ratings under a special program that made AAA ratings more easily available to California school district general obligation bonds.

In his presentation, the financial advisor described the approach by stating the following:

> "We have bond insurance, should we need it, we may not need it, depending on our structure, one of the things that might happen here and I might be explaining to you at a later date is we're looking at getting the Fitch rating that we got in the past. And what Fitch does, if we pay a little bit of an extra fee for some attorney fees is they will say we'll only look at the district's assessed value and the underlying economics and **not focus on the district's** or the state's **general funds**.[emphasis added] And that was one of the reasons why you got a AAA with Fitch last time. So some of the costs on bond insurance might filter over to costs of issuance but we'll only do that if works to your benefit or to the taxpayers' benefit. That's something that we've done once for you in the past and it worked out very well."

At the end of the financial advisor's presentation, the CFO asked the following:

> "So I was wondering if we could **explain the Fitch rating and why it takes the pressure off the general fund** [emphasis added] and why the ..."

The financial advisor answered:

> "Absolutely. So there was a bill, a Senate Bill called SB 222 which actually San Diego USD really pioneered and pushed through. And what the concern was was, the rating, even though these bonds in no way would ever be repaid by your general fund, the rating criteria asked the district's general fund to be part of that rating criteria. And so what SB 222 really made clear was, if you get a legal opinion and make sure that the rating agencies know that these bonds are only secured by the tax revenue **you can eliminate looking at the district's general fund** [emphasis added]. And the reason why, another reason why that's so important is it's very hard for school districts to achieve some of the highest ratings out there. And one of the reasons why is you don't have a whole lot of diverse revenue streams, and, unless you're a basic aid district, your money flows through the state first; and the state has already demonstrated, I think in all recent memory here, that they can withhold 30 percent, or that they can withhold any number, but that they are willing to withhold 30 percent of school district's revenue and then not pay its own next fiscal year. So your expenses still hit in that current fiscal year, but you actually didn't receive the money for another fiscal year. And so that type of thing makes it so that school districts have a very difficult time getting the highest rating, because the ratings are meant to convey to investors the risk of buying those bonds. **And so if the school district's general fund is a part of that rating criteria, all those things get taken into consideration."** [emphasis added]

In April 2018, the district sold general obligation bonds. These bonds were rated only by Fitch Ratings as AAA, and there was no bond insurance.

Fitch Ratings defines AAA ratings as denoting "the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events."

In assigning the 2018 general obligation bonds an AAA rating, Fitch affirmed its AAA rating on the district's 2016 general obligation bonds and further stated:

> "The 'AAA' unlimited tax GO bond rating is based on a dedicated tax analysis without regard to the district's financial operations. Fitch has been provided with legal opinions by district counsel that provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered 'pledged special revenues' in the event of a district bankruptcy."

Despite the financial advisor's communication to the board that Fitch would not look at the district's general fund, Fitch did perform a credit review of its Issuer Default Rating, which it downgraded on March 9, 2018 from A+ to A at the same time that it rated the Series 2018C bonds AAA. FCMAT could not find evidence of disclosure of this credit downgrade to the governing board by the CFO and financial advisor.

During FCMAT's fieldwork, the current CFO was asked whether she thought it was unusual that the district pursued only the special revenue rating from Fitch. The current CFO agreed that this was unusual and thought perhaps there was some savings to be had. The current CFO followed up with the district's financial advisor, who confirmed to her that the purpose was "to control the rating agency fees."

In his February 12, 2018 presentation to the governing board, the financial advisor stated:

> "So some of the costs on bond insurance might filter over to costs of issuance."

The accompanying slides (page 12 of the presentation) indicated that the costs of issuance would be $215,000 plus $135,000 for bond insurance, and ultimately bond insurance was not purchased. Consistent with the financial advisor's verbal presentation, it appears the $135,000 became part of the final costs of issuance. According to the Official Statement, dated April 4, 2018, estimated costs of issuance were $346,431.41 for the 2018 $28 million Series C bonds. For comparison, the costs of issuance for the 2016 $97 million Series B bonds were less, at $234,340.25.

It should be noted that the comparison between the 2018 series C bonds and the 2016 Series B bonds may be more complex because the 2016 Series B bonds were sold along with $266 million of general obligation refunding bonds that had costs of issuance of $360,904.27, and there was a bond insurance premium of $290,981.77, entirely allocated to the Series B bonds.

Independent research shows that the first of this type of Fitch AAA rating for a California school general obligation bond was for San Diego Unified School District's 2016 bonds, sold in January 2016. San Diego Unified obtained both the Fitch AAA rating in combination with two additional ratings, a Moody's Aa2 and a Kroll Bond Rating Agency AA+.

According to data from the California Debt and Investment Advisory Commission, from calendar year 2016 through 2019, 1,249 general obligation bonds were issued by California K-12 school districts. Of these, 125 (10%) obtained the Fitch AAA rating in combination with another rating. In addition, four general obligation bond issues (0.3%) were sold with only the Fitch AAA rating. Three of these bond issues were by the Ravenswood School District, and thus the only other district to use this approach was Sweetwater Union High School District.

During the three fiscal years, 2016-17 through 2018-19, the district sold publicly offered securities three times.

In October 2016, the district sold lease revenue refunding bonds via its public financing authority. These bonds carried both a Standard & Poor's insured rating of AA and a Standard & Poor's underlying rating of A. An insured rating reflects the credit quality of the insurer, in this case, Build America Mutual, which provided an insurance policy guaranteeing debt service payments. Both ratings also noted a "stable outlook."

In February 2017, the district sold refunding certificates of participation. These securities carried the same ratings and insurance as the October 2016 issue.

The district's 2016 general obligation bonds, issued in March 2016 (fiscal year 2015-16), carried five credit ratings. These were:

- Standard & Poor's (underlying) – A+
- Moody's (underlying) – A1
- Fitch (underlying) – AAA
- S&P (Insured Bonds) – AA
- Moody's (Insured Bonds) – A2

All of the district's general obligation bond issues since 2004 had at least three credit ratings and all but one had at least four. It is notable that the Series 2018C bonds were parity to the Series 2016B, meaning when the bonds were sold there may have been some reliance on the ratings received in 2016.

At the February 12, 2018 board meeting where the CFO and financial advisor recommended only the Fitch special revenue credit rating approach, the board approved a three-year contract with Citigroup to serve as bond underwriter for the district. Citigroup's proposal was included in the board's meeting agenda packet. This proposal contained an extensive discussion of Citigroup's experience with selling general obligation bonds with the special revenue credit rating from Fitch Ratings of AAA. Further, in response to a specific question in the district's request for proposal about the appropriate number of ratings for the Series 2018C bonds, Citigroup's reply was:

> "Utilize Two Ratings from Fitch and Moody's. We would recommend issuing the Series 2018C Bonds with two credit ratings from Fitch and Moody's. We are confident we can successfully market the bonds with these two credit ratings and that not utilizing an S&P rating would not impact the pricing result. Proceeding with two ratings would still enable the District to realize the lowest possible interest cost and would avoid incurring the expense of an unnecessary S&P rating."

Board Policy

On January 23, 2017, the governing board adopted BP 3470, an 11-page policy called Debt Management Policies and Procedures for District-Issued Securities (Appendix D). The CFO's cover memorandum for the board agenda item stated that the policy was required by new regulations and that the district would be certifying to the California Debt and Investment Advisory Commission that it is in compliance with this policy each time it issues securities. The memorandum described that the policy was developed by district staff, the district's financial advisor and the district's bond counsel at the time. (Due to the retirement of the senior partner, the district has since moved to working with another bond counsel firm.)

FCMAT noted deviation from numerous excerpts presented in BP 3470, all of which pertain to credit quality, disclosure, roles and responsibilities or cash management. Each topic is discussed in light of the district's credit rating approach for the Series 2018C bonds in the pages that follow.

Credit Quality

At the beginning of the 2016-17 fiscal year, the district had just more than $500 million of publicly issued debt outstanding. $400 million were general obligation bonds authorized by voters via two measures, Measure BB in 2000 and Measure O in 2006. Subsequently, in November 2018, Measure DD was approved by voters. In addition, the district had more than $100 million outstanding in other borrowing that included special tax bonds, certificates of participation and lease revenue bonds. A table showing all outstanding publicly issued debt along with relevant data is presented in Appendix E.

At that time, the district's general obligation bonds had underlying credit ratings from Standard & Poor's of A+ and Moody's of A1, and the district's other publicly issued securities carried a credit rating of Standard & Poor's A. As the table below shows, these credit ratings are in the middle of what's considered "investment grade," meaning BBB or better.

Investment Grade Credit Ratings Available from Moody's, S&P, and Fitchratings as of 2016-17

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

GO Bond Rating

Other Debt Rating

Issuer Default Rating

Standard & Poor's defines A rated securities as "Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances." Moody's defines A rated securities as "judged to be upper-medium grade and are subject to low credit risk."

Furthermore, all of the district's outstanding publicly offered securities were sold with bond insurance, and therefore carried the additional "insured" credit ratings in addition to both the Standard & Poor's and Moody's credit ratings obtained for general obligation bonds and the Standard & Poor's credit ratings obtained for the other borrowings. The April issuance of the Series 2018C bonds was offered with only one credit rating from Fitch and without bond insurance, a significant deviation from past practice.

By the end of the 2018-19 fiscal year, the Moody's and Standard & Poor's underlying credit ratings of the district had been downgraded significantly. As presented in the table below, Standard & Poor's lowered the rating on the district's general obligation bonds three levels from A+ to BBB+ with a negative outlook, and Moody's lowered the rating two levels from A1 to A3, and other outstanding debt was downgraded three levels by Standard & Poor's from A to BBB.

Investment Grade Credit Ratings Available from Moody's, S&P, and Fitch ratings as of 2018-19

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

GO Bond Rating

Other Debt Rating

Issuer Default Rating

For reference, Standard & Poor's defines BBB rated securities:

> "Adequate capacity to meet financial commitments, but more subject to adverse economic conditions."

With respect to Fitch Ratings, following the downgrade of the district's Issuer Default Rating on March 9, 2018 from A+ to A, Fitch further downgraded this rating on October 26, 2018 to BBB+ with a negative rating outlook and designated the general obligation bonds issued in both 2016 and 2018 "Rating Watch Negative."

The tables below provide a detailed view of the district's credit rating history.

General Obligation Bonds, Election of 2000 Series 2004C

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
21-Oct-2004	Assigned	A+	Stable	AAA	A2	Aaa	FSA
21-Nov-2008	Downgraded					Aa3	FSA
16-Apr-2010	Upgraded				Aa3		
25-Oct-2010	Downgraded			AA+			AGM
30-Nov-2011	Downgraded			AA-			AGM
17-Jan-2013	Downgraded					A2	
11-Feb-2013	Downgraded				A1		
18-Mar-2014	Upgraded			AA			AGM
24-Jan-2019	Downgraded				A3		
25-Mar-2019	Downgraded	BBB+	Negative				

General Obligation Bonds, Election of 2006 Series 2008A

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
12-Feb-2008	Assigned	A+	N/A	AAA	A2	Aaa	FSA
21-Nov-2008	Downgraded					Aa3	FSA
16-Apr-2010	Upgraded				Aa3		
25-Oct-2010	Downgraded			AA+			AGM
30-Nov-2011	Downgraded			AA-			AGM
17-Jan-2013	Downgraded					A2	
11-Feb-2013	Downgraded				A1		
18-Mar-2014	Upgraded			AA			AGM
24-Jan-2019	Downgraded				A3		
25-Mar-2019	Downgraded	BBB+	Negative				

2014 General Obligation Refunding Bonds

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
16-Jul-2014	Assigned	A+	Stable	AA	A1		BAM
24-Jan-2019	Downgraded				A3		
25-Mar-2019	Downgraded	BBB+	Negative				

2016 General Obligation Refunding Bonds and General Obligation Bonds, Election of 2006, Series 2016B

Date	Action	S&P			Moody's		Fitch			Issuer
		Underlying	Outlook	Insured	Underlying	Insured	Underlying	Outlook	IDR*	
18-Feb-2016	Assigned								A+	
9-Mar-2016	Assigned	A+	Stable	AA	A1	A2	AAA	Stable		AGM
9-Jun-2016	Affirmed								A+	
9-Mar-2018	Downgraded								A	
26-Oct-2018	Downgraded								BBB+	
24-Jan-2019	Downgraded				A3					
25-Mar-2019	Downgraded	BBB+	Negative							
9-Dec-2019	Affirmed								BBB+	

*Issuer Default Rating (IDR) does not show on the Official Statement's cover.

General Obligation Bonds, Election of 2006 Series 2018C

Date	Action	S&P			Moody's		Fitch			Issuer
		Underlying	Outlook	Insured	Underlying	Insured	Underlying	Outlook	IDR*	
18-Feb-2016	Assigned								A+	
9-Jun-2016	Affirmed								A+	
9-Mar-2018	Downgraded								A	
4-Apr-2018	Assigned						AAA	Stable		
26-Oct-2018	Downgraded								BBB+	
9-Dec-2019	Affirmed								BBB+	

*Issuer Default Rating (IDR) does not show on the Official Statement's cover.

Certificates of Participation, Series 2005 Refinancing

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
9-Nov-2005	Assigned			AAA		Aaa	MBIA
5-Jun-2008	Downgraded			AA			MBIA
19-Jun-2008	Downgraded					A2	MBIA
7-Nov-2008	Downgraded					Baa1	MBIA
18-Feb-2009	Downgraded			AA-			NPFG
5-Jun-2009	Downgraded			A			NPFG
22-Dec-2010	Downgraded			BBB			NPFG
19-Dec-2011	Downgraded					Baa2	NPFG
28-Feb-2013	Downgraded			BB			NPFG
8-May-2013	Upgraded			BBB			NPFG
21-May-2013	Upgraded					Baa1	NPFG
10-May-2013	Upgraded			A			NPFG
18-Mar-2014	Upgraded			AA-			NPFG
21-May-2014	Upgraded					A3	NPFG
11-Apr-2017	Withdrawn			WR		WR	Obligation is not outstanding

2017 Refunding Certificates of Participation

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
7-Feb-2017	Assigned	A	Stable	AA			BAM
25-Mar-2019	Downgraded	BBB	Negative				

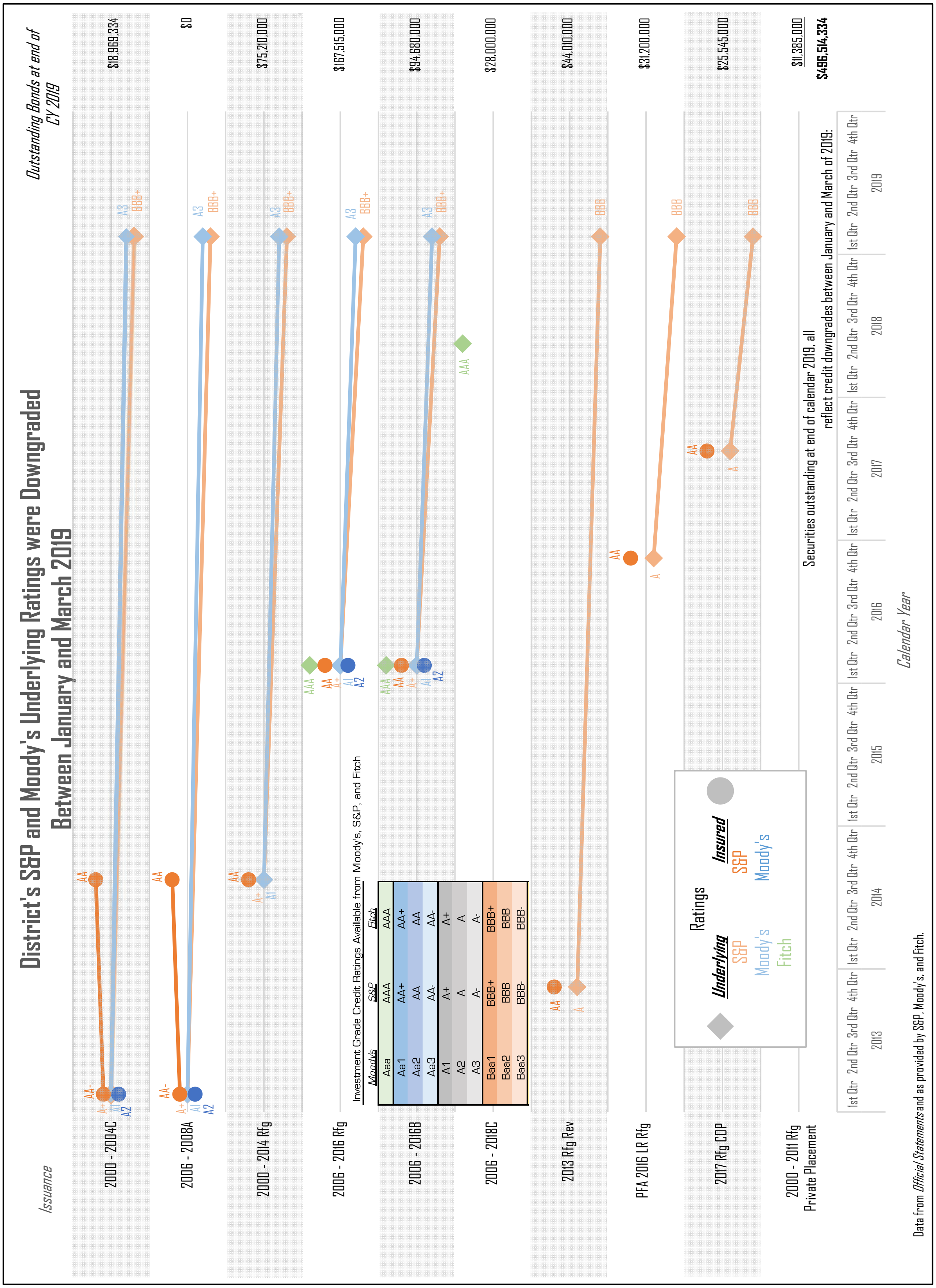
Public Financing Authority, 2013 Refunding Revenue Bonds

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
9-Oct-2013	Assigned	A	Stable	AA			BAM
25-Mar-2019	Downgraded	BBB	Negative				

Public Financing Authority, Lease Revenue Refunding Bonds, Series 2016

Date	Action	S&P			Moody's		Issuer
		Underlying	Outlook	Insured	Underlying	Insured	
19-Oct-2016	Assigned	A	Stable	AA			BAM
25-Mar-2019	Downgraded	BBB	Negative				

Nearly half a billion dollars of securities have suffered credit downgrades as presented in the following chart.



