

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS
FINANCIAL AND PERFORMANCE
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
For the Fiscal Year Ended June 30, 2018
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FINANCIAL SECTION

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Financial Section



INDEPENDENT AUDITORS' REPORT

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Capistrano Unified School District (the District), Capital Project Fund for Blended Component Units Specific to the Community Facilities Districts (CFDs) No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1, the related fiduciary funds, and the related notes to the financial statements, as of and for the fiscal year ended June 30, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the Capital Projects Fund for Blended Component Units and the related fiduciary funds of the Capistrano Unified School District, as of June 30, 2018, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Capital Projects Fund for Blended Component Units and the related fiduciary funds and do not purport to, and do not, present fairly the financial position of the Capistrano Unified School District, as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

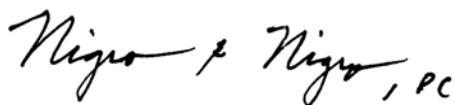
Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Capistrano Unified School District's Capital Project Fund for Blended Component Units and the related fiduciary funds. The combining statements and other supplementary information listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019, on our consideration of the District's Capital Projects Fund for Blended Component Units and the related fiduciary funds 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 District's Capital Projects Fund for Blended Component Units and the related fiduciary funds internal control over financial reporting and compliance.



Murrieta, California
January 15, 2019

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Balance Sheet – Governmental Fund
June 30, 2018

	Capital Projects Fund for Blended Component Units
ASSETS	
Cash and investments	\$ 25,848,051
Accounts receivable	<u>23,342</u>
Total assets	<u><u>\$ 25,871,393</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 678,733</u>
Fund Balance	
Restricted for capital projects	<u>25,192,660</u>
Total liabilities and fund balance	<u><u>\$ 25,871,393</u></u>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Governmental Fund - Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2018

	Capital Projects Fund for Blended Component Units
REVENUES	
Other local revenue sources	\$ 209,831
EXPENDITURES	
Current:	
General administration	4,487,210
Capital outlay	12,456,117
Total Expenditures	16,943,327
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,733,496)
OTHER FINANCING SOURCES (USES)	
Interfund transfers in	902,902
Interfund transfers out	(399,919)
Proceeds from non-obligatory debt	11,655,216
Total Other Financing Sources (Uses)	12,158,199
Net Change in Fund Balance	(4,575,297)
Fund Balance, July 1, 2017	29,767,957
Fund Balance, June 30, 2018	\$ 25,192,660

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Statement of Fiduciary Net Position
June 30, 2018

	CFD Agency
	Funds
	<hr/>
ASSETS	
Cash and investments	\$ 22,197,009
Accounts receivable	24,386
	<hr/>
Total assets	\$ 22,221,395
	<hr/> <hr/>
LIABILITIES	
Accounts payable	\$ 1,798
Due to bondholders	22,219,597
	<hr/>
Total liabilities	\$ 22,221,395
	<hr/> <hr/>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements include the Capital Project Fund for Blended Component Units and the related Fiduciary Funds specific to the Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1 and 2005-1 of the Capistrano Unified School District used to account for capital projects financed by Mello-Roos Community Facilities Districts and the receipt of special taxes for payment of debt required for the CFDs. These financial statements are not intended to present fairly the financial position and results of operations of the Capistrano Unified School District in compliance with accounting principles generally accepted in the United States of America.

