Trabuco Canyon Public Financing Authority

A Component Unit of the Trabuco Canyon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Trabuco Canyon Public Financing Authority
Trabuco Canyon, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Trabuco Canyon Public Financing Authority (Authority), a component financial reporting unit of the Trabuco Canyon Water District, as of and for the years ended June 30, 2014 and 2013, which collectively comprise the basic financial statements of the Authority as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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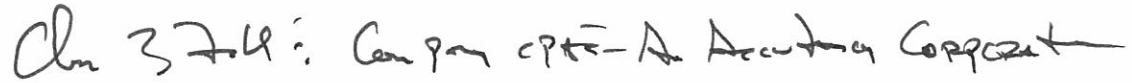
Independent Auditor's Report, continued

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Trabuco Canyon Public Financing Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements.



Charles Z. Fedak and Company, CPAs – An Accountancy Corporation
Cypress, California
September 22, 2014

Basic Financial Statements

Trabuco Canyon Public Financing Authority
Statements of Net Position
June 30, 2014 and 2013

Assets		2014	2013
Current assets:			
Accrued interest receivable	$	163,395	232,740
Special assessment receivable (note 2)		1,540,000	3,930,000
Total current assets		1,703,395	4,162,740
Non-current assets:			
Special assessment receivable (note 2)		4,525,000	6,065,000
Total non-current assets		4,525,000	6,065,000
Total assets		6,228,395	10,227,740
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable		163,395	232,740
Long-term liabilities – due within one year:			
Refunding revenue bonds (note 3)		1,540,000	3,930,000
Total current liabilities		1,703,395	4,162,740
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Refunding revenue bonds (note 3)		4,525,000	6,065,000
Total non-current liabilities		4,525,000	6,065,000
Total liabilities		6,228,395	10,227,740
Net position:			
Unrestricted		-	-
Total net position		-	-
Total liabilities and net position	$	6,228,395	10,227,740

See accompanying notes to the financial statements

Trabuco Canyon Public Financing Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

		2014	2013
Operating revenues:			
Interest earnings	$	503,096	776,716
Total revenues		503,096	776,716
Operating expenses:			
Interest expense		503,096	776,716
Total operating expenses		503,096	776,716
Changes in net position		-	-
Net position – beginning of year		-	-
Net position – end of year	$	-	-

See accompanying notes to the financial statements

Trabuco Canyon Public Financing Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Change in net position	$	-	-
Interest paid on refunding revenue bonds		(572,441)	(869,759)
Principal paid on refunding revenue bonds		(3,930,000)	(5,490,000)
Interest received on special assessment receivable		572,441	869,759
Principal received on special assessment receivable		3,930,000	5,490,000
Net change in cash and cash equivalents		-	-
Cash and cash equivalents – beginning of year		-	-
Cash and cash equivalents – end of year	$	-	-

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Trabuco Canyon Public Financing Authority (Authority) was formed on August 18, 1993, under a joint Exercise of Powers Agreement, by and between the Trabuco Canyon Water District (District) and Community Facilities District No. 7 of the District. The purpose of the agreement was to establish an authority for the purpose of acquiring, constructing, modifying, and rehabilitating facilities; undertaking a program of local agency bond pooled financing, refinancing and lending pursuant to the Marks-Roos Act; and to develop other powers to benefit the group to the extent permitted by the laws and regulations governing such operations.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The Authority is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Authority is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is to service the debt of the District through debt service payments received from the District. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Revenues and expenses result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

D. Assets, Liabilities and Net Position

1. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Authority equity during the reporting period. Actual results could differ from those estimates.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

2. Revenue Recognition

The Authority recognizes revenues from interest earnings when they are earned, operating activities generally result from providing services and producing and delivering goods. As such, the Authority considers interest earned to be operating revenue.

3. Economic Dependence

The Authority provides financial assistance to the District by financing the water improvement facilities for proposed future developments within the District. As such, all of the Authority's revenues and Installment Sale Agreement receivables result from an Installment Sale Agreement between the Authority and the District.