While BP 3470 Section 12.1 states, “The District shall endeavor to attain the best possible credit rating for each debt issue (with or without credit enhancement),” Section 1.2, Debt Management Goals and Considerations, contains noteworthy language including:

> “(c) Careful and consistent monitoring of such debt issuance and outstanding securities is required to preserve the District’s credit strength, budget and financial flexibility.”

Further, the policy states under item (d) of the same section, “In following this Debt Management Policy, the District shall pursue the following debt management goals: …

> (ii) The District shall endeavor to attain the best possible credit rating for each Securities issue (with or without credit enhancement) in order to reduce interest costs, within the framework of preserving financial flexibility and meeting capital funding requirements.
>
> (iii) The District shall take all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues …
>
> (v) The District shall consider market conditions, District cash flows and facilities financing requirements when considering the scheduling for the issuance of Securities …”

The significant collapse of the district’s credit ratings indicates that BP 3470’s stated goals were not met. These goals include:

- preserving credit strength
- endeavoring to attain the best possible credit rating
- avoiding financial decisions which will negatively impact credit ratings on existing or future debt issues

Disclosure

BP 3470 Section 10.1 states:

> “The District shall prepare or cause to be prepared all appropriate disclosures as required by the Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”), the Internal Revenue Service, other federal government agencies, state agencies, rating agencies, credit enhancement providers, underwriters, bond and disclosure counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure transparency and compliance with applicable laws and regulations and covenants to provide ongoing disclosure.”

Section 10.2 goes on to state:

> “The quality and completeness of all disclosure materials shall be of the utmost of importance and priority.”

Section 10.3 includes the following:

> “The Superintendent or designee shall assemble a District “Disclosure Review Team” with designated District departments which is responsible for information to be contained in Preliminary and Final Official Statements and similar offering documents. At a minimum, the designated departments shall include the Superintendent’s Office, Assistant Superintendent, Business Services, Facilities Department, and District’s General Legal Counsel. Depending on the nature of the material(s) being reviewed, other resources and district departments may

be asked for assistance on an as needed basis. The Disclosure Review Team shall provide written comments to the finance team."

Section 12.3 states:

"The District and its financial advisor shall meet with, make presentations to, or otherwise communicate with the credit rating agencies on a regular basis in order to keep the credit rating agencies informed concerning the District's capital project plans, debt issuance program, debt management activities, and other appropriate financial information."

In February 2018, the CFO and financial advisor took a course of action that was designed to avoid disclosure of information to the credit rating agencies, the essential nature of which was evidenced by the subsequent downgrades of the district's credit ratings once the information became known.

For example, in its rationale of its March 25, 2019 downgrade to BBB+ of the district's general obligation bonds and to BBB for certificates of participation and lease revenue bonds with negative outlook on all ratings, Standard & Poor's made the following statements:

- "The downgrades are based on our view of the district's flawed accounting practices that have previously overstated the district's financial position."
- "In September 2018, the district identified a flaw in its financial statements."
- "Through its flawed historical financial reports, we believe that the district's revenue and expenditure assumptions to be untrustworthy."

The CFO and the financial advisor were experienced both individually and together with credit rating agency reviews. It is standard for a credit rating review to include analysis of a bond issuer's financial condition via a review of audit reports, and in the case of California school districts, all three of the district's rating agencies typically review adopted budgets and interim budget reports.

The district received its Audit Report for the Year Ended June 30, 2017 on February 22, 2018 after receiving an extension of the December 15 deadline by the State Controller.

Among other adjustments, the auditor corrected the district's June 30, 2017 ending general fund balance, which in turn became the July 1, 2017 beginning balance and the starting point for fiscal year 2017-18, which was now two-thirds complete.

The adjusted beginning general fund balance of $21.5 million was $8.9 million less than the district had presented as its 2016-17 estimated actuals as part of the 2017-18 adopted budget ($21.5 million as compared to $30.4 million). Thus, the district was made aware via this audit report that it had started the year with nearly 30% less than originally expected, reflecting a weaker financial condition than may have been previously understood.

However, it is apparent that the district was aware of its deteriorating fiscal position well before February 22, 2018 (the date of delivery of the June 30, 2017 audit report) because in December 2017, the district's 2017-18 first interim budget report incorporated an adjusted beginning balance of $24.7 million, $5.7 million less than projected in the 2016-17 estimated actuals submitted with the 2017-18 adopted budget report. The ending fund balance was further degraded by a repeat audit finding of $3.2 million. The magnitude of these changes raises serious question about the district's financial management and overall leadership.

A 32 page Credit Presentation to Fitch Ratings dated February 27, 2018 included a table on page 12 (Appendix F), General Fund Historical Revenues and Expenditures. This table presents the district's audited actuals for fiscal years 2013-14 through 2016-17 and reflects the information from the June 30, 2017 audit report dated February 22, 2018.

The table shows the 41% decline in ending general fund balance between the 2015-16 and 2016-17 fiscal years:

- Audited ending general fund balance as of June 30, 2016 was $36,285,098.
- Audited ending general fund balance as of June 30, 2017 was $21,469,748.

This is further indication that the district and its financial advisor should have been aware of the district's deteriorating fiscal health. However, it is unknown whether the information as presented resulted in discussion with Fitch of the fiscal stress indicated by this 41% decline in fund balance.

This table, in the column titled "1st Interim Report," does not show the beginning or ending balance as shown in the board approved first interim report. Rather, the column shows the adjusted beginning balance from the 2016-17 audit report and a calculated new ending balance. This presentation of the changes makes them less apparent, which is misleading to those reviewing the documents.

It is also noted that the audit report delivery date of February 22, 2018 was a Thursday, and the rating presentation was sent from an associate at the financial advisor's firm to the district on February 27, 2018 at 9:58 a.m., a Tuesday. This raises questions of the extent to which the audit report was reviewed by the financial advisor, given just the working days of Friday and Monday, and possibly the weekend, to consider and incorporate information from the audit report into the rating agency presentation. Moreover, the district had from 10 a.m. until 2 p.m. on February 27 to review this presentation. It appears that the credit rating presentation was awaiting the audit report and was very quickly finalized, raising questions of due diligence. The CFO's and financial advisor's stated intention to avoid rating agency scrutiny of the district's financial condition adds to the question of whether proper disclosures were made to Fitch or to other rating agencies.

On Friday, March 16, the district provided answers to a due diligence questionnaire prepared by the counsel to the district's bond underwriter in preparation for a March 20 conference call with several finance professionals involved in the 2018C general obligation bond issuance. This questionnaire included the following questions:

- Has the District received any communications from its outside auditor raising any material concerns or disagreements regarding the District's financial operating procedures, accounting or reporting? [question 12]
- Does the District anticipate any significant increases to its general fund expenditures, or significant decreases to its general fund revenues, in the next three years? [question 14]

The district's written answers to both questions was "No."

The June 30, 2017 audit report delivered February 22, 2018 indicates that the answer to the first question should have been "yes," as the significant and recurring adjustments to the district's financial data raise questions about the basis for the district's financial accounting and reporting. It is unknown whether the conversation on the March 20 conference call shed further light.

BP 3470 Section 10.4 states the following:

> (a) The Preliminary Official Statement (POS) shall be reviewed prior to approval by the Board by the Disclosure Review Team.
>
> (b) The POS and financing documents shall be approved as discussion/action items on the Board of Trustees agenda and shall not be placed on the consent calendar.

The Preliminary Official Statement for the 2018C bonds was approved by the board on February 26, 2018, well before the due diligence questionnaire was completed on March 16 and discussed on March 20 by the disclosure review team, indicating a failure to comply with BP 3470.

The Official Statement dated April 4, 2018 shows a table on page A-18 that presents some different information in the column for 2017-18 adopted budget from that presented in the 2017-18 adopted budget approved by the governing board, even though it indicates the source is the district.

While the district had its own disclosure counsel, the due diligence questionnaire came from the underwriter's counsel. BP 3470, Section 8.3 states:

> "Irrespective of the nature of the sale of securities (competitive or negotiated), the District shall select and retain a disclosure counsel that is separate and independent of bond counsel and, if applicable, underwriter's counsel. In doing so, the District recognizes the importance of accurate and adequate disclosure and the relationship between district staff and disclosure counsel retained directly by district."

No other due diligence documents were provided in response to FCMAT's request. It is possible that the questionnaire reflected the due diligence interests of all parties.

Had the 2017-18 budget reporting discrepancies been addressed promptly, the extent of the structural budget deficit would have been more apparent to all district decision-makers. Further, if properly prepared, the district's multiyear financial projection would have shown a more accurate and timely picture of the rapidly deteriorating financial condition that was the basis for credit downgrades during that year.

Roles and Responsibilities

BP 3470 charges the superintendent with significant responsibility related to debt management. Section 2.1 defines the following:

> "Compliance Officer" means an officer or employee of the District or a designee identified in a written certificate of a Designated Officer of the District or identified in a written certificate executed by the District's Superintendent."
>
> "Designated Officer(s)" means those officers of the District designated in writing by the District as being principally responsible for documents or agreements relating to a series of Securities. A Designated Officer shall always include the District's Superintendent."

The superintendent's official designation of the CFO as the compliance officer was not identified; however, the CFO was the lead staff person on communication to the board and signatory to documents, such that it appears that the CFO did have this role.

Section 17.3 of the same policy states:

> "At the conclusion of any Securities issuance, the Superintendent or designee shall timely provide a summary of the financing to the Board."

FCMAT was unable to identify such a summary having been provided in a board meeting.

As stated previously, the board approved the Preliminary Official Statement as required by the board policy. During FCMAT's fieldwork, the superintendent indicated that the board agenda cover memorandum was written by the CFO and that the superintendent herself is not very familiar with the responsibilities regarding bond market disclosure. The superintendent also expressed during interviews that she had no awareness that securities laws impose additional standards on public officials involved in the issuance of securities.

During FCMAT's fieldwork, the superintendent expressed continuing confidence in the capabilities and work performed by the CFO and the support provided by the county office of education.

Cash Management and Internal Borrowing

Cash Management

BP 3470 Section 3.2 includes the following:

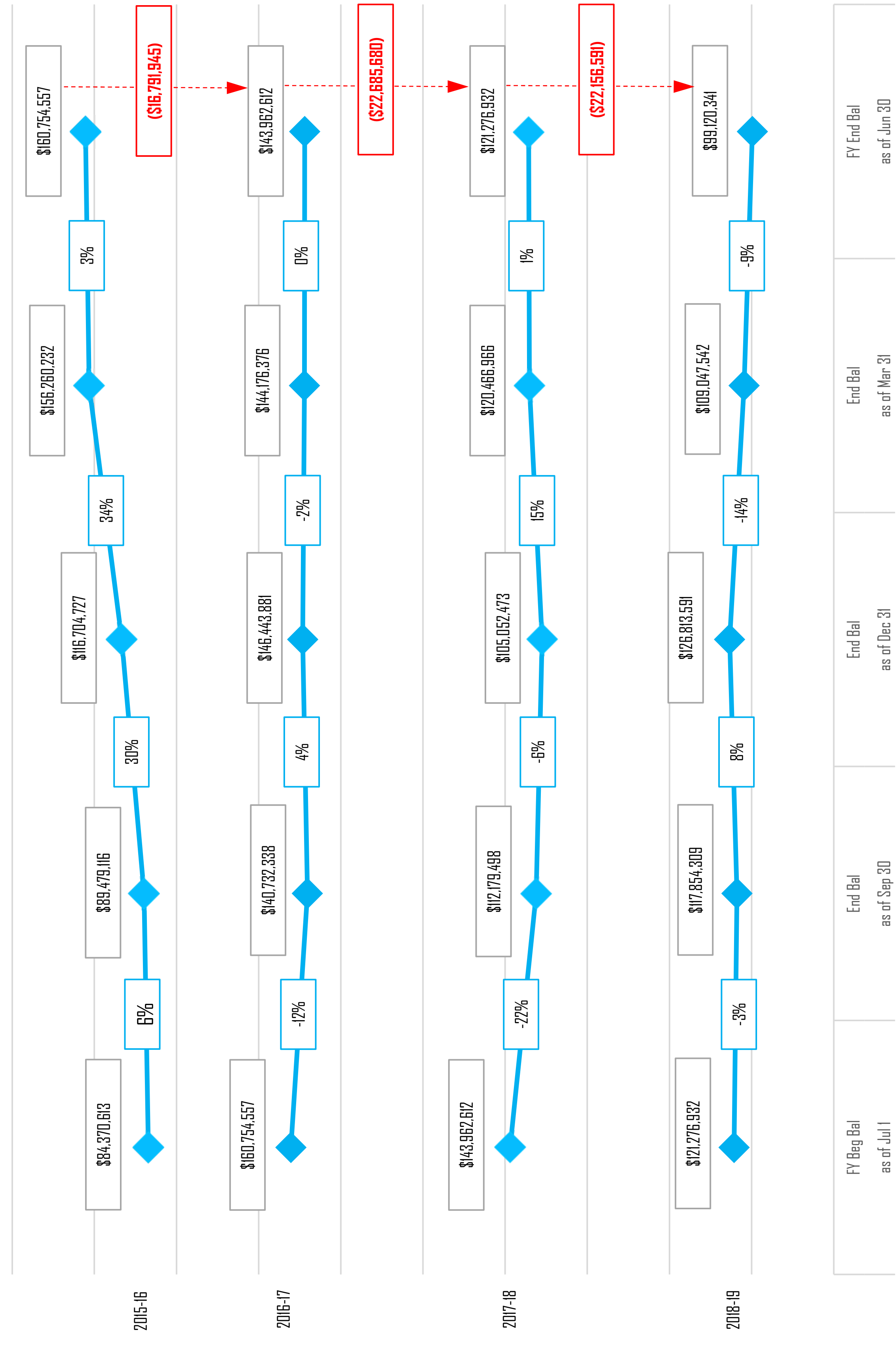
> "The District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet general operating needs."

Routine cash monitoring is an essential component of fiscal management and an important indicator of the district's financial condition. The district's use of a financial system separate from the county office impedes the county office's ability to view the detailed financial activity and cash balances, further challenging its oversight of the district's fiscal affairs.

FCMAT observed that the district receives a report from the county treasurer regarding the district's cash balances at least quarterly. This is particularly important given FCMAT's observation of significant budgeting challenges that relate to accounting practices. Even if the budgets are erroneous, truth can be observed in cash activity. Cash reports from the county treasury are an external source of information and provide comparative information to that provided by internal sources. The CFO presented the county treasurer's quarterly cash flow balances to the board, as well as monthly cash flow analysis of the general fund, cafeteria fund and adult education, demonstrating that she was monitoring cash. The increasing reliance on internal borrowing to support the expenditures of other funds should have raised concerns regarding the accuracy of the budget(s).

Cash balances at the county treasury did not follow a consistent trend during the fiscal years between 2015-16 through 2018-19. There was a steady decline from $161 million at the end of fiscal year 2015-16 to $121 million at the end of 2017-18 (a $40 million or 25% decline). By the end of 2018-19, cash balances in all funds held by the county treasury declined further to $99 million as presented in the chart below.