B. Accounting Policies

The financial statements of the Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 (CFDs) of Capistrano Unified School District (the District) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

C. Basis of Accounting

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

Fiduciary funds accounted for the CFD's receipt of special taxes for payment of debt using the flow of economic resources measurement focus and the accrual basis of accounting.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

E. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

G. Spending Order Policy

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

H. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

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

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. New GASB Pronouncements (continued)

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

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.
3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and “negative” goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. New GASB Pronouncements (continued)

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

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, consisted of the following:

Governmental Funds	\$ 25,848,051
Fiduciary Funds	22,197,009
	<hr/>
Total cash & investments	\$ 48,045,060
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Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District'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 Trustees. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2018, consist of the following:

	Cost Basis	Fair Value	Maturity		
			Less Than One Year	One Year Through Five Years	Over Five Years
Investment maturities:					
U.S. Bank First American Treasury Obligations	\$ 48,045,060	\$ 48,045,060	\$ 48,045,060	\$ -	\$ -
Total Investments	\$ 48,045,060	\$ 48,045,060	\$ 48,045,060	\$ -	\$ -

Investments - Credit Risk

The District'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, 2018, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had the following investments that represents more than five percent of the District’s net investments.

U.S. Bank First American Treasury Obligations	100.0%
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Fair Value Measurements

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

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

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

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

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

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

Investment Type:	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Bank First American Treasury Obligations	\$ 48,045,060	\$ 48,045,060	\$ -	\$ -
Total	\$ 48,045,060	\$ 48,045,060	\$ -	\$ -

All assets have been valued using a market approach, with quoted market prices.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Notes to Financial Statements

June 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	Interest Receivable	
	<u>Governmental Funds</u>	<u>CFD Agency Funds</u>
CFD 90-2	\$ 2,767	\$ 5,744
CFD 92-1	5,594	2,350
CFD 98-1A	2,063	2,245
CFD 98-2	4,351	10,963
CFD 04-1	1,564	376
CFD 05-1	7,003	2,708
Total	<u>\$ 23,342</u>	<u>\$ 24,386</u>

NOTE 4 – INTERFUND TRANSFERS

Transfers To/From Other Funds

Transfers to/from other funds at June 30, 2018, consisted of the following:

Capital Project fund for Blended Component Units transfer to CFD Agency Funds
for debt services \$ 399,909

CFD Agency Funds transfer to Capital Project Fund for Blended Component Units
for contributions to capital projects \$ 902,902

NOTE 5 – NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District.

The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$222,648,863 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Notes to Financial Statements
 June 30, 2018

NOTE 5 – NON-OBLIGATORY DEBT (continued)

A summary of all CFD bonds issued and outstanding is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018
CFD 90-2, 2013 Ref.	11/5/2003	9/1/2033	4.0% - 4.625%	\$ 49,675,000	\$ 39,590,000	\$ -	\$ 1,415,000	\$ 38,175,000
CFD 90-2, 2016 Ref.	7/28/2016	9/1/2032	1.15% - 4.0%	33,020,000	33,020,000	-	1,335,000	31,685,000
CFD 92-1, 2013 Ref.	7/31/2013	9/1/2022	2.0% - 5.0%	14,430,000	10,040,000	-	1,535,000	8,505,000
CFD 98-1A, Ser. 2016	7/13/2016	9/1/2044	2.0% - 3.2%	6,375,000	6,375,000	-	60,000	6,315,000
CFD 98-1A, Ser. 2018	5/31/2018	9/1/2044	3.0% - 3.75%	8,670,000	-	8,670,000	-	8,670,000
CFD 98-1B, Ser. 2018	5/31/2018	9/1/2048	2.0% - 3.75%	4,830,000	-	4,830,000	-	4,830,000
CFD 98-2, 2005 Ref.	4/28/2005	9/1/2033	3.0% - 5.25%	119,099,491	18,218,863	-	-	18,218,863
CFD 98-2, 2015 Ref.	7/30/2015	9/1/2029	3.0% - 5.0%	87,480,000	84,080,000	-	4,030,000	80,050,000
CFD 04-1, 2015 Ref.	7/30/2015	9/1/2034	2.0% - 4.0%	6,015,000	5,855,000	-	190,000	5,665,000
CFD 05-1, Ser. 2013	11/6/2013	9/1/2043	2.0% - 5.5%	8,190,000	8,065,000	-	45,000	8,020,000
CFD 05-1, Ser. 2016	9/7/2016	9/1/2046	2.0% - 4.0%	12,575,000	12,575,000	-	60,000	12,515,000
					<u>\$ 217,818,863</u>	<u>\$ 13,500,000</u>	<u>\$ 8,670,000</u>	<u>\$ 222,648,863</u>