(2) Special Assessment Receivable

Special assessments are levied annually in order to yield an amount equal to the principal and interest on the long-term debt due in the ensuing year. Interest has been imputed on the special assessments receivable in an amount equal to the interest expense on long-term debt.

Special assessment receivable consists of the following at June 30:

		Balance 2013	Payments	Balance 2014	Current Portion
Special assessment receivable	$	9,995,000	(3,930,000)	6,065,000	1,540,000

		Balance 2012	Payments	Balance 2013	Current Portion
Special assessment receivable	$	15,485,000	(5,490,000)	9,995,000	3,930,000

Special assessment principal and interest receivable are to be received over the years as follows:

Year		Principal	Interest	Total
2015	$	1,540,000	324,503	1,864,503
2016		1,280,000	236,385	1,516,385
2017		745,000	175,222	920,222
2018		785,000	128,557	913,557
2019		825,000	79,452	904,452
2020		890,000	27,145	917,145
Total	$	6,065,000	971,264	7,036,264
Current		(1,540,000)		
Long-term	$	4,525,000		

(3) Long-Term Debt

Long-term debt consists of the following at June 30:

		Balance 2013	Payments	Balance 2014	Current Portion
1994 Refunding revenue bonds	$	9,995,000	(3,930,000)	6,065,000	1,540,000

		Balance 2012	Payments	Balance 2013	Current Portion
1994 Refunding revenue bonds	$	15,485,000	(5,490,000)	9,995,000	3,930,000

1994 Series A & B – Special Tax Refunding Bonds

On April 1, 1994, the Authority issued $61,960,000 of special tax refunding bonds to refund the original bonds issued in 1986 – 1988 for Community Facility Districts No. 2, 5, 7 and 8 totaling $53,600,000 used to finance capital improvements within the District's service area.

1994 Series A – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2016. Interest installments are payable each fiscal year at a rates of 6.0% to 6.1% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. Annual debt service requirements on the loan are as follows:

Year		Principal	Interest	Total
2015	$	545,000	52,308	597,308
2016		585,000	17,842	602,842
Total		1,130,000	70,150	1,200,150
Current		(545,000)		
Long-term	$	585,000		

1994 Series B – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2015. Interest installments are payable each fiscal year at a rates of 6.9% to 7.0% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. Annual debt service requirements on the loan are as follows:

Year		Principal	Interest	Total
2015	$	335,000	11,725	346,725
Total		335,000	11,725	346,725
Current		(335,000)		
Long-term	$	-		

(3) Long-Term Debt, continued

1994 Series C – Refunding Revenue Bonds

On April 15, 1994, the Authority issued $12,080,000 of water and wastewater refunding revenue bonds to refund a prior outstanding issuance. The bonds are scheduled to mature in fiscal year 2020. Interest installments are payable each fiscal year at rates of 6.0% to 6.1% on July 1st and January 1st, while principal payments are due on July 1st. Annual debt service requirements on the loan are as follows:

Year		Principal	Interest	Total
2015	$	660,000	260,470	920,470
2016		695,000	218,543	913,543
2017		745,000	175,222	920,222
2018		785,000	128,557	913,557
2019		825,000	79,452	904,452
2020		890,000	27,145	917,145
Total		4,600,000	889,389	5,489,389
Current		(660,000)		
Long-term	$	3,940,000		

Total debt service requirements on the refunding revenue bonds are as follows:

Year		Principal	Interest	Total
2015	$	1,540,000	324,503	1,864,503
2016		1,280,000	236,385	1,516,385
2017		745,000	175,222	920,222
2018		785,000	128,557	913,557
2019		825,000	79,452	904,452
2020		890,000	27,145	917,145
Total	$	6,065,000	971,264	7,036,264
Current		(1,540,000)		
Long-term	$	4,525,000		

(4) Commitments and Contingencies

Litigation

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(5) Subsequent Event

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of September 22, 2014, which is the date the financial statements were available to be issued. The Authority is not aware of any subsequent events that would require recognition or disclosure in the financial statements.