Cash in County Treasury Declined by More Than $60 Million over Three Years



Data from District's *Quarterly Report of Chief Financial Officer Regarding Disclosure of District Investments* as presented to the Board.

While the cash balances in the above chart are for all funds in aggregate, and could be influenced by financial activity for facilities in the building fund, the ongoing decrease in cash balances is consistent with the ongoing and increasing deficit spending in the general fund.

Internal Borrowing

Borrowing from other funds to satisfy temporary shortfalls in operating cash is common among California school districts. Education Code Section 42603 allows the governing board of a school district to temporarily transfer monies held in a fund of the school district to pay obligations in another fund. The provision does not limit this authority to particular funds and includes no specific exclusions for funds holding restricted dollars.

Districts that have funds available often prefer to borrow internally rather than from a financial institution since the practice is generally faster and less costly. To accomplish this, a district must obtain governing board approval before moving the cash between district funds.

School districts electing to borrow between funds as authorized by Education Code Section 42603 must ensure they comply with the specific limitations regarding amounts and the timing of repayment including:

- Amounts transferred must be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year.
- Borrowing shall occur only when the fund receiving the money will earn sufficient income during the current fiscal year to repay the amount transferred.
- No more than 75% of the maximum of monies held in any fund during a current fiscal year may be transferred.
- The transfer must be accounted for as temporary borrowing between funds and shall not be available for appropriation or be considered income to the borrowing fund or account. Temporary borrowings are not accounted for as interfund transfers, and do not affect the fund balance for either the borrowing or lending fund.

Routine internal borrowing that is increasing in volume and/or frequency is an indication of a timing mismatch between revenues and expenditures, a structural imbalance in budgets compared to actual expenditures, and/or potential fiscal distress resulting from expending more resources than generated, usually on an ongoing basis. Significant cash shortfall is a key indicator of looming fiscal insolvency. For this reason, it is essential that LEAs closely monitor cash and perform monthly cash reconciliation.

The district has routinely relied on interfund borrowing to meet cash flow needs of all funds. The dependency on cash borrowing from the capital projects fund for blended component units (Fund 49) has increased in both volume and frequency, elevating concerns about the district’s ability to repay the outstanding balances in compliance with Education Code 42603.

Community Facilities District/Mello-Roos

The district uses the capital projects fund for blended component units (Fund 49) to account for community facilities district (Mello-Roos) special tax collections maintained by the county treasurer’s office and isolates the activity in a separate resource within this fund. A Mello-Roos levy is a special tax assessment imposed on property owners. The proceeds are intended for development or improvement of school district facilities.

The governing board annually authorizes the district to engage in interfund borrowing through a resolution. Administrative Regulation (AR) 3110 Temporary Transfers Between Classifications, speaks to the district's authority to engage in temporary interfund borrowing. The AR states, "The board may direct that monies held in any fund or account may be temporarily transferred from one or more of these accounts to another fund or account to be used for the payment of obligations of the district, with limitations as set by EC 42603. The transfer shall be accounted for as temporary borrowing and shall not be available for appropriation or be considered income to the borrowing fund or account."

FCMAT was provided with San Diego county treasurer exports of 21 individual accounts maintained in the county's Oracle financial system on behalf of the district. Each export contained detailed cash transactions for the period July 2013 through February 2018. Using the treasurer's data and exports from the district's detail general ledger, FCMAT prepared an analysis of transaction data for the period 2016-17 through February 2018 to determine if all cash transactions recorded by the treasurer were also recorded in the district's general ledger cash account in Fund 49. Once confirmed, the general ledger transactions can be analyzed to determine how the resources were used, e.g., recorded as revenue or expense transactions in Fund 49 or used as interfund borrowing. The accounting records must be verified as complete before an analysis can be performed relative to the use of funds.

FCMAT isolated detailed general ledger data for object 9110 (cash) and parsed the data by transaction type, resource, and month; the district accounts for each Mello-Roos account in a separate resource within Fund 49. FCMAT's analysis determined that 20 of 21 accounts provided by the treasurer had content traceable to the district's general ledger. Transactions recorded in Oracle account 44156 were not traceable to the general ledger, and FCMAT confirmed that the account did not belong to the district.

Transactions recorded in the treasurer's Oracle system are categorized by four different transaction types: cash allocation; issued warrant; deposit, account receivable and Reallocation Transfer (DART); and transfer.

- Cash allocation transactions account for interest posted by the treasurer to each account and are classified in the general ledger as XJV entries; FCMAT was able to trace all interest allocation entries to the district's general ledger.
- Issued warrant transactions account for transactions processed by the district through the accounts payable system. FCMAT was able to trace all issued warrant transactions to accounts payable transactions recorded in the district's general ledger.
- DART and transfer transactions account for transactions processed by the district, the county office and the treasurer and are recorded in the general ledger using the journal voucher (JV) and XJV transaction types. While FCMAT was able to trace most transactions back to the district's general ledger, some Oracle entries were not identifiable because the treasurer's report consolidates individual transactions and the time and resources necessary to ascertain which transactions recorded in the general ledger were attributable to the treasurer's records is not feasible in this study. As such, FCMAT could not ascertain whether all transactions recorded by the treasurer in Oracle accounts were recorded in the district's general ledger.

The Truecourse financial system is configured such that interfund transactions for accounts payable processed between funds automatically post to the due from (9310)-due to (9610) object codes. Transactions are recorded both within and between funds. The volume of data from transactions is significant and does not directly correlate with the cash transactions recorded in the county treasury.

FCMAT requested all cash reconciliations and supporting documentation from the district for the period under review. FCMAT's review of the district's cash reconciliations provided for Fund 49 found them to be incomplete and inadequate for analysis. Deficiencies were also noted in the district's audited financial statements and in other communications from the district's independent auditors.

Interviews with the district and the county office indicate that, for fiscally accountable districts, the county office exercises no oversight or monitoring of cash. Many county offices reconcile cash held at the county treasury with district recorded balances monthly. However, when a district is fiscally independent or accountable and maintains its financial records outside the county office financial system, the county office loses access and availability to do so. In these cases, the county office should exercise its oversight authority by requiring the district to provide monthly cash reconciliations to demonstrate adequate internal control over assets.

Because FCMAT cannot confirm that all cash transactions recorded at the county treasurer were accounted for in the district's cash account in Fund 49 to verify that the district's records are complete, FCMAT could not effectively analyze the use of Mello-Roos funds recorded in the general ledger, including internal borrowing and repayment.

While FCMAT was unable to confirm the district's accounting for interfund borrowing to be complete, district staff confirm and internally generated records indicate that the interfund borrowing undertaken violated Education Code 42603 in that the district did not have the ability to repay amounts borrowed from Fund 49 as required by this statute. This inability to repay outstanding balances was exacerbated during the 2017-18 fiscal year as the district's fiscal condition was significantly compromised, further challenging the district's ability to repay outstanding borrowings as recorded by the district.

The district regularly issued long term lease debt to be repaid from special tax revenue, which was also an obligation of the general fund. From 2016-17 through 2018-19 (see table of outstanding debt in Appendix E), the district had well over $100 million in outstanding lease debt that was required to be repaid from any source of funds, but largely expected to be repaid from special tax revenue, according to the financing documents.

BP 3470 Section 1.2, (vii) states the following:

> "The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other state/federal aid, so as to minimize the encroachment on the District's General Fund."

Transfers of special taxes to the general fund necessarily increased the potential encroachment on the general fund, as the district was required to cover debt service from any source of funds, such that if special taxes were not sufficient and in the absence of other sources of funds, encroachment on the general fund would result.

BP 3470 Section 3.3 further states:

> "(e) In the event the District has outstanding long-term debt in the form of COPs and/or other capital lease-purchase structures if and when referendum-approved debt proceeds become available, **the District shall** [emphasis added] use a portion of such proceeds to redeem or defease such outstanding debt. In doing so, the District recognizes that voter-approved long-term debt is generally the lowest cost borrowing available to the District. However, the District shall consider the remaining useful lives of related assets related to the outstanding debt as provided for herein."

The district had referendum-approved bond proceeds from the Series 2016B and Series 2018C bond issues, and no proceeds were allocated to repayment of the district's outstanding lease debt.

Conclusion

During the period July 1, 2016 through June 30, 2018 the district administration, including the superintendent, CFO, director of fiscal services, and the district's bond program financial advisor, prepared, reviewed and/or presented financial information to the governing board and external parties. The deficiencies noted by FCMAT transpired at a point in time where:

1. The governing board relied upon incomplete and inaccurate financial information presented for consideration and approval of negotiated salary agreements that included a 3.75% ongoing salary increase retroactive to January 1, 2017 for all district employees.
2. Financial disclosures were made to one bond rating agency while other rating agencies and insurers were specifically avoided.

These deficiencies and/or omissions resulted in:

1. Authorization by the governing board of a salary increase for all employees that the district was unable to afford.
2. Ongoing and increasing cash borrowing from the district's capital projects fund for blended component units (Fund 49) that were not repaid in compliance with Education Code 42603.
3. Misleading rating agencies, bond insurers and potential and actual investors in the district's revenue bonds, certificates of participation and general obligation bonds through deliberate omissions of material information.

FCMAT identified and noted in the body of the report violations of board policy, Government Code, Education Code and securities laws. These violations are relative to:

1. Internal borrowing and transfer of funds.
2. Public disclosure of collective bargaining, including false affirmation and certification by the superintendent and CFO.
3. Accurate and timely disclosure of material information to bond market participants.

The control environment is an essential element and provides the foundation for other internal controls to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal fiscal acts. The tone of the organization set by management through its words and actions demonstrates to others whether or not dishonest or unethical behavior will be tolerated. An atmosphere in which employees feel safe to communicate concerns is a fundamental component of a strong and effective internal control environment.

FCMAT observed numerous deficiencies that impact the district's system of internal control, increasing the potential for fraud and/or abuse. The most apparent deficiencies include:

- Incomplete or untimely presentation and disclosure of financial activity and/or projections.
- Lack of an integrated financial system.
- Lack of position control including lack of reconciliation between board authorized positions, salary and benefit budgets and actual payroll expenditures.
- Lack of proper cash reconciliation.
- Departures from board policy.
- Poor fiscal oversight.

While FCMAT noted deficiencies in fiscal oversight activities performed by the San Diego COE, the district's governing board, acting as a body and through its superintendent, is responsible for the administrative and financial activities of the district. The county office and other external parties, including independent auditors, are resources that aid the district in establishing and maintaining a strong system of internal control. A strong system of internal control is among the most important aspects of any fraud prevention. The deficiencies noted within this report are in no way intended to infer that the county office played any role in the misrepresentation of the district's financial position or other potential fraud.

Deficiencies noted in the report indicate that several parties violated their fiduciary duties including the superintendent, chief financial officer, director of fiscal services, and the financial advisor. Deficiencies noted include the following:

- Omission and/or delay of accurate and timely financial data presented to the governing board prior to the approval of negotiated salary increases, resulting in a salary increase the district could not otherwise afford.
- Deliberate misrepresentation of the district's financial condition, including the omission and/or delay of material information in the district's budget and other financial reports.
- Omission and/or delay of accurate and timely financial data presented to the governing board and bond market participants.

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in the specific areas reviewed.

Potential for Fraud

Deficiencies and exceptions noted during FCMAT's review of the district's financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of district assets. Because deficiencies in the internal control environment can increase this probability, these findings should be of great concern to the school district and the county office and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets or other illegal fiscal practices in the future.

Judgments Regarding Guilt or Innocence

The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal practices is solely the purview of the courts. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices have occurred. These terms are a broad legal concept, and auditors do not make legal determinations regarding whether illegal activity has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent is required to report the findings and recommendations to the district's governing board at a regularly scheduled board meeting within 45 days of completing the audit. Within 15 days of receipt of the report, the governing board is required to notify the county superintendent of its proposed actions regarding the county superintendent's recommendations.

Recommendation

The county superintendent should:

1. Notify the governing board of the Sweetwater Union High School District, the State Controller, the Superintendent of Public Instruction and the local district attorney that sufficient evidence exists to indicate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred, and that the San Diego County Office of Education has concluded its review.

Appendices

Appendix A – Financial Comparisons 2016-17 and 2017-18

Appendix B – Collective Bargaining Disclosures – Government Code and Education Code

Appendix C – Disclosure of Collective Bargaining Agreement, June 26, 2017

Appendix D – Board Policy 3470 Debt Management Policies and Procedures for District-Issued Securities

Appendix E – Outstanding Publicly Issued Debt

Appendix F – Credit Presentation Table – General Fund Historical Revenues and Expenditures

Appendix G – Study Agreement

Appendix A – Financial Comparisons 2016-17 and 2017-18

Combined General Fund	Object Code	2016-17 Adopted	16-17 1st Interim activity thru Oct 31 presented Dec 2016	A vs 1st Int. $ Change Inc / (Dec)	% Change	16-17 2nd Interim activity thru Jan 31 presented March 2017	1st-2nd $ Change Inc / (Dec)	% Change	16-17 Estimated Actuals presented 6-23-17 with 17-18 Adopted budget	Est. Act. Vs 2nd Int. $ Change Inc / (Dec)	% Change	2016-17 Unaudited Actuals 9-8-17	UA vs EA $ Change Inc / (Dec)	% Change
Revenues														
LCFF Sources	8010 - 8099	$ 358,101,832.00	$ 359,309,129.00	$ 1,207,297.00	0.3%	$ 359,630,823.00	$ 321,694.00	0.1%	$ 359,557,710.00	$ (73,113.00)	0.0%	$ 356,709,989.00	$ (2,847,721.00)	-0.8%
Federal Revenue	8100 - 8299	20,873,313.00	24,307,433.00	3,434,120.00	16.5%	24,451,537.00	144,104.00	0.6%	25,235,687.00	784,150.00	3.2%	22,018,273.31	(3,217,413.69)	-12.7%
Other State Revenue	8300 - 8599	31,391,102.00	39,452,572.00	8,061,470.00	25.7%	39,458,450.00	5,878.00	0.0%	39,458,450.00	-	0.0%	43,498,547.39	4,040,097.39	10.2%
Other Local Revenue	8600 - 8799	27,885,811.00	29,098,659.00	1,212,848.00	4.3%	29,572,141.50	473,482.50	1.6%	30,302,538.00	730,396.50	2.5%	28,205,663.71	(2,096,874.29)	-6.9%
Revenues		**$ 438,252,058.00**	**$ 452,167,793.00**	**$ 13,915,735.00**	3.2%	**$ 453,112,951.50**	**$ 945,158.50**	0.2%	**$ 454,554,385.00**	**$ 1,441,433.50**	0.3%	**$ 450,432,473.41**	**$ (4,121,911.59)**	-0.9%
Expenditures														
Certificated Salaries	1000 - 1999	$ 205,942,739.00	$ 209,059,208.20	$ 3,116,469.20	1.5%	$ 209,571,216.20	$ 512,008.00	0.2%	$ 209,940,958.95	$ 369,742.75	0.2%	$ 211,360,565.81	$ 1,419,606.86	0.7%
Classified Salaries	2000 - 2999	70,759,900.00	71,308,613.73	548,713.73	0.8%	72,928,428.73	1,619,815.00	2.3%	73,150,828.06	222,399.33	0.3%	74,782,847.05	1,632,018.99	2.2%
Employee Benefits	3000 - 3999	97,264,627.31	97,813,826.51	549,199.20	0.6%	98,457,438.51	643,612.00	0.7%	99,140,720.72	683,282.21	0.7%	104,738,763.07	5,598,042.35	5.6%
Books and Supplies	4000 - 4999	22,838,899.00	33,155,495.87	10,316,596.87	45.2%	31,293,630.54	(1,861,865.33)	-5.6%	26,240,051.16	(5,053,579.38)	-16.1%	24,175,412.52	(2,064,638.64)	-7.9%
Services and Other Operating	5000 - 5999	33,346,435.00	36,735,472.84	3,389,037.84	10.2%	41,470,816.67	4,735,343.83	12.9%	40,266,331.49	(1,204,485.18)	-2.9%	36,988,392.38	(3,277,939.11)	-8.1%
Capital Outlay	6000 - 6900	4,506,046.00	5,215,586.84	709,540.84	15.7%	6,746,806.84	1,531,220.00	29.4%	16,567,200.84	9,820,394.00	145.6%	15,389,154.86	(1,178,045.98)	-7.1%
Other Outgo	7000 - 7299	-	-	-		-	-		-	-		-	-	
Direct Support/Indirect Cost	7300 - 7399	-	(11,550.00)	(11,550.00)		(11,550.00)	-	0.0%	(554,868.00)	(543,318.00)	4704.1%	(524,979.00)	29,889.00	-5.4%
Debt Service	7400 - 7499	4,521,987.00	5,688,121.00	1,166,134.00	25.8%	6,089,733.00	401,612.00	7.1%	8,298,061.00	2,208,328.00	36.3%	6,850,988.34	(1,447,072.66)	-17.4%
Expenditures		**$ 439,180,633.31**	**$ 458,964,774.99**	**$ 19,784,141.68**	4.5%	**$ 466,546,520.49**	**$ 7,581,745.50**	1.7%	**$ 473,049,284.22**	**$ 6,502,763.73**	1.4%	**$ 473,761,145.03**	**$ 711,860.81**	0.2%
Excess (Deficiency) of Revenues Over Expenditures		**$ (928,575.31)**	**$ (6,796,981.99)**	**$ (5,868,406.68)**		**$ (13,433,568.99)**	**$ (6,636,587.00)**		**$ (18,494,899.22)**	**$ (5,061,330.23)**		**$ (23,328,671.62)**	**$ (4,833,772.40)**	
Other Financing Sources/Uses														
Interfund Transfers In	8900 - 8929	$ 9,507.00	$ 9,507.00	-	0.0%	$ 9,507.00	-	0.0%	$ 9,507.00	-	0.0%	$ 88,090.91	78,583.91	826.6%
Interfund Transfers Out	7600 - 7629	779,727.00	924,853.00	145,126.00	18.6%	1,130,155.00	205,302.00	22.2%	2,037,542.12	907,387.12	80.3%	1,480,156.33	(557,385.79)	-27.4%
All Other Financing Sources	8930 - 8979	2,850,000.00	2,850,000.00	-	0.0%	4,350,000.00	1,500,000.00	52.6%	14,650,623.00	10,300,623.00	236.8%	13,119,154.00	(1,531,469.00)	-10.5%
All Other Financing Uses	7630 - 7699	-	-	-		-	-		-	-		-	-	
Contributions	8980 - 8999	-	-	-		-	-		-	-		-	-	
Other Financing Sources/Uses		**$ 2,079,780.00**	**$ 1,934,654.00**	**$ (145,126.00)**		**$ 3,229,352.00**	**$ 1,294,698.00**		**$ 12,622,587.88**	**$ 9,393,235.88**		**$ 11,727,088.58**	**$ (895,499.30)**	
Net Increase (Decrease) in Fund Balance		**$ 1,151,204.69**	**$ (4,862,327.99)**	**$ (6,013,532.68)**		**$ (10,204,216.99)**	**$ (5,341,889.00)**		**$ (5,872,311.34)**	**$ 4,331,905.65**		**$ (11,601,583.04)**	**$ (5,729,271.70)**	
Fund Balance														
Beginning Fund Balance		$ 38,361,126.58	$ 38,361,126.53	$ (0.05)		$ 38,361,126.58	$ 0.05		$ 38,361,126.58	$ -		$ 38,361,126.58	$ -	
Audit Adjustments		-	(2,076,027.00)	(2,076,027.00)		(2,076,027.00)	-		(2,076,027.00)	-		(2,076,027.00)	-	
Other Restatements		-	-	-		-	-		-	-		-	-	
Ending Fund Balance		**$ 39,512,331.27**	**$ 31,422,771.54**	**$ (8,089,559.73)**		**$ 26,080,882.59**	**$ (5,341,888.95)**		**$ 30,412,788.24**	**$ 4,331,905.65**		**$ 24,683,516.54**	**$ (5,729,271.70)**	

