

**TUSTIN UNIFIED SCHOOL DISTRICT  
FINANCING AUTHORITY  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2016**



**TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY**

*For the Fiscal Year Ended June 30, 2016*

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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Tustin Unified School District Financing Authority  
Tustin, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Debt Service Fund of Tustin Unified School District Financing Authority (a Joint Powers Agency), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

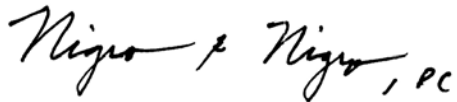
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tustin Unified School District Financing Authority, as of June 30, 2016, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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Murrieta, California  
January 31, 2017

**TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY**

*Balance Sheet*

*June 30, 2016*

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	<u>Debt Service Fund</u>
<b>ASSETS</b>	
Investments	<u>\$ 8,793,350</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,793,350</u></u>
<b>FUND BALANCE</b>	
Restricted for Debt Service	<u>\$ 8,793,350</u>
<b>TOTAL FUND BALANCE</b>	<u><u>\$ 8,793,350</u></u>

**TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance*  
*For the Fiscal Year Ended June 30, 2016*

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	<b>Debt Service Fund</b>
<b>REVENUES</b>	
Interest earned on investments	\$ 4,623
Interest earned on escrow funds	5,170,303
Received from Tustin USD	<u>77,000</u>
Total Revenues	5,251,926
<b>EXPENDITURES</b>	
Debt Service:	
Interest on refunding bonds	<u>5,170,303</u>
Excess of Expenditures Over Revenues	81,623
<b>OTHER FINANCING SOURCES/(USES)</b>	
Transfer to other trusts	<u>(40,883)</u>
Net Change in Fund Balance	40,740
Fund Balance, July 1, 2015	<u>8,752,610</u>
Fund Balance, June 30, 2016	<u><u>\$ 8,793,350</u></u>

# TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

## Notes to Financial Statements

June 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Tustin Unified School District Financing Authority (“the Authority”) conform to generally accepted accounting principles as applicable to governments and to general practice within California school districts. The following is a summary of the significant accounting policies:

#### A. Reporting Entity

The Authority was formed on February 11, 2014 as the result of a joint powers agreement between the Tustin Unified School District and Community Facilities District (CFD) No. 07-1 of the Tustin Unified School District. The agreement was made for the purpose of establishing a vehicle which may reduce local borrowing costs and promote the greater use of existing and new financial instruments and mechanisms, to undertake the financing of public capital improvements and related capital requirements for themselves and for other public entities within the State, and for other purposes permitted under Articles 1-4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (“Act”).

#### B. Basis of Presentation

The accounts of the Authority are organized as a Debt Service Fund, which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Authority resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### C. Basis of Accounting

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

#### Revenues – exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, “available” means collectible within the current period or within 60 days after year-end.

#### Expenditures

On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

#### D. Long-Term Debt

The Authority does not report long-term debt on its financial statements. The Authority’s financial statements are reported on the modified accrual basis of accounting as described previously, so only current assets and liabilities are reported.



# TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

## Notes to Financial Statements

June 30, 2016

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### NOTE 2 - INVESTMENTS

#### Investments - Interest Rate Risk

The Authority's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Directors. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2016 consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank Money Market	<u>\$ 8,793,350</u>	<u>\$ 8,793,350</u>	<u>\$ -</u>

#### Investments - Credit Risk

The Authority's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2016, all investments represented governmental securities which were issued, registered and held by the Authority's agent in the Authority's name.

#### Investments - Concentration of Credit Risk

The Authority does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the Authority had 100% of its investments in U.S. Bank money market funds.

### NOTE 3 - REFUNDING BONDS

On April 16, 2014, the Authority issued \$100,800,000 of Refunding Bonds. The refunding bonds bear fixed interest rates ranging between 3.50% and 5.25% with annual maturities from September 1, 2021 through September 1, 2048. The net proceeds of \$91,392,603 (after issuance costs) were used to prepay the District's outstanding CFD No.07-1 and CFD No.14-1 special tax bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. As of June 30, 2016, the entire principal balance outstanding on the defeased debt was paid in full.

**TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY**

*Notes to Financial Statements*

*June 30, 2016*

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**NOTE 3 – REFUNDING BONDS (continued)**

The future debt service requirements on the bonds are as follows:

Fiscal Year	Principal	Interest	Total
2016-17	\$ -	\$ 5,170,303	\$ 5,170,303
2017-18	-	5,170,302	5,170,302
2018-19	-	5,170,303	5,170,303
2019-20	-	5,170,302	5,170,302
2020-21	-	5,170,303	5,170,303
2021-26	3,285,000	25,590,902	28,875,902
2026-31	7,355,000	24,446,807	31,801,807
2031-36	12,980,000	21,998,985	34,978,985
2036-41	20,730,000	17,711,482	38,441,482
2041-46	31,235,000	10,972,369	42,207,369
2046-49	25,215,000	2,049,731	27,264,731
Total	<u>\$ 100,800,000</u>	<u>\$ 128,621,789</u>	<u>\$ 229,421,789</u>

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***Supplementary Information***

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# **TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY**

## *History and Organization*

*June 30, 2016*

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The Tustin Unified School District Financing Authority was formed on February 11, 2014 as a joint powers authority under Articles 1-4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California ("Act"). The Authority is governed by a five member Board of Directors. The Authority was formed on February 11, 2014 as the result of a joint powers agreement between the Tustin Unified School District and Community Facilities District (CFD) No. 07-1 of the Tustin Unified School District. The agreement was made for the purpose of establishing a vehicle which may reduce local borrowing costs and promote the greater use of existing and new financial instruments and mechanisms, to undertake the financing of public capital improvements and related capital requirements for themselves and for other public entities within the State, and for other purposes permitted under the Act.

To achieve its purpose, the Authority has issued refunding bonds to pay off the remaining debt of CFD No. 07-1 and CFD No. 14-1 of Tustin Unified School District. The rental proceeds to be received from the District in future years will be used to pay principal and interest on the bonded indebtedness.

### **BOARD OF DIRECTORS**

**As of June 30, 2016**

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<b>Member</b>	<b>Office</b>
Lynn Davis	Chair
Jonathan Ablove	Vice-Chair
Tammie Bullard	Secretary
James Laird	Member
Francine Scinto	Member

### **ADMINISTRATION**

Anthony Soria,  
*Executive Officer/Assistant Secretary*

Gregory A. Franklin, Ed.D.,  
Treasurer

Joslyn Crawford,  
Assistant Treasurer

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***Other Independent Auditors' Reports***

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

Board of Directors  
Tustin Unified School District Financing Authority  
Tustin, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Debt Service Fund of Tustin Unified School District Financing Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Tustin Unified School District Financing Authority's basic financial statements, and have issued our report thereon dated January 31, 2017.

**Internal Control Over Financial Reporting**

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

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

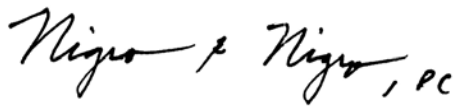
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

Murrieta, California  
January 31, 2017