Future payments are as follows:

Fiscal Year	Principal	Interest	Total
2018-2019	\$ 9,390,000	\$ 7,439,474	\$ 16,829,474
2019-2020	10,025,000	7,190,783	17,215,783
2020-2021	10,835,000	6,774,213	17,609,213
2021-2022	11,660,000	6,314,228	17,974,228
2022-2023	12,465,000	5,832,459	18,297,459
2023-2028	64,840,000	22,283,061	87,123,061
2028-2033	68,969,853	26,259,528	95,229,381
2033-2038	13,159,010	10,910,321	24,069,331
2038-2043	11,155,000	3,234,724	14,389,724
2043-2048	9,790,000	806,953	10,596,953
2048-2049	360,000	6,750	366,750
	<u>\$ 222,648,863</u>	<u>\$ 97,052,494</u>	<u>\$ 319,701,357</u>

Supplementary Information

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Combining Balance Sheet – Governmental Funds

June 30, 2018

	<u>CFD 90-2</u>	<u>CFD 92-1</u>	<u>CFD 98-1A</u>	<u>CFD 98-1B</u>	<u>CFD 98-2</u>	<u>CFD 04-1</u>	<u>CFD 05-1</u>	<u>TOTAL</u>
ASSETS								
Cash and investments	\$ 2,374,641	\$ 4,795,455	\$ 5,480,185	\$ 2,090,750	\$ 3,734,852	\$ 1,346,099	\$ 6,026,069	\$ 25,848,051
Accounts receivable	<u>2,767</u>	<u>5,594</u>	<u>2,063</u>	<u>-</u>	<u>4,351</u>	<u>1,564</u>	<u>7,003</u>	<u>23,342</u>
Total assets	<u>\$ 2,377,408</u>	<u>\$ 4,801,049</u>	<u>\$ 5,482,248</u>	<u>\$ 2,090,750</u>	<u>\$ 3,739,203</u>	<u>\$ 1,347,663</u>	<u>\$ 6,033,072</u>	<u>\$ 25,871,393</u>
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 87,552	\$ 465,589	\$ 779	\$ -	\$ 124,447	\$ 168	\$ 198	\$ 678,733
Fund Balance								
Restricted for capital projects	<u>2,289,856</u>	<u>4,335,460</u>	<u>5,481,469</u>	<u>2,090,750</u>	<u>3,614,756</u>	<u>1,347,495</u>	<u>6,032,874</u>	<u>25,192,660</u>
Total liabilities and fund balance	<u>\$ 2,377,408</u>	<u>\$ 4,801,049</u>	<u>\$ 5,482,248</u>	<u>\$ 2,090,750</u>	<u>\$ 3,739,203</u>	<u>\$ 1,347,663</u>	<u>\$ 6,033,072</u>	<u>\$ 25,871,393</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018*