Combined General Fund	Object Code	2017-18 Adopted 6-23-17	2017-18 1st Interim 12-7-17	A vs 1st Int. $ Change Inc / (Dec)	% Change	2017-18 2nd Interim 3-12-18	2nd vs 1st $ Change Inc / (Dec)	% Change	2017-18 Estimated Actuals 6-22-18	EA vs 2nd $ Change Inc / (Dec)	% Change	2017-18 Unaudited Actuals 9-18-18 and 10-5-18	UA vs EA $ Change Inc / (Dec)	% Change	17-18 A vs UA Inc / (Dec)	% Change
Revenues																
LCFF Sources	8010 - 8099	$ 368,931,496	$ 364,287,313	$ (4,644,183)	-1.3%	$ 365,899,536	$ 1,612,223	0.4%	$ 365,124,692	$ (774,844)	-0.2%	$ 364,376,404	$ (748,288)	-0.2%	$ (4,555,092)	-1.2%
Federal Revenue	8100 - 8299	18,438,113	24,827,239	6,389,126	34.7%	25,893,982	1,066,743	4.3%	25,524,286	(369,696)	-1.4%	24,284,179	(1,240,107)	-4.9%	5,846,066	31.7%
Other State Revenue	8300 - 8599	32,856,330	39,569,891	6,713,561	20.4%	40,632,029	1,062,138	2.7%	40,367,582	(264,447)	-0.7%	39,460,496	(907,086)	-2.2%	6,604,166	20.1%
Other Local Revenue	8600 - 8799	29,477,183	30,596,747	1,119,564	3.8%	31,426,237	829,489	2.7%	31,051,455	(374,782)	-1.2%	28,462,437	(2,589,017)	-8.3%	(1,014,746)	-3.4%
Revenues		**$ 449,703,122**	**$ 459,281,190**	**$ 9,578,068**	2.1%	**$ 463,851,783**	**$ 4,570,593**	1.0%	**$ 462,068,014**	**$ (1,783,769)**	-0.4%	**$ 456,583,517.44**	**$ (5,484,497.05)**	-1.2%	**$ 6,880,395.44**	1.5%
Expenditures																
Certificated Salaries	1000 - 1999	$ 211,547,863	$ 214,335,340	$ 2,787,476	1.3%	$ 217,263,837	$ 2,928,498	1.4%	$ 220,870,310	$ 3,606,473	1.7%	$ 230,931,639	$ 10,061,329	4.6%	$ 19,383,775	9.2%
Classified Salaries	2000 - 2999	74,001,658	74,685,782	684,124	0.9%	73,604,231	(1,081,551)	-1.4%	75,645,284	2,041,053	2.8%	78,711,842	3,066,558	4.1%	4,710,184	6.4%
Employee Benefits	3000 - 3999	107,480,182	113,309,557	5,829,375	5.4%	113,355,553	45,997	0.0%	112,217,266	(1,138,288)	-1.0%	117,286,746	5,069,480	4.5%	9,806,564	9.1%
Books and Supplies	4000 - 4999	15,176,012	18,754,622	3,578,610	23.6%	16,660,083	(2,094,539)	-11.2%	16,491,365	(168,718)	-1.0%	14,060,294	(2,431,071)	-14.7%	(1,115,718)	-7.4%
Services and Other Operating	5000 - 5999	31,287,816	34,809,747	3,521,931	11.3%	35,014,362	204,615	0.6%	33,603,683	(1,410,679)	-4.0%	36,195,856	2,592,173	7.7%	4,908,041	15.7%
Capital Outlay	6000 - 6900	4,348,969	694,728	(3,654,241)	-84.0%	4,816,735	4,122,007	593.3%	4,715,530	(101,205)	-2.1%	5,767,678	1,052,148	22.3%	1,418,710	32.6%
Other Outgo	7000 - 7299	-	-	-		-	-		-	-		-	-		-	
Direct Support/Indirect Cost	7300 - 7399	(894,751)	(1,531,696)	(636,945)	71.2%	(894,751)	636,945	-41.6%	(897,830)	(3,079)	0.3%	(786,428)	111,402	-12.4%	108,323	-12.1%
Debt Service	7400 - 7499	8,297,994	7,743,679	(554,315)	-6.7%	8,297,995	554,316	7.2%	8,583,736	285,741	3.4%	8,312,918	(270,818)	-3.2%	14,924	0.2%
Expenditures		**$ 451,245,743**	**$ 462,801,758**	**$ 11,556,015**	2.6%	**$ 468,118,045**	**$ 5,316,287**	1.1%	**471,229,344**	**3,111,299**	0.7%	**$ 490,480,544**	**$ 19,251,201**	4.1%	**$ 39,234,802**	8.7%
Excess (Deficiency) of Revenues Over Expenditures		**$ (1,542,621)**	**$ (3,520,568)**	**$ (1,977,947)**	128.2%	**$ (4,266,262)**	**$ (745,694)**	21.2%	**$ (9,161,329)**	**$ (4,895,068)**	114.7%	**$ (33,897,027)**	**$ (24,735,698)**		**$ (32,354,406)**	
Other Financing Sources/Uses																
Interfund Transfers In	8900 - 8929	$ 15,000	$ 15,000	$ (73,091)	0.0%	$ 15,000	$ -	0.0%	$ 50,593	$ 35,593	237.3%	$ 7,064,185	$ 7,013,592	13862.8%	7,049,185	46994.6%
Interfund Transfers Out	7600 - 7629	1,920,809	1,816,397	336,241	-5.4%	1,816,397	-	0.0%	1,169,552	(646,845)	-35.6%	2,148,387	978,835	83.7%	227,578.01	11.8%
All Other Financing Sources	8930 - 8979	4,143,232	-	(13,119,154)	-100.0%	4,143,232	4,143,232	#DIV/0!	4,143,232	4,143,232	0.0%	5,449,743	1,306,511	31.5%	1,306,510.88	31.5%
All Other Financing Uses	7630 - 7699	-	-	-		-	-		-	-		-	-		-	
Contributions	8980 - 8999	-	-	-		-	-		-	-		-	-		-	
Other Financing Sources/Uses		**$ 2,237,423**	**$ (1,801,397)**	**$ (4,038,820)**	-180.5%	**$ 2,341,835**	**$ 4,143,232**	-230.0%	**$ 3,024,273**	**$ 682,438**	29.1%	**$ 10,365,540.52**	**$ 7,341,267.52**	242.7%	**$ 8,128,117.52**	363.3%
Net Increase (Decrease) in Fund Balance		**$ 694,802**	**$ (5,321,965)**	**$ (6,016,767)**		**$ (1,924,427)**	**$ 3,397,539**		**$ (6,137,056)**	**$ (4,212,630)**		**$ (23,531,486)**	**$ (17,394,430)**		**$ (24,226,289)**	
Fund Balance																
Beginning Fund Balance		$ 30,412,788	$ 26,093,901	$ (12,267,225)		$ 26,093,901	$ -		$ 24,683,517	$ (1,410,385)		$ 24,683,509	$ (8)		$ (5,729,279)	
Audit Adjustments		-	(2,076,027)	-		(5,289,793)	(3,213,766)		(3,213,765)	2,076,028		(3,213,766)	(1)		(3,213,766)	
Other Restatements		-	665,637	665,637		665,637	-		-	(665,637)		(810,606)	(810,606)		(810,606)	
Ending Fund Balance		**$ 31,107,590**	**$ 19,361,546**	**$ (11,746,045)**		**$ 19,545,319**	**$ 183,773**		**$ 15,332,696**	**$ (4,212,623)**		**$ (2,872,349)**	**$ (18,205,044)**		**$ (33,979,939)**	

Appendix B – Collective Bargaining Disclosures – Government Code and Education Code

Government Code Section 3547.5

(a) Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction.

(b) The superintendent of the school district and chief business official shall certify in writing that the costs incurred by the school district under the agreement can be met by the district during the term of the agreement. This certification shall be prepared in a format similar to that of the reports required pursuant to Sections 42130 and 42131 of the Education Code and shall itemize any budget revision necessary to meet the costs of the agreement in each year of its term.

(c) If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report pursuant to Section 42131 of the Education Code.

Education Code 42142

Within 45 days of adopting a collective bargaining agreement, the superintendent of the school district shall forward to the county superintendent of schools any revisions to the school district's current year budget that are necessary to fulfill the terms of that agreement. The school district must include any additional costs that may result from the terms of the collective bargaining agreement in any interim fiscal reports or multiyear fiscal projections.

Appendix C – Disclosure of Collective Bargaining Agreement, June 26, 2017

Disclosure of Collective Bargaining Agreement

Page 1 of 7

In Accordance with AB 1200 (Statutes of 1991, Chapter 1213);
GC § 3547.5 (Statutes of 2004, Chapter 52)

Sweetwater Union High School District

Name of Bargaining Unit: SEA/SCGA Certificated: x Classified: ______

The proposed agreement covers the period: Beginning: 1/1/2016 Ending: 6/30/2019

This agreement will be acted upon by the Governing Board at its meeting on: 6/26/2017
Date

A. Proposed Change in Compensation

	Compensation	Cost Prior to Proposed Agreement	Fiscal Impact of Proposed Agreement					
			Current Year 2016 - 2017		Year 2 2017 - 2018		Year 3 2018 - 2019	
		(a) $	(b) $	(c) %	(b) $	(c) %	(b) $	(c) %
1.	Step & Column - Increase (Decrease) due to movement plus any changes due to settlement	$160,856,538	$0	0.00%	$2,073,789	1.29%	$2,122,493	1.30%
2.	Salary Schedule - Increase (Decrease)	$160,856,538	$3,016,060	1.88%	$3,031,542	1.85%	$0.00	0.00%
3.	Other Compensation - Increase (Decrease) in Stipends, Bonuses, etc.	$160,856,538		0.00%		0.00%		0.00%
4.	Statutory Benefits - Increase (Decrease) in STRS, PERS, FICA, WC, UI, Medicare, etc.	$25,656,618	$481,062	1.88%	$964,397	3.69%	$416,858	1.54%
5.	Health/Welfare Benefits - Increase (Decrease)							
6.	Total Compensation - Increase (Decrease) Total Lines 3(a), 4(a), 5(a)	$186,513,156	3,497,122	1.87%	$6,069,728	3.19%	$2,539,351	1.30%
7.	Total Number of Represented Employees	2,201.00	2,201.00		2,201.00		2,201.00	
8.	Total Compensation Cost for Average Employee - Increase (Decrease)	$84,740.19	$1,588.88	1.87%	$2,757.71	3.19%	$1,153.73	1.30%

Impact on other Funds: ______

Revised: 06/06

Disclosure of Collective Bargaining Agreement

In Accordance with AB 1200 (Statutes of 1991, Chapter 1213); GC § 3547.5 (Statutes of 2004, Chapter 52)

Sweetwater Union High School District

Name of Bargaining Unit: CSEA/NAGE Certificated: ______ Classified: x

The proposed agreement covers the period: Beginning: 1/1/2016 Ending: 6/30/2018

This agreement will be acted upon by the Governing Board at its meeting on: 12/12/2016
Date

A. Proposed Change in Compensation

	Compensation	Cost Prior to Proposed Agreement	Fiscal Impact of Proposed Agreement					
			Current Year 2016 - 2017		Year 2 2017 - 2018		Year 3 2018 - 2019	
		(a) $	(b) $	(c) %	(b) $	(c) %	(b) $	(c) %
1.	Step & Column - Increase (Decrease) due to movement plus any changes due to settlement	$45,877,369	$0	0.00%	$380,554.00	0.83%		0.00%
2.	Salary Schedule - Increase (Decrease)	$45,877,369	$860,201.00	1.88%	$866,973.00	1.85%	$0.00	0.00%
3.	Other Compensation - Increase (Decrease) in Stipends, Bonuses, etc.	$45,877,369		0.00%		0.00%		0.00%
4.	Statutory Benefits - Increase (Decrease) in STRS, PERS, FICA, WC, UI, Medicare, etc	$10,767,418	$201,889	1.88%	$316,498	2.89%	$0	0.00%
5.	Health/Welfare Benefits - Increase (Decrease)							
6.	Total Compensation - Increase (Decrease) Total Lines 3(a), 4(a), 5(a)	$56,644,787	1,062,090	1.88%	$1,564,025	2.71%	$0	0.00%
7.	Total Number of Represented Employees	1,507.00	1,507.00		1,507.00			
8.	Total Compensation Cost for Average Employee - Increase (Decrease)	$37,588	$705	1.88%	$1,038	2.71%		

Impact on other Funds: ______

Revised: 06/06

A. Provide a brief narrative of the proposed change in compensation, including percentage change(s), effective date(s), and comments and explanations as necessary:

All bargaining units received a 3.75% wage increase effective 1/1/2017.

B. Proposed Negotiated Changes in Non-Compensation Items (class size adjustments, staff development days, teacher prep time, etc.)

C. What are the specific impacts on instructional/support programs to accommodate the settlement? Include the impact of non-negotiated changes such as staff reductions and program reductions/eliminations.

Revised: 06/06

D. **What contingency language is included in the proposed agreement?** Include specific areas identified for reopeners, applicable fiscal years, and specific contingency language.

CSEA: ***on or about June 1, 2017, parties agree to reopen Article 7-Wages and Article 11-Health/Benefits***

SEA/SCGA: on or before September 1, 2018, parties agree to reopen Article-4-Wages, Article 6-Health/Benefits and Article 5-Work Day

E. **Source of Funding for Proposed Agreement**

1. Current Year-***LCFF***

2. How will the ongoing cost of the proposed agreement be funded in future years?
Through LCFF funds

3. If multi-year agreement, what is the source of funding, including assumptions used, to fund these obligations in future years? (Remember to include compounding effects in meeting obligations)

Source is LCFF. Included the compounding effect and health/benefit rates.

