

**TUSTIN UNIFIED SCHOOL DISTRICT
FINANCING AUTHORITY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**



TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

For the Fiscal Year Ended June 30, 2017

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Financial Section

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, 2017, 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, 2017, 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 Matters

Other Information

The supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, 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.



Murrieta, California
January 24, 2018

TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

Balance Sheet

June 30, 2017

	Debt Service Fund
ASSETS	
Investments	<u>\$ 8,804,641</u>
TOTAL ASSETS	<u><u>\$ 8,804,641</u></u>
FUND BALANCE	
Restricted for Debt Service	<u>\$ 8,804,641</u>
TOTAL FUND BALANCE	<u><u>\$ 8,804,641</u></u>

TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2017

	Debt Service Fund
REVENUES	
Interest earned on investments	\$ 11,291
Interest earned on escrow funds	<u>5,170,303</u>
Total Revenues	5,181,594
EXPENDITURES	
Debt Service:	
Interest on refunding bonds	<u>5,170,303</u>
Excess of Revenues Over Expenditures	11,291
Fund Balance, July 1, 2016	<u>8,793,350</u>
Fund Balance, June 30, 2017	<u><u>\$ 8,804,641</u></u>

TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

Notes to Financial Statements

June 30, 2017

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, 2017

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, 2017 consisted of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank Money Market	<u>\$ 8,804,641</u>	<u>\$ 8,804,641</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, 2017, 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, 2017, 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, 2017, 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, 2017

NOTE 3 – REFUNDING BONDS (continued)

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

Fiscal Year	Principal	Interest	Total
2017-18	\$ -	\$ 5,170,303	\$ 5,170,303
2018-19	-	5,170,303	5,170,303
2019-20	-	5,170,303	5,170,303
2020-21	-	5,170,302	5,170,302
2021-22	375,000	5,163,740	5,538,740
2022-27	4,015,000	25,442,792	29,457,792
2027-32	8,340,000	24,077,280	32,417,280
2032-37	14,340,000	21,305,607	35,645,607
2037-42	22,585,000	16,583,126	39,168,126
2042-47	33,735,000	9,266,906	43,001,906
2047-49	17,410,000	930,825	18,340,825
Total	<u>\$ 100,800,000</u>	<u>\$ 123,451,487</u>	<u>\$ 224,251,487</u>

Supplementary Information

TUSTIN UNIFIED SCHOOL DISTRICT FINANCING AUTHORITY

History and Organization

June 30, 2017

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, 2017

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

ADMINISTRATION

Anthony Soria,
Executive Officer/Assistant Secretary

Gregory A. Franklin, Ed.D.,
Treasurer

Joslyn Crawford,
Assistant Treasurer

Other Independent Auditors' Reports



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, 2017, 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 24, 2018.

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 Tustin Unified School District Financing 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Murrieta, California
January 24, 2018