	<u>CFD 90-2</u>	<u>CFD 92-1</u>	<u>CFD 98-1A</u>	<u>CFD 98-1B</u>	<u>CFD 98-2</u>	<u>CFD 04-1</u>	<u>CFD 05-1</u>	<u>TOTAL</u>
REVENUES								
Other local revenue sources	\$ 28,277	\$ 57,032	\$ 16,189	\$ 135	\$ 41,398	\$ 12,608	\$ 54,192	\$ 209,831
EXPENDITURES								
Current:								
General administration	213,846	81,354	3,901,318	116,170	116,158	5,537	52,827	4,487,210
Capital outlay	3,587,122	3,675,243	-	1,979,182	2,783,262	431,308	-	12,456,117
Total Expenditures	3,800,968	3,756,597	3,901,318	2,095,352	2,899,420	436,845	52,827	16,943,327
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,772,691)	(3,699,565)	(3,885,129)	(2,095,217)	(2,858,022)	(424,237)	1,365	(16,733,496)
OTHER FINANCING SOURCES (USES)								
All other financing sources (uses)	124,378	(3,371)	118,525	116,169	38,221	94,123	14,938	502,983
Proceeds from non-obligatory debt	-	-	7,585,418	4,069,798	-	-	-	11,655,216
Total Other Financing Sources (Uses)	124,378	(3,371)	7,703,943	4,185,967	38,221	94,123	14,938	12,158,199
Net Change in Fund Balance	(3,648,313)	(3,702,936)	3,818,814	2,090,750	(2,819,801)	(330,114)	16,303	(4,575,297)
Fund Balance, July 1, 2017	5,938,169	8,038,396	1,662,655	-	6,434,557	1,677,609	6,016,571	29,767,957
Fund Balance, June 30, 2018	\$ 2,289,856	\$ 4,335,460	\$ 5,481,469	\$ 2,090,750	\$ 3,614,756	\$ 1,347,495	\$ 6,032,874	\$ 25,192,660

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Combining Statement of Fiduciary Net Position

June 30, 2018

	<u>CFD 90-2</u>	<u>CFD 92-1</u>	<u>CFD 98-1A</u>	<u>CFD 98-1B</u>	<u>CFD 98-2</u>	<u>CFD 04-1</u>	<u>CFD 05-1</u>	<u>TOTAL</u>
ASSETS								
Cash and investments	\$ 4,945,178	\$ 2,022,825	\$ 2,782,935	\$ 353,560	\$ 9,437,250	\$ 324,242	\$ 2,331,019	\$ 22,197,009
Accounts receivable	5,744	2,350	2,245	-	10,963	376	2,708	24,386
Total assets	<u>\$ 4,950,922</u>	<u>\$ 2,025,175</u>	<u>\$ 2,785,180</u>	<u>\$ 353,560</u>	<u>\$ 9,448,213</u>	<u>\$ 324,618</u>	<u>\$ 2,333,727</u>	<u>\$ 22,221,395</u>
LIABILITIES								
Accounts payable	\$ -	\$ -	\$ 1,798	\$ -	\$ -	\$ -	\$ -	\$ 1,798
Due to bondholders	4,950,922	2,025,175	2,783,382	353,560	9,448,213	324,618	2,333,727	22,219,597
Total liabilities	<u>\$ 4,950,922</u>	<u>\$ 2,025,175</u>	<u>\$ 2,785,180</u>	<u>\$ 353,560</u>	<u>\$ 9,448,213</u>	<u>\$ 324,618</u>	<u>\$ 2,333,727</u>	<u>\$ 22,221,395</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Schedule of Debt Service Activity for Agency Funds

For the Fiscal Year Ended June 30, 2018

	Debt Service Agency Funds Beginning Balance	Sources			Uses			Debt Service Agency Funds Ending Balance	
		Special Tax Collections	Interest Earnings	Other	Contributions to Capital Projects	Debt Service Principal	Debt Service Interest		Other
Community Facilities District:									
90-2	\$ 4,653,426	\$ 5,686,231	\$ 31,746	\$ -	\$ 125,000	\$ 2,750,000	\$ 2,545,126	\$ 355	\$ 4,950,922
92-1	1,966,433	2,014,700	12,317	-	67,500	1,535,000	365,775	-	2,025,175
98-1A	2,343,875	489,864	19,802	1,442,947	305,252	60,000	199,372	948,482	2,783,382
98-1B	-	-	16	598,745	116,169	-	-	129,032	353,560
98-2	9,057,746	7,758,899	65,888	2,574	150,000	4,030,000	3,256,894	-	9,448,213
04-1	363,352	390,993	2,267	-	50,000	190,000	191,994	-	324,618
05-1	2,327,271	1,017,562	19,728	-	50,000	105,000	875,834	-	2,333,727
Totals	<u>\$ 20,712,103</u>	<u>\$ 17,358,249</u>	<u>\$ 151,764</u>	<u>\$ 2,044,266</u>	<u>\$ 863,921</u>	<u>\$ 8,670,000</u>	<u>\$ 7,434,995</u>	<u>\$ 1,077,869</u>	<u>\$ 22,219,597</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