Revised: 06/06

F. Impact of Proposed Agreement on Current Year Unrestricted Reserves

1. State Reserve Standard

a. Total Expenditures, Transfers Out, and Uses (Including Cost of Proposed Agreement)	$474,171,257
b. State Standard Minimum Reserve Percentage for this District	2.00%
c. Projected P-2 ADA	38,248.00
d. State Standard Minimum Reserve Amount for this District *(Line 1a times Line 1b, or $50,000, whichever is greater, for a district with less than 1,001 ADA)*	$9,483,425

2. Budgeted Unrestricted Reserve (After Impact of Proposed Agreement)

a. General Fund Budgeted Unrestricted Designated for Economic Uncertainties	$14,225,138
b. General Fund Budgeted Unrestricted Unappropriated Amount	
c. Special Reserve Fund 17-Bugeted Designated for Economic Uncertainties	
d. Special Reserve Fund 17-Budgeted Unappropriated Amount	
e. Total District Budgeted Unrestricted Reserves	$14,225,138

3. Do unrestricted reserves meet the state standard minimum reserve amount? Yes X No

G. Certification

The information provided in this document summarized the financial implications of the proposed agreement and is submitted to the Governing Board for public disclosure of the major provisions of the agreement in accordance with the requirements of AB 1200 and Government Code § 3547.5.

We hereby certify that the costs incurred by the school district under this agreement can be met by the district during the term of the agreement.

_____________________ 6/13/17
District Superintendent (Signature) Date

_____________________ 6/12/17
Chief Business Official (Signature) Date

Contact Person: _____________________ Telephone No.: _________

Revised: 06/06

Supplement

Page 5 of 7

H. Impact of Proposed Agreement on Current Year Operating Budget*

Date of governing board approval of budget revisions in Col. 2: 5/22/2017
in accordance with Education Code § 42142 and Government Code § 3547.5

Provide a copy of board-approved budget revisions and board minutes. In addition, provide two expenditure reports generated by the district's financial system: one showing the budget by major object before the changes and a second showing the budget by major object after the changes.

If the board-approved revisions are different from the proposed budget adjustments in Col. 2, provide a revised report upon approval of the district governing board.

	2nd Interim	wage increase	estimated actual revisions	Preliminary Proposal
	(Col. 1) Latest Board-Approved Budget Before Settlement as of	(Col. 2) Adjustments as a Result of Settlement	(Col. 3) Other Revisions	(Col. 4) (Cols. 1 + 2 + 3) Total Impact on Budget
REVENUES:				
LCFF Sources (8010-8099)	359,630,823		(73,113)	359,557,710
Remaining Revenues (8100-8799)	93,482,129		1,284,286	94,766,415
TOTAL REVENUES	453,112,952	0	1,211,173	454,324,125
EXPENDITURES:				0
1000 Certificated Salaries	209,571,216	3,016,060	(2,692,679)	209,894,597
2000 Classified Salaries	72,068,228	860,201	26,882	72,955,311
3000 Employee Benefits	98,255,550	682,951	66,755	99,005,256
4000 Books and Supplies	31,293,631		(4,943,036)	26,350,595
5000 Services and Operating Expenses	41,470,818		(1,646,217)	39,824,601
6000 Capital Outlay	6,746,807		9,821,694	16,568,501
7000 Other	7,208,338		2,364,058	9,572,396
TOTAL EXPENDITURES	466,614,588	4,559,212	2,997,457	474,171,257
OPERATING SURPLUS (DEFICIT)	(13,501,636)	(4,559,212)	(1,786,284)	(19,847,132)
OTHER SOURCES AND TRANSFERS IN	4,359,507		10,300,623	14,660,130
OTHER USES AND TRANSFERS OUT				0
CURRENT YEAR INCREASE (DECREASE) IN FUND BALANCE	(9,142,129)	(4,559,212)	8,514,339	(5,187,002)
BEGINNING BALANCE	36,285,100			36,285,100
CURRENT YEAR-ENDING BALANCE	27,142,971	(4,559,212)	8,514,339	31,098,098
COMPONENTS OF ENDING BALANCE:				
Nonspendable (9711-9719)	736,209			736,209
Restricted (9740)				3,415,070
Committed (9750/9760)				0
Assigned (9780)	12,408,324			12,721,681
Reserve Economic Uncertainties (9789)	13,998,438			14,225,138
Unassigned/Unappropriated (9790)	0	(4,559,212)		0

If the total amount of the adjustment in Column 2 does not agree with the amount of the total cost shown on page 1, please explain:

Revised: 07/2011

SWEETWATER UNION HIGH SCHOOL DISTRICT
GENERAL FUND
2017-18 Preliminary Proposed Budget
Unrestricted/Restricted

	2015-16 Actuals	2015--16 Second Interim	2016-17 Estimated Actuals	2017-18 Proposed Budget
BEGINNING BALANCE	$ 22,049,860	$ 38,361,124	$ 38,361,124	$ 31,098,096
Restatement of Beg Bal	-	(2,076,027)	(2,076,027)	-
Adjusted Beginning Balance	$ 22,049,860	$ 36,285,097	$ 36,285,097	$ 31,098,096
REVENUE				
LCFF/Revenue Limit	$ 344,790,420	$ 359,630,823	$ 359,557,710	$ 368,931,496
Federal Revenue	23,321,261	24,451,537	25,235,687	17,180,365
Other State Revenue	50,148,672	39,458,450	39,458,450	26,866,845
Local Revenue	28,017,306	29,572,142	30,072,278	30,317,914
Transfer In	7,771,635	4,359,507	14,660,130	9,507
Transfer Out	-	-	-	-
Total Revenue	$ 454,049,294	$ 457,472,459	$ 468,984,255	$ 443,306,127
EXPENDITURES				
Certificated Salaries	$ 204,198,917	$ 209,571,216	$ 209,894,597	$ 210,510,911
Classified Salaries	69,956,611	72,928,429	72,955,311	75,032,869
Employee Benefits	90,578,322	98,457,439	99,005,256	106,756,919
Books/Supplies	20,875,530	31,293,631	26,350,595	16,126,260
Contracted Services	37,912,866	41,470,817	39,824,601	30,450,676
Capitalized Expenditures	8,652,076	6,746,807	16,568,501	206,736
Other Outgo	5,563,710	7,208,338	9,572,396	7,706,827
Total Expenditures	$ 437,738,032	$ 467,676,677	$ 474,171,257	$ 446,791,198
Revenue less Expenditures	$ 16,311,262	$ (10,204,218)	$ (5,187,002)	$ (3,485,071)
ENDING BALANCE	$ 38,361,122	$ 26,080,879	$ 31,098,095	$ 27,613,025
RESERVES/RESTRICTIONS				
Legally Restricted Categorical Reserve	$ 3,157,873	$ -	$ 3,415,070	$ -
Reserves for Stores/Revolving Cash	538,092	401,527	401,527	401,527
Reserve for Early Retirement Incentive	334,682	334,681	334,682	311,560
Reserve for Site Carryover	100,000	-	-	100,000
Title IX Legal Fees	-	-	-	-
Deferred Maintenance	4,314,398	1,603,800	4,377,607	6,934,817
Vehicle Replacement Plan	3,247,290	1,347,736	2,000,000	2,000,000
Reserve Technology Requirements	3,114,734	1,068,434	-	-
Reserve Qualified Zone Academy Bond (QZAB)	-	-	4,461,384	4,461,384
One-Time Mandate	10,421,914	7,294,401	1,882,688	-
Economic Uncertainites (2% State Req)	8,754,761	9,353,534	9,483,425	8,935,824
Economic Uncertainites (1% Board Req)	$ 4,377,380	4,676,767	4,741,713	4,467,912
Total Restrictions/Reserves	$ 38,361,124	$ 26,080,879	$ 31,098,096	$ 27,613,024
Unrestricted Reserve	$ -	$ -	$ -	$ -

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SWEETWATER UNION HIGH SCHOOL DISTRICT
GENERAL FUND
2017-18 Preliminary Proposed Budget
Unrestricted

	2015-16 Actuals	2016-17 Second Interim	2016-17 Estimated Actuals	2017-18 Proposed Budget
BEGINNING BALANCE	$ 20,987,134	$ 35,203,251	$ 35,203,251	$ 27,683,026
Restatement of Beg Bal		(2,076,027)	(2,076,027)	
Adjusted Beginning Balance	$ 20,987,134	$ 33,127,224	$ 33,127,224	$ 27,683,026
REVENUE				
LCFF/Revenue Limit	$ 343,095,240	$ 357,967,656	$ 357,894,543	$ 367,101,265
Federal Revenue	900,962	710,000	1,022,988	710,000
Other State Revenue	28,189,418	15,640,067	15,640,067	7,608,524
Local Revenue	5,932,157	7,240,914	7,663,997	8,415,568
Transfers In	7,771,635	4,359,507	14,660,130	9,507
Transfers Out	(53,529,902)	(56,224,595)	(58,359,763)	(60,870,153)
Total Revenue	$ 332,359,510	$ 329,693,549	$ 338,521,962	$ 322,974,711
EXPENDITURES				
Certificated Salaries	$ 162,506,488	$ 165,463,297	$ 166,118,891	$ 169,997,417
Classified Salaries	47,933,548	49,196,390	49,001,994	50,248,173
Employee Benefits	58,841,650	64,633,958	64,127,908	71,026,840
Books/Supplies	12,804,904	19,893,179	15,449,102	6,246,881
Contracted Services	23,306,686	25,385,248	24,936,484	19,492,133
Capitalized Expenditures	8,625,175	6,561,385	16,233,079	-
Other Outgo	4,124,942	5,606,437	8,098,703	6,033,268
Total Expenditures	$ 318,143,393	$ 336,739,894	$ 343,966,161	$ 323,044,712
Revenue less Expenditures	$ 14,216,117	$ (7,046,345)	$ (5,444,199)	$ (70,001)
ENDING BALANCE	$ 35,203,251	$ 26,080,879	$ 27,683,026	$ 27,613,025
RESERVES/RESTRICTIONS				
Legally Restricted Categorical Reserve	$ -	$ -	$ -	$ -
Reserves for Stores/Revolving Cash	538,092	401,527	401,527	401,527
Reserve for Early Retirement Incentive	334,682	334,681	334,682	311,560
Reserve for Site Carryover	100,000		100,000	100,000
Title IX Legal Fees	-		-	-
Deferred Maintenance	4,314,398	1,603,800	4,277,608	6,934,817
Vehicle Replacement Plan	3,247,290	1,347,736	2,000,000	2,000,000
Reserve Technology Requirements	3,114,734	1,068,434		
Reserve Qualified Zone Academy Bond (QZAB)			4,461,384	4,461,384
One-Time Mandate	10,421,914	7,294,401	1,882,688	-
Economic Uncertainites (2% State Req)	8,754,761	9,353,534	9,483,425	8,935,824
Economic Uncertainites (1% Board Req)	4,377,380	4,676,767	4,741,713	4,467,912
Total Restrictions/Reserves	$ 35,203,251	$ 26,080,879	$ 27,683,027	$ 27,613,024
Unrestricted Reserve	$ -	$ -	$ -	$ -

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May 22, 2017
Prepared by Finance

SWEETWATER UNION HIGH SCHOOL DISTRICT
GENERAL FUND
2017-18 Preliminary Proposed Budget
Restricted

	2015-16 Actuals	2016-17 Second Interim	2016-17 Estimated Actuals	2017-18 Proposed Budget
BEGINNING BALANCE	$ 1,062,726	$ 3,157,873	$ 3,157,873	$ 3,415,070
REVENUE				
LCFF/Revenue Limit	$ 1,695,180	$ 1,663,167	$ 1,663,167	$ 1,830,231
Federal Revenue	22,420,299	23,741,537	24,212,699	16,470,365
Other State Revenue	21,959,254	23,818,383	23,818,383	19,258,321
Local Revenue	22,085,149	22,331,228	22,408,281	21,902,346
Transfer In				
Transfers In	53,529,902	56,224,595	58,359,763	60,870,153
Total Revenue	$ 121,689,784	$ 127,778,910	$ 130,462,293	$ 120,331,416
EXPENDITURES				
Certificated Salaries	$ 41,692,430	$ 44,107,919	$ 43,775,706	$ 40,513,494
Classified Salaries	22,023,064	23,732,039	23,953,317	24,784,696
Employee Benefits	31,736,670	33,823,481	34,877,348	35,730,079
Books/Supplies	8,070,625	11,400,452	10,901,493	9,879,379
Contracted Services	14,606,179	16,085,569	14,888,117	10,958,543
Capitalized Expenditures	26,900	185,422	335,422	206,736
Other Outgo	1,438,769	1,601,901	1,473,693	1,673,559
Total Expenditures	$ 119,594,637	$ 130,936,783	$ 130,205,096	$ 123,746,486
Revenue less Expenditures	$ 2,095,147	$ (3,157,873)	$ 257,197	$ (3,415,070)
ENDING BALANCE	$ 3,157,873	$ -	$ 3,415,070	$ -
RESERVES/RESTRICTIONS				
Legally Restricted Categorical Reserve	$ 3,157,873	$ -	$ 3,415,070	$ -
Total Restrictions/Reserves	$ 3,157,873	$ -	$ 3,415,070	$ -
Unrestricted Reserve	$ -	$ -	$ -	$ -

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May 22, 2017
Prepared by Finance

Appendix D – Board Policy 3470 Debt Management Policies and Procedures for District-Issued Securities

Sweetwater Un HSD | BP 3470 Business and Noninstructional Operations

Debt Management Policies And Procedures For District-Issued Securities

Section 1. Purpose and Application

Section 1.1 Purpose

The purpose of these Debt Management Policies and Procedures (collectively, the "Debt Management Policy") for Securities issued by the Sweetwater Union High School District ("District") is: (i) to ensure that the District will be in compliance with requirements of the Code (as defined herein) and State law that must be satisfied with respect to Securities when issued and after such Securities are issued; (ii) to provide functional tools, policies and directives for District debt management, financing management and capital planning; and (iii) provide a framework for the District's ability to manage its debt and long-term finance obligations in a prudent manner. All capitalized terms used herein, and not otherwise defined, have the meanings ascribed to them in Section 2 hereof.

Section 1.2 Debt Management Goals and Considerations

The following are District's goals in the adoption of this Debt Management Policy:

(a) The issuance of debt by the District is an appropriate and necessary method of financing capital projects, providing working capital and financing certain capital equipment purchases over time.

(b) The Board intends that the District establish and maintain a framework for public finance borrowings through District-issued Securities.

(c) Careful and consistent monitoring of such debt issuance and outstanding securities is required to preserve the District's credit strength, budget and financial flexibility.

(d) In following this Debt Management Policy, the District shall pursue the following debt management goals:

(i) The District shall strive to fund capital improvements from voter-approved bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded through such Securities.

(ii) The District shall endeavor to attain the best possible credit rating for each Securities issue (with or without credit enhancement) in order to reduce interest costs, within the framework of preserving financial flexibility and meeting capital funding requirements.

(iii) The District shall take all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.

(iv) The District shall remain mindful of applicable debt limits in relation to assessed value changes within the District and the tax burden needed to meet long-term capital requirements.

(v) The District shall consider market conditions, District cash flows and facilities financing requirements when considering the scheduling for the issuance of Securities.

(vi) The District shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the District at the time new Securities are issued.

(vii) The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other state/federal aid, so as to minimize the encroachment on the District's General Fund.

Section 1.3 Application of Debt Management Policy

This Debt Management Policy shall apply to Securities issued by, or on behalf of, the District. Notwithstanding the foregoing, this Debt Management Policy shall not apply to Securities issued by a District-formed CFD unless expressly made applicable thereto.

Section 1.4 Interpretation

Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate. Headings of sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

All references herein to "Sections" and other subdivisions are to the corresponding Sections or subdivisions of this Debt Management Policy; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Debt Management Policy as a whole and not to any particular Section or subdivision hereof.

Section 1.5 Integration with Other District Policies

This Debt Management Policy is intended to integrate with other policies and administrative rules applicable to the District as adopted by the Board. In the event of a conflict between the provisions of this Debt Management Policy and other policies or administrative rules of the District, the District's existing policy interpretation rules shall govern.

Section 1.6 Limitation of Effect

This Debt Management Policy is applicable to the referenced District Securities for the purposes set out in Section 1.1. The Debt Management Policy is adopted as a policy by the Board and is not intended to, and shall not, have the effect of law. All portions of this Debt Management Policy shall be subject to the provisions of Section 18.4 hereof. Nothing in this Debt Management Policy, express or implied, is intended to give to any person or party other than the District any right, remedy or claim under or by reason of this Debt Management Policy and the provisions hereof.

Section 1.7 Conflict with Law

Nothing in this Debt Management Policy intended to conflict with existing State law. In the event of a conflict with existing or future State laws, such State laws shall govern over the provisions of this Debt Management Policy.

Section 2. Definitions

Section 2.1 Definitions

Unless otherwise defined herein, for purposes of this Debt Management Policy the terms set forth below shall have the following meaning(s) ascribed to them:

"Authority" means the Sweetwater Union High School District Public Financing Authority, a joint powers agency formed pursuant to the provisions of State law, as the name of such Authority may be changed from time to time or the successor and assigns of such Authority.

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

"Bond Counsel" means a firm of nationally recognized municipal bond attorneys experienced in the issuance of municipal bonds. Bond Counsel in connection with certain of the District's Securities which are subject to this Debt Management Policy may be identified on Appendix "A" hereto.

"Capital Appreciation Securities" means Securities which accrete interest over time to a final maturity value paid at maturity. Capital Appreciation Securities generally do not pay interest to the owner or holder prior to the designated maturity date.

"CDIAC" means the California Debt and Investment Advisory Commission.

"CFD" means a community facilities district formed pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, being California Government Code Section 53311 et seq., including any improvement areas thereof.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Compliance Officer" means an officer or employee of the District or a designee identified in a written certificate of a Designated Officer of the District or identified in a written certificate executed by the District's Superintendent.

"Continuing Disclosure Agent" means the person or party designated within a Continuing Disclosure Document to assist the District's Compliance Officer in complying with the specific requirements of a continuing disclosure document related to the issuance of a series of Securities. A Continuing Disclosure Agent may be referred to as "Dissemination Agent" or a "Disclosure Agent."

"Continuing Disclosure Document" means a continuing disclosure certificate, a continuing disclosure agreement or similar or equivalent document providing for compliance with Securities and Exchange Commission Rule 15c2-12 requiring ongoing disclosure for an issued series of Securities.

"COPs" means certifications of participation securities or obligations or similar lease/leaseback obligations entered into by the District for financing purposes. This definition shall not include lease/leaseback arrangements entered into strictly for purposes of facilities construction.

"County" means the County of San Diego, a political subdivision of the State.

"Debt Management Policy" means the Debt Management Policy adopted by the Board on behalf of the District and as such may be amended from time to time.

"Designated Officer(s)" means those officers of the District designated in writing by the District as being principally responsible for documents or agreements relating to a series of Securities. A Designated Officer shall always include the District's Superintendent.

"District" means the Sweetwater Union High School District, a public school district organized and operating pursuant to the provisions of State law.

"Fiscal Year" means the District's fiscal year as directed by the Board. Currently, the District's fiscal year begins on July 1 and concludes on the next following June 30.

"General Obligation Bonds" or "GO Bonds" means general obligations bonds, or general obligation bond anticipation notes, issued pursuant to State law following the authorization of voters within the boundaries of the District or an SFID to incur general obligation bonded indebtedness as provided for under the California Constitution and related State law.

"IRS" means the Internal Revenue Service.

"Issuance Documents" means resolutions, indentures, fiscal agent agreements, trust agreements and similar documents and agreements which provide the principal provisions for the issuance, repayment, redemption and conveyance relating to the issuance of a series of Securities.

"Net Construction Proceeds" means the net proceeds of any Securities issuance allocated to planning, design, acquisition, construction, completion and similar expenditures for capital Projects. This term excludes securities proceeds allocated for refunding purposes.

"Post-Issuance Policy" means the Post Issuance Policy and procedural requirements for District issued securities as approved of by the Board. The current form of the Post Issuance Policy is appended to this Debt Management Policy as Appendix A.

"Project" means the facilities that were constructed and/or acquired with the proceeds of Securities or refunded with proceeds of Securities.

"Regulations" means the temporary, proposed or final Income Tax Regulations promulgated by the United States Department of the Treasury and applicable to the District's Securities.

"Securities" means and include(s) bonds, notes, certificates of participation, lease/purchase agreements and other long-term financing obligations of the District issued from time to time.

"SFID" means a school facilities improvement district formed by the District pursuant to the provisions of California Education Code Section 15300, et seq. or any successor law thereto for purposes of conducting a general obligation bond election within designated territory within the District's boundaries.

"State" means the State of California.

"Superintendent" means the designated, appointed and acting Superintendent of the District. This terms includes an Acting Superintendent and Interim Superintendent to the extent applicable.

"TRANs" means Tax and Revenue Anticipation Notes, Revenue Anticipation Notes or similar Securities issued by the District for District cash flow purposes.

Section 3. Authorization

Section 3.1 General

The laws of the State authorize the issuance of debt of the District, and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue Securities for public improvement projects. Under these provisions, the District may contract debt to pay for the cost of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging and equipping such projects, or to refund existing debt or to provide for the cash flow needs of the District.

Section 3.2 Short-Term Debt (maturity of 13 months or less)

(a) The District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet general operating needs.

(b) However, the District may issue fixed-rate and/or variable rate short-term debt which may include TRANs when such instruments are needed to facilitate meeting the District's cash flow requirements for operations (working capital).

Section 3.3 Long-Term Debt (maturity of greater than 13 months)

(a) Debt issues may be used to finance essential capital facilities, projects and certain capital equipment where it is appropriate to spread the cost of the projects over more than one fiscal year. In doing so, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost.

(b) Projects which are not appropriate for spreading costs over future years shall not be debt financed.

(c) Long-term debt shall, under no circumstances, be used to fund district operations.

(d) The District may issue long-term debt which may include, but is not limited to, GO Bonds, COPs, assessment District Securities and/or other capital lease-purchase structures for capital facilities, projects and certain capital equipment.

(e) In the event the District has outstanding long-term debt in the form of COPs and/or other capital lease-purchase structures if and when referendum-approved debt proceeds become available, the District shall use a portion of such proceeds to redeem or defease such outstanding debt. In doing so, the District recognizes that voter-approved long-term debt is generally the lowest cost borrowing available to the District. However, the District shall consider the remaining useful lives of related assets related to the outstanding debt as provided for herein.

Section 3.4 Board Authorization

Prior authorization by the Board shall be a requirement for any issuance of District Securities. The Board shall approve all purchase contracts, or equivalent documents or agreements (which will include sale parameters where final sale approval/terms are delegated to a Designated Officer(s)), for District-issued securities.

Section 4. Limitation on Issuance of Certain Securities

Section 4.1 Bonding Capacity Limitations - GO Bonds

California Education Code Section 15106 limits the District's total outstanding debt (i.e., principal portion only) to 1.25% of the assessed valuation of the taxable property of the District. TRANs and lease payment obligations in support of COPs generally do not count against this limit except as provided in California Education Code Section 17422.

Section 4.2 Waiver of Bonding Capacity Limitations

Pursuant to the provisions of the California Education Code, the District reserves the right and ability to seek a waiver of the limitations of the California Education Code with respect to general obligation bonded indebtedness from the State Board of Education when the Board shall determine such to be appropriate.

Section 4.3 Sizing of TRANs

Limitations on the size of a District TRANs issue shall be based on a conservative calculated cash deficit as best known at the time of issue.

Section 5. Considerations for Structure of Debt Issues

Section 5.1 Maturity of Securities

The duration (final maturity) of a Securities issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is being used to finance. The final maturity of the debt shall generally be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed one-hundred and twenty (120%) percent of the average life of the assets being financed.

Section 5.2 Operating Costs

The District is prohibited from financing general operating costs from debt having maturities greater than thirteen (13) months. When the District deems it necessary to finance working capital such cash flow borrowings must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the Fiscal Year in which the debt is issued.

Section 5.3 General Obligation Bonds

The final maturity of GO Bonds will be limited to the shorter of the average useful life of the asset financed or no longer than forty (40) years if issued pursuant to the California Government Code and Education Code; however, the selected term to maturity would have to be appropriate relative to the average useful lives of the assets financed. GO Bonds issued as Capital Appreciation Securities shall have a maturity not greater than twenty-five (25) years.

Section 5.4 Certificates of Participation and Other Lease Financing Obligations

The final maturity of improvement or asset obligations will generally be limited to the average useful life of the improvement or asset to be financed. The final maturity of real property obligations will be determined to best meet the District's goals.

Section 5.5 Debt Service Structure

The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its credit for future use. Annual debt service payments shall generally be amortized on a level basis or, in the case of GO Bonds, consistent with conservative growth expectations for assessed valuation.

Section 5.6 Capitalized Interest

Unless required for structuring purposes or is for a non-General Fund debt such as a Community Facilities District financing, the District shall avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings, such as COPs, may require that interest on the debt be paid from capitalized interest until the District has use and possession of the underlying project. Capitalized interest may be required in connection with the issuance of GO Bonds in order to pay interest on such Securities with such time as tax revenues can be collected by the County pursuant to the limitations of State law.

Section 5.7 Redemption/Call Provisions

The Superintendent or designee, based upon analysis from the underwriters and Financial Advisor(s) of the economics of callable versus non-callable features, shall set forth redemption/call provisions for each Securities issue.

Section 5.8 Credit Enhancement

The District may enter into credit enhancement agreements such as municipal bond insurance, debt service reserve fund securities and/or letters of credit with commercial banks, municipal bond insurance companies, or other financial entities when such enhancement results in lower borrowing costs, eliminates restrictive covenants and/or will have a net economic benefit to the debt issuance. The District may use a competitive process to select providers of such credit enhancements to the extent applicable.

Section 6. Consideration of District Facilities Planning and Project Financing Requirements as Part of Issuance of Securities

Section 6.1 Consideration of District Facilities Plan Documents

Consideration of District Facilities Plans and Master Plans as part of the planning for the issuance of any series of Securities by the District, District Staff and Advisor shall review and consider the District's then current facilities master plan documents and other facilities' financing documentation. Consideration shall be given to when capital facilities funds will actually be needed in order to initiate work on District Projects. The term for maturity of issued Securities, as set forth in Section 5.1 of this Debt Management Policy, shall be taken under consideration.

Section 6.2 Expenditure of Generated Construction Proceeds

Existing federal law requires that the District have a reasonable expectation that the net construction proceeds from Securities which are issued as federally tax-exempt securities shall be substantially expended within 36 months after date of issuance of the corresponding securities. The District shall provide Bond Counsel with a schedule of such anticipated expenditure(s) at the time each series of Securities is issued. Each such schedule shall be reviewed by the Financial Advisor and shall be based upon a review of then existing District facilities master plans and similar facilities funding documents as approved by, or submitted for consideration by, the Board. It is the policy of the District that District staff, shall, at all times, make all diligent efforts to proceed with and complete expenditure of all net construction funds of issued Securities in a timely fashion.

Section 7. Sale of Securities

Section 7.1 Public Sale

There are two methods of a public sale of debt, competitive and negotiated. Preference shall be given to competitive sales. However, both methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions.

(a) Competitive Sale - When a competitive bidding process is deemed the most advantageous method of sale for the District, award shall be based upon, among other factors, the lowest offered True Interest Cost ("TIC").

(b) Negotiated Sale - When a negotiated sale process is deemed the most advantageous method of sale for the District, award shall be based upon, among other factors, comparable market interest rates.

Section 7.2 Private Placement

While not used as frequently as negotiated or competitive public sale methods, a private placement sale may be appropriate when the financing can or must be structured for a single or limited number of purchasers or for other reasons.

Section 8. Financing Team Members and Roles

Section 8.1 Financial Advisor

Irrespective of the nature of the sale of securities (competitive or negotiated), the District shall select and retain a general financial advisory team lead by an experienced independent financial advisor to provide advice on the District's debt management program, debt issuance structure, rating agency relations, credit enhancement decisions and other transaction details. The Independent Financial Advisor shall be the point person to organize and coordinate activities within the collective financing team. A Financial Advisor shall be a person or party who shall be independent from the District. Each Financial Advisor shall be qualified to act as a "Municipal Advisor" under federal law.

Section 8.2 Bond Counsel

The District shall select and retain a bond counsel who shall, in addition to preparing Board resolutions, bond documents and providing tax advice on specific debt transactions, shall actively participate in the District's debt management program and the structuring of debt issuance.

Section 8.3 Disclosure Counsel

Irrespective of the nature of the sale of securities (competitive or negotiated), the District shall select and retain a disclosure counsel that is separate and independent of bond counsel and, if applicable, underwriter's counsel. In doing so, the District recognizes the importance of accurate and adequate disclosure and the relationship between district staff and disclosure counsel retained directly by district.

Section 8.4 County Treasurer

The District recognizes the expertise of the County Treasurer's staff in structuring debt and investments related to public financing and shall include the County Treasurer or designee in correspondence and activities of the financing team.

Section 8.5 Other Team Members

The District, upon the counsel of staff and the applicable Financial Advisor, shall select and retain other qualified and needed financing team members as may be required to fulfill the District's obligations related to the District's debt management program. Other financing team members may include, but shall not be limited to, special tax consultant, continuing disclosure consultant, continuing disclosure review consultant, continuing disclosure dissemination agent, trustee/fiscal agent, paying agent and bond registrar, credit enhancement provider, reserve surety policy provider, economic analyst and/or data analyst, and arbitrage rebate service provider.

Section 9. Use of Proceeds of Issued Securities; Monitoring

Section 9.1 Utilization of Securities Proceeds

The utilization of the proceeds of issued Securities may be subject to applicable State law. In general, utilization proceeds of Securities shall be used for one or more of the following uses:

(a) Costs of Issuance. Payment of costs of issuance for the series of Securities, including, but not limited to, payment of Purchaser/Underwriter discount, payment of Financial Consultant costs, fees and expenses, including, but not limited to, costs of legal counsel including Bond counsel, credit enhancement costs such as municipal bond insurance premiums, debt service reserve fund, surety/insurance policy costs and letter of credit costs, publication and/or notices costs, costs of preparing, printing and/or furnishing offering documents such as preliminary official statements, official statements and limited offering memorandums, payment of trustee, fiscal agent, paying agent and/or escrow agent banking costs and expenses, recovery or reimbursement of formations costs of an SFID or a CFD, payment of reimbursement of contractual costs involved in the preparation, issuance, sale and delivery of a series of securities, filing costs associated with the issuance of securities, and other similar and related costs of issuance.

(b) Capitalized Interest. Capitalized interest is used to pay interest on a series of issued Securities for a period of time. In general, capitalized interest is not funded with respect the issuance of securities for refunding purposes only.

(c) Construction/Acquisition Purposes. A portion of the proceeds of Issued Securities may be used for design, construction, acquisition, and completion of capital facilities Projects or particular financed assets. Utilization of such funds may be limited by a voter-approved measure associated with the issuance of the particular type of Securities. See also Section 6 relating to review of anticipated capital expenditures from proceeds of issued Securities. Expenditure of funds for construction and acquisition may be limited and expenditure for District salaries or administration costs may be prohibited by State law.

(d) Cash Flow Requirements. Net proceeds of Issued TRANs shall be used for the cash flow purposes for which such TRANs securities were issued.

(e) Refunding Proceeds. With respect to Securities issued for refinancing purposes, a portion of the net proceeds of such Securities will be utilized to pay principal, interest and premium, as applicable, on the designated refunded securities. Such funds may be deposited into a specific escrow fund or escrow account as identified in the Issuance Documents.

(f) Funded Administration Costs. Securities proceeds may be used to provide funded administration costs for administration of an entity (such as an SFID or CFD) for a period of not-to-exceed one (1) year following the issuance of the designed series of Securities. Until such time as taxes or revenues can be collected in order to pay such administrative costs.

(g) Not for Investment Purposes. Under no circumstance shall the District issue Securities for the purposes of investment.

Section 9.2. Monitoring of Use of Securities Proceeds

(a) Pursuant to the provisions of Proposition 39 (Constitutional Amendment approved by California voters in 2000 and related State legislation) a school district is obligated to undertake periodic reviews of expenditures and use of proceeds as part of independent financial audits and independent performance audits as set out in California Constitution Article XIIIA, Section 1(b)(3). Such audits are submitted to the District's Citizens Oversight Committee (as applicable to general obligation securities authorized pursuant to Proposition 39) as set out in California Education Code Sections 15278 et seq. All such periodic reports are presented to the Board and to the applicable Citizens Oversight Committee. Discrepancies in terms of expenditure or potentially unauthorized expenditures are noted by the independent audit firm.

(b) With respect to Securities other than Proposition 39 authorized GO Bonds, the Compliance Officer shall periodically present to the Superintendent and to the Board reports concerning expenditure of Securities proceeds including, but not limited to, expenditures for designated Projects in order to ensure that allocated funds are expended as directed within the Issuance Documents and that Net Construction Proceeds are expended for the Projects designated within the Issuance Documents and, where applicable, the authorization provided by voters for the applicable Securities or revenues which support such Securities.

Section 10. Disclosure Requirements.

Section 10.1 District Disclosure Documents

The District shall prepare or cause to be prepared all appropriate disclosures as required by the Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"), the Internal Revenue Service, other federal government agencies, state agencies, rating agencies, credit enhancement providers, underwriters, bond and disclosure counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure transparency and compliance with applicable laws and regulations and covenants to provide ongoing disclosure.