Note to the Supplementary Information

June 30, 2018

Combining Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual CFDs that have been included in the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Combining Statement of Net Position

The Combining Statement of Net Position is included to provide information regarding the individual CFDs that have been included in the Fiduciary Funds Statement of Net Position.

Schedule of Debt Service Activity for Agency Funds

This schedule discloses the receipt of special taxes and other revenues along with the payment of non-obligatory debt and other uses of the individual CFDs that have been included in the Fiduciary Funds Statement of Net Position.

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**

Governing Board
Capistrano Unified School District
San Juan Capistrano, 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 Capistrano Unified School District (the District) Capital Projects Fund for Blended Component Units and the related fiduciary funds as of and for the year ending June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2019.

Internal Control Over Financial Reporting

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

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

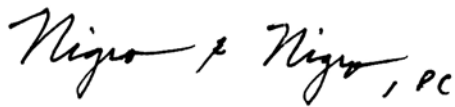
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capistrano Unified School District'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 District'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 15, 2019



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We were engaged to conduct a performance audit of the Community Facilities Districts (CFDs) No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 of Capistrano Unified School District for the year ended June 30, 2018.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the permitted uses as authorized by CFD voters. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the permitted uses as authorized by CFD voters. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 funds only on authorized projects as approved by the voters of the community facilities districts.

Murrieta, California
January 15, 2019

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

For the Fiscal Year Ended June 30, 2018

Performance Audit

AUTHORITY FOR ISSUANCE

The bonds are issued pursuant to the Melo-Roos Community Facilities Act of 1982, as amended, Section 53311 et seq. of the California Government Code. The laws were enacted by the State Legislature to provide an alternative method of financing certain public capital facilities and services. Only established by the legislative board of a local agency, a community facilities district is a legally constituted governmental entity with defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two thirds vote of qualified electors and compliance with the provisions of the laws, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

PURPOSE OF ISSUANCE

The CFDs may use its special taxes proportionally on the school facilities, including modernization and rehabilitation that serve the project students, including the facilities and central support and administrative facilities, interim housing, transportation and lease payments for financings.

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the CFDs have been made only on authorized projects as approved by the voters of the Community Facilities Districts.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2017 to June 30, 2018. The population of expenditures tested included all object and project codes associated with the CFD projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than CFD bond proceeds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2018, were not reviewed or included within the scope of our audit or in this report.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

For the Fiscal Year Ended June 30, 2018

Performance Audit

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2018, for the Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 of Capistrano Unified School District. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the permitted uses as authorized by CFD voters. We performed the following procedures:

1. We selected from each CFD a sample of expenditures for the period starting July 1, 2017, and ending June 30, 2018, and reviewed supporting documentation to ensure that such funds were properly expended on the authorized projects.
2. Our sample included 39 transactions totaling \$10,151,423. This represents 59.9 percent of the total expenditures of \$16,943,327 (not including funds expended for debt service activities from Agency Funds).
3. Based on our testing, we verified that funds from the Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 of Capistrano Unified School District were expended on the school facilities, including modernization and rehabilitation that serve the project students, including the facilities and central support and administrative facilities, interim housing, transportation and lease payments for financings.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Capistrano Unified School District has properly accounted for the expenditures held in the Community Facilities Districts No. 90-2, 92-1, 98-1A, 98-1B, 98-2, 2004-1, and 2005-1 and that such expenditures were made for authorized voter approved projects.

Findings and Recommendations

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS

There were no findings in 2017-18.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2018

There were no findings in 2016-17.