Section 10.2 Priority

The quality and completeness of all disclosure materials shall be of the utmost of importance and priority.

Section 10.3 District Review Team

The Superintendent or designee shall assemble a District "Disclosure Review Team" with designated District departments which is responsible for information to be contained in Preliminary and Final Official Statements and similar offering documents. At a minimum, the designated departments shall include the Superintendent's Office, Assistant Superintendent, Business Services, Facilities Department, and District's General Legal Counsel. Depending on the nature of the material(s) being reviewed, other resources and district departments may be asked for assistance on an as needed basis. The Disclosure Review Team shall provide written comments to the finance team.

Section 10.4 Initial Disclosure:

(a) The Preliminary Official Statement (POS) shall be reviewed prior to approval by the Board by the Disclosure Review Team.

(b) The POS and financing documents shall be approved as discussion/action items on the Board of Trustees agenda and shall not be placed on the consent calendar.

Section 10.5 Continuing Disclosure:

(a) The District shall designate a continuing disclosure agent to regularly monitor compliance according to the Securities and Exchange Commission Rule 15c2-12 (Continuing Disclosure Agent). The Continuing Disclosure Agent may be a third-party firm(s) providing such services and reporting to the District.

(b) The Continuing Disclosure Agent(s) shall:

(i) Assemble all continuing disclosure agreements and certificates and prepare a calendar of due dates for annual disclosure and preparation dates ahead of annual disclosure dates.

(ii) Monitor, on a regular basis, all district transactions which are rated by a nationally recognized rating agency, and shall report any rating changes within ten (10) business days.

(iii) Monitor, on a regular basis, all district transactions which are insured the credit enhancer's assigned rating by a nationally recognized rating agency, and shall report any rating changes within ten (10) business days.

(iv) Monitor compliance of transactions with covenant compliance on a semi-annual basis and report any "event disclosure" pursuant to any continuing disclosure obligation, within ten (10) days of such event.

(v) Annually meet with Disclosure Review Team to discuss compliance with disclosure requirements.

(vi) Identify any incidents of non-compliance and prepare a report to the Disclosure Review Team. Such report shall include recommendations to cure any non-compliance issue.

(vii) Review and certify any disclosure in the Preliminary and Final Official Statements regarding district compliance / non-compliance with Rule 15c2-12 in the last five years.

Section 10.6 District Website - Limitation on Disclosure

All information for investors regarding the District or specific securities is contained in the applicable Official Statement(s) or applicable continuing disclosure(s). While the District maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to outstanding debt obligations of the District.

Section 11. Post-Issuance Compliance Policy

Section 11.1

In connection with the adoption of this Debt Management Policy, the District may have already adopted, or may also adopt, its Post-Issuance Compliance Policy. The form of the Post Issuance Compliance Policy for the District is attached hereto in Appendix A and incorporated herein by this reference. The applicability of the Post Issuance Compliance Policy to an individual series of Securities will be as designated in the Issuance Documents for such series of Securities and will be subject to the provisions of the Post Issuance Compliance Policy.

Section 12. Credit Rating Agencies

Section 12.1

The District shall endeavor to attain the best possible credit rating for each debt issue (with or without credit enhancement).

Section 12.2

The District shall endeavor to maintain effective relations with credit rating agencies.

Section 12.3

The District and its financial advisor shall meet with, make presentations to, or otherwise communicate with the credit rating agencies on a regular basis in order to keep the credit rating agencies informed concerning the District's capital project plans, debt issuance program, debt management activities, and other appropriate financial information.

Section 13. Investment Community Relations

Section 13.1

The District shall endeavor to maintain positive and effective relations with the investment community to include investors, bondholders, credit enhancers, media, document clearinghouses and other public sources of information.

Section 13.2

The District and its Financial Advisor shall, as necessary, or as directed by the Board, prepare reports and other forms of communication regarding the District's indebtedness, as well as its future financing plans.

Section 14. Refunding and Restructuring Outstanding Securities

Section 14.1

Whenever deemed to be in the best interest of the District, the District may consider refunding or restructuring outstanding debt. The primary considerations for refunding or restructuring outstanding debt shall be financially advantageous or beneficial structuring.

Section 14.2

The financial advantages of refunding outstanding debt shall be based upon a review of a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

(a) Generally, the District may initiate a refunding when five (5%) percent net present value or greater savings as a percentage of the refunded aggregate principal amount can be achieved.

(b) However, the target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than three (3%) percent at the time of sale. The Superintendent or designee shall have the discretion to designate a lower percentage savings if more applicable, such as for transactions with only a few years until maturity or for COPs being defeased or redeemed from proceeds of GO Bonds.

Section 15. Investment of Proceeds of Issued Securities

Section 15.1 Investment Practices

The District acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of Securities issued for public purposes and related reserve funds in a manner that is consistent with State law governing the investment of public funds, prudent investment practices, the District's Investing Policy and with the permitted securities covenants set out in the applicable Issuance Documents.

Section 15.2 Investment Goals

The District's goals for any investment strategy of borrowed proceeds, and related reserve funds, shall be, in order of priority: (i) preservation of principal; (ii) availability of funds; and (iii) return on investment.

Section 16. Periodic Reporting Connected with Issuance of Securities

Section 16.1 Board Policy

It is the policy of the Board that the District shall timely comply with all periodic reporting requirements for issued Securities as imposed by applicable State or federal laws and/or as agreed to by the District as part of the issuance of any series of Securities. Such periodic reporting includes, but is not limited to:

(a) Provision of annual reports to CDIAC pursuant to Government Code Section 8855(k).

(b) Arbitrage/rebate reports for federal tax-exemption purposes as may be incorporated within a series of Securities.

(c) Periodic reports and event notices as required under the applicable Continuing Disclosure Document for a series of Securities.

Section 16.2 Retention of Consultants

The District may retain consultants to assist in the District in meeting applicable periodic reporting requirements for Issued Securities. Notwithstanding the foregoing, ultimate responsibility for meeting periodic reporting requirements for Issued Securities shall rest with the Designated Officers.

Section 17. Records Retention

Section 17.1 Retained Records - Custodian

Records for issued Securities shall be held and maintained by the Compliance Officer as set out in the Post-Issuance Policy.

Section 17.2 Maintaining of Records

The Superintendent or designee shall maintain complete records of decisions made in connection with each Securities transaction, including the selection of members of the financing team, the structuring of the financing, selection of credit enhancement products and providers, and selection of investment products and providers. Each Securities transaction file shall include the official transcript for the financing, the final number computations and a post-pricing summary of the Securities issuance.

Section 17.3 Board Report

At the conclusion of any Securities issuance, the Superintendent or designee shall timely provide a summary of the financing to the Board.

Section 18. General Matters

Section 18.1 Periodic Review

The District may, from time to time, undertake to review its Debt Management Policy in terms of periodic changes as referenced in Section 1.7 hereof.

Section 18.2 Amendment

The District reserves the right to amend this Debt Management Policy in the future in response to such matters as applicable legislation, revisions to State law rulings and directives issued by the IRS or other federal agencies, court decisions, municipal securities practices and/or recommendations of Bond Counsel. Such amendments shall be in writing and shall state a scope of application and an effective date.

Section 18.3 Education Policy

It is the policy of the District that the Compliance Officer and his or her designees, if any, should be provided with education and training on State law and federal tax-exemption requirements applicable to outstanding Securities. The District recognizes that such education and training is vital as a means of helping to ensure that the District remains in compliance with those federal tax requirements in respect of its Securities. The District therefore will enable and encourage the Compliance Officer and any of his or her designees to attend and participate in educational and training programs with respect to federal tax requirements related to tax-exempt or tax credit securities.

Section 18.4 Exceptions/Modifications/Waiver

The District acknowledges that the capital marketplace fluctuates, municipal finance products change from time to time, and that issuer and investor supply and demand vary.

These fluctuations may produce situations that are not anticipated or covered by this policy. As such, the Board of Trustees may make exceptions or modifications to this policy to achieve the debt management goals outlined above. Management flexibility is appropriate and necessary in such situations, provided specific authorization is granted by the Board of Trustees.

Section 18.5 Internal Directives

The Superintendent may develop additional specific elements of a debt management framework through directives which, along with this policy, shall be reviewed periodically in consideration of changing laws, district needs and market conditions.

Appendix A

Sweetwater Union High School District

Post-Issuance Compliance Policies and Procedures for District-Issued Securities

Section 1. Purpose and Application

1.1. Purpose

The purpose of these Post-Issuance Compliance Policies and Procedures ("Compliance Policy") for securities issued by the Sweetwater Union High School District ("District") is to ensure that the District will be in compliance with requirements of the Code (as defined herein) that must be satisfied with respect to securities when issued and designated as subject to the provisions of this Compliance Policy and after such securities are issued so that the securities, and the interest thereon (as applicable) will be and will remain qualified for an exclusion from gross income for federal income tax purposes or for federal tax credit or subsidy payment purposes. All capitalized terms used herein have the meanings ascribed to them in Sections 1 and 2 hereof.

1.2. Application of Compliance Policy

This compliance Policy shall apply to Securities issued by, or on behalf of, the District if all of the following shall apply:

(a) The securities are issued as tax-exempt securities for purposes of federal tax laws and the Code such that the District has undertaken to support and maintain such tax-exempt status;

(b) The District shall have made an election, set forth in writing, that this Compliance Policy shall apply to a particular series of issued securities. Such election may be made in the Tax Certificate executed and delivered by the District in connection with a particular series of securities.

Unless otherwise provided by the District, bonds or other securities of the District not meeting the foregoing conditions shall not be subject to the terms and requirements of the Compliance Policy.

1.3 Interpretation

Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate. Headings of sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

All references herein to "Sections" and other subdivisions are to the corresponding Sections or subdivisions of this Compliance Policy; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Compliance Policy as a whole and not to any particular Section or subdivision hereof.

1.4 Limitation of Effect

This Compliance Policy is applicable to the referenced District Securities for the purposes set out in Section 1.1. Nothing in this Compliance Policy, expressed or implied, is intended to give to any person or party other than the District any right, remedy or claim under or by reason of this Compliance Policy and the provisions hereof.

Section 2. Post-Issuance Compliance for Tax-Exempt Securities

2.1. Application of Section

This Section of the Compliance Policies shall extend to matters concerning the maintenance and support for District-issued tax-exempt securities and applicable tax credit taxable securities.

2.2. Designation of District Compliance Officer; Responsibility for Monitoring Post-Issuance Tax Compliance

Pursuant to the Code, the District has the overall and final responsibility for monitoring compliance with post-issuance federal tax requirements for its securities. The District hereby appoints the persons stated in Appendix "X" as its initial Compliance Officer, and delegates to such officer(s) the primary operating responsibility of monitoring the District's compliance with post-issuance federal tax requirements for securities. The District reserves the rights to:

(a) Designate a new officer, or officers, to assume the duties of Compliance Officer for the District Securities (or certain of them) by an instrument in writing providing for such designation by a Designated Officer of the District; and

(b) Retain a person, party or firm of professional is to assist the Compliance Officer in undertaking the duties set forth herein.

2.3. Definitions

Unless otherwise defined herein, for purposes of this Compliance Policy the terms set forth below shall have the following meaning(s) ascribed to them:

"District" means the Sweetwater Union High School District, a public school district organized and operating pursuant to the provisions of State law.

"Bond Counsel" means a firm of nationally recognized municipal bond attorneys experienced in the issuance of municipal bonds. Bond Counsel in connection with certain of the District's Securities which are subject to this Compliance Policy may be identified on Appendix "X" hereto.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Compliance Officer" means an officer or employee of the District or a designee identified in a written certificate of a Designated Officer of the District or identified in a written certificate executed by the District's Superintendent.

"Compliance Policy" means this Post-Issuance Compliance Policies and Procedures for Issued Securities of which this Section is a part.

"Designated Officer(s)" means those officers of the District designated in writing by the District as being principally responsible for documents or agreements relating to a series of securities. A Designated Officer shall always include the District's Superintendent.

"Filing Agent" means a person or firm experienced in making the necessary filings with respect to the District's Securities. Whether a tax credit or subsidy is to be made in respect of a series of the District's Securities is indicated on Attachment "X" hereto. A Rebate Analyst or the Trustee may also act as Filing Agent.

"IRS" means the Internal Revenue Service.

"Project" means the facilities that were constructed and/or acquired with the proceeds of Securities or refunded with proceeds of Securities.

"Rebate Analyst" means a person or firm experienced in the calculation of arbitrage rebate liability.

"Regulations" means the temporary, proposed or final Income Tax Regulations promulgated by the United States Department of the Treasury and applicable to the District's Securities.

"Schedule" means the matrix, table or index of the District's outstanding Securities prepared, maintained and updated by the Compliance Officer from time to time.

"Securities" means and include(s) bonds, notes, certificates of participation, lease/purchase agreements and other forms tax-exempt obligations of the District issued from time to time, that are subject to any provisions of the Code and which have been designated as being subject to this Compliance Policy by the District.

"Tax Certificate" means the certificate made by the District for the purpose of establishing the reasonable expectations of the District as to the amount and use of the proceeds of Securities and such related matters as may appear therein. A copy of this Compliance Policy may be attached to the Tax Certificate for a series of Securities to which this Compliance Policy has been made applicable.

"Taxable Securities" means any Securities the interest on which is included in gross income under Section 103(a) of the Code.

"Tax-Exempt Securities" means any Securities the interest on which is excludable from gross income under Section 103(a) of the Code. Tax-Exempt Securities include an interest in a regulated investment company to the extent that at least 95% of the income to the holder of the interest is interest that is excludable from gross income under Section 103(a) of the Code.

"Trustee" means a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, as identified in the documents relating to each issuance of the Securities. The term "Trustee" also includes any other entity which holds proceeds of Securities on behalf of the District. This may include, but is not limited to, a Paying Agent, a Fiscal Agent or any other banking or trust institution which serves in a similar role, as applicable to the Securities in question.

"VCAP" means the IRS Tax-Exempt Bonds Voluntary Closing Agreement Program, or the then-applicable equivalent procedure or program used to remedy or resolve issues relating to tax-exempt securities with the IRS and/or other federal agencies.

2.4. Arbitrage Yield Restriction and Rebate Requirements

The Compliance Officer shall maintain or cause to be maintained records of the following:

(a) Purchases and sales of investments made with Securities proceeds (including amounts treated as "gross proceeds" of Securities under section 148 of the Code) and receipts of earnings on those investments;

(b) Expenditures made with Securities proceeds (including investment earnings on Securities proceeds) for the governmental purposes of the Securities, such as for the costs of purchasing, constructing and/or renovating property and/or facilities;

(c) If appropriate in connection with the issuance of Securities, information and/or documentation showing, if applicable for a particular calendar year, that the District was eligible to be treated as a "small issuer" for arbitrage rebate purposes in respect of Securities issued in that calendar year because the District did not reasonably expect to issue more than the applicable aggregate principal amount of Securities prescribed by the Code and Regulations in that calendar year;

(d) Calculations that will be sufficient to demonstrate to the IRS upon an audit of a Securities issue that, where applicable, the District has complied with an available spending exception to the arbitrage rebate requirement in respect of that Securities issue (e.g., expenditure of all proceeds within 6-month, 18-month or 2-year spending exception from rebate or within three years of issuance);

(e) Calculations that will be sufficient to demonstrate to the IRS upon an audit of a Securities issue for which no exception to the arbitrage rebate requirements was applicable, that the rebate amount, if any, that was payable to the United States of America in respect of investments made with gross proceeds of that Securities issue was calculated and timely paid with the appropriate IRS form timely filed with the IRS;

(f) Information and records showing that investments held in yield-restricted advance refunding or defeasance escrows connected with a particular series of Securities, and investments made with unspent Securities proceeds after the expiration of the applicable temporary period, were not invested in higher-yielding investments except with the written approval by Bond Counsel; and

(g) Any records the District may reasonably obtain, if any, relating to the prices at which Securities may trade after their initial offering but prior to their delivery or issue date.

2.5. Records Retention

The Compliance Officer shall maintain or cause to be maintained all records relating to the requirements of the Code and the representations, certifications and covenants set forth in the District's Tax Certificate relating to the corresponding series of Securities until the date three years after the last outstanding Securities have been retired, refunded or defeased, unless otherwise permitted or required by future IRS regulations or other guidance. If any Securities are refunded (the "Refunding Securities"), the District covenants to maintain, or cause to be maintained, all records required to be retained by this Section until the later of the date three years after the last outstanding Securities have been retired or the date three years after the last Refunding Securities have been retired. The records that must be retained include, but are not limited to:

(a) The official transcript of proceedings for the original issuance of the Securities, containing basic records and documents relating to the Securities and, if applicable, the Refunding Securities relating to any series of Securities;

(b) Documentation evidencing the expenditure of Securities proceeds (including purchase contracts, construction contracts, progress payments, invoices, cancelled checks, payment of Securities issuance costs and records of "allocations" of Securities proceeds to reimburse the District for project expenditures made before the Securities were issued together with any record evidencing the official intent of the District to reimburse itself from Securities proceeds);

(c) Documentation evidencing the use of the Project financed with the proceeds of Securities by public and private sources (if applicable) (i.e., copies of management contracts, research agreements, leases, etc.);

(d) Documentation evidencing all sources of payment or security for the Securities;

(e) Documentation pertaining to any investment of Securities proceeds (including the purchase and sale of securities, State and Local Government Securities (SLGS) subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, guaranteed investment contracts, and rebate calculations) (the monthly investment portfolio report submitted to the District by the Trustee will suffice for this requirement);

(f) Information, records and calculations showing that, with respect to each Securities issue, that the District was eligible for the "small issuer" exception, or one of the spending exceptions, to the arbitrage rebate requirement or, if not, that the rebate amount, if any, that was payable to the United States of America in respect of investments made with gross proceeds of such Securities issue was calculated and timely paid with the appropriate IRS form timely filed with the IRS, as described in Section 2.4(d), above;

(g) Any records relating to the assignment or allocation of volume cap to any tax credit or subsidy Securities and any elections made with respect thereto; and

(h) Records, if any, kept or retained by the District relating to monitoring secondary market trading activity for any of the Securities.

The basic purpose of the foregoing record retention policy is to enable the District to readily demonstrate to the IRS, in connection with any audit or inquiry concerning the Securities, full compliance with all federal tax requirements that must be satisfied so that interest on those Securities continues to be qualified for an exclusion from gross income for federal income tax purposes or for tax credit or subsidy payment purposes under the Code.

The District hereby acknowledges its responsibility to maintain such records.

2.6. Restrictions on Private Business Use and Private Loans; Change in Use of Assets Financed; Remedial Actions

The District understands that there are restrictions on private business use of assets financed with proceeds of Securities and restrictions on the use of proceeds of Securities to make or finance any loan to any person other than a state or local government unit. The Compliance Officer will consult Bond Counsel in the event private business use or private loans are contemplated or in the event of a change in use of the assets financed. Examples of potential private use events include, but are not limited to, sales of Securities-financed facilities, leases with respect to Securities-financed facilities and management contracts with respect to Securities-financed facilities. The Compliance Officer shall also consult with Bond Counsel to determine whether any remedial actions pursuant to Regulations Section 1.141-12 must be taken in order to prevent such private business use or private loans from jeopardizing the tax-exempt status of the Securities.

2.7. Redemption from Unexpended Proceeds

The District understands that with respect to certain obligations (e.g., Qualified School Construction Bonds) there is a requirement that if all of the proceeds are not expended for the qualified purpose by the end of an expenditure period (typically, three years), then a portion of the outstanding obligations (the "Nonqualified Securities") must be retired shortly after the end of such expenditure period. With respect to such obligations, the Compliance Officer will monitor the expenditure of the proceeds during the expenditure period and will ensure that any unexpended proceeds are used to retire a portion of such obligations, either directly by the District, or in the case of proceeds held by a Trustee on behalf of the District, by that Trustee. The Compliance Officer shall consult Bond Counsel to assist the District in determining the appropriate amount of Nonqualified Securities

2.8. Retention of Rebate Analysts, Filing Agents or Other Professionals

The District may retain for particular transactions (as applicable) one or more Rebate Analysts, Filing Agents or other professionals for the purpose of filing any necessary forms to obtain refundable tax credits. A Rebate Analyst may also be retained or engaged at the outset of a transaction to advise the District with respect to the transaction structure that will allow the District to take advantage of any available exceptions to the arbitrage rebate rule.

The District acknowledges that arbitrage rebate payments, if due, are to be made to the United States of America at the end of each and every fifth bond year during which a series of Securities is outstanding and upon the final maturity of each series of Securities. The District hereby authorizes the Compliance Officer to review, from time to time, the tax compliance certificates and agreements executed and delivered for outstanding Securities, including, but not limited to, the applicable Tax Certificate, to determine the specific deadlines for calculating and submitting arbitrage rebate payments.

2.9. Post-Issuance Credit Enhancement Transactions

Before engaging in post-issuance credit enhancements transaction (e.g., bond insurance, letter of credit) or hedging transactions (e.g., interest rate swap or interest rate cap), consult with Bond Counsel regarding compliance with applicable Regulations.

2.10 Post-Issuance Compliance Actions

In the event that an issue (potentially including non-compliance matters) arises following the issuance of District Securities affecting the tax-exempt status thereof:

(a) The Compliance Officer, upon becoming aware of such matter(s), in cooperation with District staff will promptly undertake to review such matter(s) with Bond Counsel and, to the extent applicable or required, consider and/or undertake appropriate action(s) to respond to such issue(s).

(b) The District may implement such action(s) as may be determined to be appropriate, which may include, but shall not be limited to, agreeing to ad/or implementing a VCAP applicable to such District Securities or the effected portion or maturities thereof. Any such VCAP shall be subject to governing board review and approval.

(c) The Compliance Officer, in consultation with Bond Counsel, shall respond to IRS inquiries concerning particular District Securities, including, but not limited to, IRS inquiry letters, requests for information and audit requests.

Section 3. General Matters

3.1 Periodic Review

The District may, from time to time, undertake to review its Compliance Policy in terms of periodic changes as referenced in Section 3.2 hereof.

3.2 Amendment

The District reserves the right to amend this Compliance Policy in the future in response to such matters as applicable legislation, rulings and directives issued by the IRS or other federal agencies, court decisions, municipal securities practices and/or recommendations of Bond Counsel. Such amendments shall be in writing and shall state a scope of application and an effective date.

3.3 Education Policy with Respect to Federal Tax Requirements for Securities

It is the policy of the District that the Compliance Officer and his or her designees, if any, should be provided with education and training on federal tax requirements applicable to outstanding Securities. The District recognizes that such education and training is vital as a means of helping to ensure that the District remains in compliance with those federal tax requirements in respect of its Securities. The District therefore will enable and encourage the Compliance Officer and any of his or her designees to attend and participate in educational and training programs with respect to federal tax requirements related to tax-exempt or tax credit Securities.

APPENDIX "X"

Compliance Policy Application:

(1) List Securities to which this Compliance Policy has been designated for application by the District:

____

(2) Date Compliance Policy was applied to such Securities:

_________________, 20________

(3) Designated Compliance Officer(s):

____

(4) Initial Bond Counsel:

Bowie, Arneson, Wiles & Giannone

4920 Campus Drive

Newport Beach, CA 92660

Phone: (949) 851-1300

E-mail: ranslow@bawg.com

(5) Tax Credit Status of Securities (if applicable):

____

Legal Reference:

EDUCATION CODE

15100-15254 Bonds for school districts and community college districts

15264-15288 Strict Accountability in Local School Construction Bonds Act of 2000

17422 Outstanding Bond Indebtedness

GOVERNMENT CODE

1090-1099 Prohibitions applicable to specified officers

1125-1129 Incompatible activities

8855 California Debt and Investment Advisory Commission

53580-53595.5 Bonds

54952 Definition of legislative body, Brown Act

Policy SWEETWATER UNION HIGH SCHOOL DISTRICT

adopted: January 23, 2017 Chula Vista, California

Appendix E – Outstanding Publicly Issued Debt

Election of 2000, Measure BB - $187,000,000

Series	Issue Date	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Outstanding Principal as of Apr 1, 2017	Outstanding Principal as of Apr 1, 2018	Outstanding Principal as of Apr 1, 2019	Outstanding Principal as of Apr 1, 2020
A	Apr-01	CIBs	$38,000,000	$0	$38,000,000	$0	$0	$0	$0
B	Jul-03	CIBs	$52,000,000	$0	$52,000,000	$0	$0	$0	$0
C	Nov-04	CIBs	$63,570,000	$0	$96,999,415	$0	$0	$0	$0
		CABs	$33,429,415	$0		$27,664,740	$24,850,091	$21,946,121	$18,969,334
2011 Rfg	Dec-11	CIBs	$0	$23,835,000	$23,835,000	$16,320,000	$14,730,000	$13,085,000	$11,385,000
2014 Rfg	Jul-14	CIBs	$0	$82,270,000	$82,270,000	$79,890,000	$78,490,000	$76,940,000	$75,210,000
			$186,999,415	$106,105,000		$123,874,740	$118,070,091	$111,971,121	$105,564,334

Election of 2006, Measure O - $644,000,000

Series	Issue Date	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Outstanding Principal as of Apr 1, 2017	Outstanding Principal as of Apr 1, 2018	Outstanding Principal as of Apr 1, 2019	Outstanding Principal as of Apr 1, 2020
A	Mar-08	CIBs	$180,000,000	$0	$180,000,000	$2,355,000	$1,175,000	$0	$0
2016 Rfg	Mar-16	CIBs	$0	$168,710,000	$168,710,000	$168,710,000	$168,710,000	$167,985,000	$167,515,000
B	Mar-16	CIBs	$97,000,000	$0	$97,000,000	$97,000,000	$97,000,000	$97,000,000	$94,680,000
C	Apr-18	CIBs	$28,000,000	$0	$28,000,000	$0	$0	$28,000,000	$28,000,000
			$305,000,000	$168,710,000		$268,065,000	$266,885,000	$292,985,000	$290,195,000

Other Borrowings

Series	Issue Date	Type	Issuance - New Money	Issuance - Refinancing	Total Issuance	Outstanding Principal as of Apr 1, 2017	Outstanding Principal as of Apr 1, 2018	Outstanding Principal as of Apr 1, 2019	Outstanding Principal as of Apr 1, 2020
1997 Sp Tax	n/a	n/a	$19,250,000	$0	$19,250,000	$0	$0	$0	$0
2000 COP	Jan-01	CIBs	$21,700,000	$0	$21,700,000	$0	$0	$0	$0
2001 COP	Mar-01	CIBs	$42,875,000	$0	$42,875,000	$0	$0	$0	$0
2002 COP	Dec-02	CIBs	$55,940,000	$0	$55,940,000	$0	$0	$0	$0
2005A	Mar-05	CIBs	$66,385,000	$0	$66,385,000	$0	$0	$0	$0
2005B	Mar-05	CIBs	$15,180,000	$0	$15,180,000	$0	$0	$0	$0
2005A QZAB	Aug-05	QZAB	$5,000,000	$0	$5,000,000	$5,000,000	$5,000,000	n/a	n/a
2005 Rfg COP	Dec-05	CIBs	$0	$18,330,000	$18,330,000	$0	$0	$0	$0
2006 Rfg COP	Jul-06	CIBs	$0	$11,875,000	$11,875,000	$0	$0	$0	$0
2010A QZAB	Apr-10	QZAB	$5,000,000	$0	$5,000,000	$2,875,000	$2,545,000	n/a	n/a
2013 Rfg	Oct-13	CIBs	$0	$72,140,000	$72,140,000	$59,200,000	$54,645,000	$49,745,000	$44,010,000
2016 LR Rfg	Nov-16	CIBs	$0	$35,690,000	$35,690,000	$35,690,000	$34,200,000	$32,700,000	$31,200,000
2017 Rfg COP	Feb-17	CIBs	$0	$35,515,000	$35,515,000	$35,515,000	$31,395,000	$28,305,000	$25,545,000
			$231,330,000	$173,550,000		$138,280,000	$127,785,000	$110,750,000	$100,755,000

Appendix F – Credit Presentation Table – General Fund Historical Revenues and Expenditures

SWEETWATER UNION HIGH SCHOOL DISTRICT

General Fund Historical Revenues and Expenditures

	Audited Actuals 2013-14	Audited Actuals 2014-15	Audited Actuals 2015-16	Audit Actuals 2016-17	1st Interim Report 2017-18*
Beginning Balance	**$29,461,568**	**$28,551,141**	**$22,049,858**	**$36,285,098**	**$21,469,748**
REVENUES					
Revenue Limit/LCFF	$275,516,394	$298,903,815	$342,714,394	$356,709,990	$364,287,313
Federal Revenue	23,531,297	21,056,818	23,321,262	22,018,273	24,827,239
Other State Revenue	31,116,949	23,471,902	50,482,110	43,498,547	39,569,891
Other Local Sources	28,621,713	29,946,260	28,017,305	28,205,661	30,596,747
Total Revenue	**$358,786,353**	**$373,378,795**	**$444,535,071**	**$450,432,471**	**$459,281,190**
EXPENDITURES					
Certificated Salaries	$173,974,114	$186,383,178	$204,198,918	$211,360,565	$214,335,340
Classified Salaries	58,983,252	63,183,639	69,956,612	74,782,847	74,685,782
Employee Benefits	70,450,936	79,180,781	90,911,757	107,952,526	113,309,557
Books and Supplies	18,616,733	13,348,505	20,875,529	24,175,412	18,754,622
Services and Other Operating Expenditures	30,876,126	32,660,685	37,912,866	36,988,397	34,809,747
Other Outgo	30,680	(161,243)	468,574	644,635	6,211,983
Capital Outlay	5,880,038	821,745	8,652,075	15,389,154	694,728
Debt Service (Principal)	3,812,579	3,670,691	4,024,015	5,546,612	
Debt Service (Interest)	205,406	198,509	287,541	134,762	
Total Expenditures	**$362,829,864**	**$379,286,490**	**$437,287,887**	**$476,974,910**	**$462,801,758**
OTHER FINANCING SOURCES/USES					
Transfers In	-	-	33,531	88,091	15,000
Transfers Out	(2,142,057)	(1,209,183)	(783,582)	(1,480,156)	(1,816,397)
Other Sources	5,275,141	615,596	7,738,106	13,119,154	(1,801,397)
NET CHANGE IN FUND BALANCES	($910,427)	($6,501,282)	$14,235,239	($14,815,350)	($5,321,965)
Ending Balance	**$28,551,141**	**$22,049,859**	**$36,285,098**	**$21,469,748**	**$16,147,783**
Ending Balance as % of Total Expenditures	**7.87%**	**5.81%**	**8.30%**	**4.50%**	**3.49%**

*Projected

Source: Sweetwater Union HSD Audited Financial Statements for FYs ending 2014 through 2017 and 2017-18 First Interim Report.

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Appendix G – Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 DRAFT STUDY AGREEMENT
January 31, 2019

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the San Diego County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. **BASIS OF AGREEMENT**

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (b), county superintendents may review or audit the expenditures and internal controls of any school in their county if they have reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

The COE has received information regarding possible fraud, misappropriation of funds or other illegal practices at the Sweetwater Union High School District and has requested that FCMAT assign professionals to conduct an Assembly Bill (AB) 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5(b).

All work shall be performed in accordance with the terms and conditions of this agreement.

2. **SCOPE OF THE WORK**

A. Scope and Objectives of the Study

Perform the following with regard to the Sweetwater Union High School District to determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred:

- Review the district's use of Mello-Roos proceeds for internal borrowing
- Possible manipulation of the 2017-18 budget through the use of unsubstantiated negative budget entries
- Potential delay of posting the effects of payroll transactions

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Review interfund borrowing practices for fiscal years 2016-17 through 2018-19, including the authority to make such borrowing.

Review and test posted budget entries from a predetermined list of more than 300 negative budget postings for fiscal year 2017-18 and 2018-19 (through December 2018), including the purpose and sufficiency of supporting documentation.

Review process and internal controls related to the posting of 2017-18 payroll transactions into the district's financial system.

Any testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute certainty about whether the district's financial transactions and activity were sufficiently accurate.

The primary focus of this review is to determine, based on the assessment, sample testing performed and auditor's judgment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

B. <u>Services and Products to be Provided</u>

1. Orientation Meeting – The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

2. On-site Review – The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.

3. Progress Reports – The team will inform the COE of material issues as the review is performed.

4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.

5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.

6. Final Report – Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.

7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. **PROJECT PERSONNEL**

The FCMAT study team may also include:

A.	*To Be Determined*	*FCMAT Staff*
B.	*To Be Determined*	*FCMAT Consultant*
C.	*To Be Determined*	*FCMAT Consultant*

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

A. $1,100 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be $50,700.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301. Clients may qualify for reimbursement from funds set aside for this purpose, pursuant to AB 139.

5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports addressing the study request
2. Current or proposed organizational charts
3. Current and two prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint

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document repository where the district shall upload all requested documents.

C. The COE and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

Orientation:	***To be determined***
Staff Interviews:	***To be determined***
Exit Meeting:	***To be determined***
Preliminary Report Submitted:	***To be determined***
Final Report Submitted:	***To be determined***

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK**

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. **INDEPENDENT CONTRACTOR**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers' compensation as required under California state law. FCMAT shall provide certificates of insurance, with San Diego County Office of Education named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the COE shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Contact:	Michael Simonson
Telephone:	(858) 292-3618
E-mail Address:	Michael.simonson@sdcoe.net

2/1/2019

Paul Gothold, County Superintendent — Date
San Diego County Office of Education

Michael T. Fine — January 31, 2019

Michael H. Fine — Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team

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