Trabuco Canyon Improvement Corporation
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 Improvement Corporation
Trabuco Canyon, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Trabuco Canyon Improvement Corporation (Corporation), 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 Corporation 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 Improvement Corporation 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 & Company, CPAs – An Accountancy Corporation

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

Basic Financial Statements

Trabuco Canyon Improvement Corporation
Statements of Net Position
June 30, 2014 and 2013

Assets		2014	2013
Current assets:			
Accrued interest receivable	$	153,996	178,478
Installment sale agreement receivable (note 2)		665,000	620,000
Total current assets		818,996	798,478
Non-current assets:			
Installment sale agreement receivable (note 2)		3,235,000	3,900,000
Total non-current assets		3,235,000	3,900,000
Total assets		4,053,996	4,698,478
Liabilities and Net Position			
Current liabilities:			
Accrued interest payable		153,996	178,478
Long-term liabilities – due within one year:			
Certificates-of-participation (note 3)		665,000	620,000
Total current liabilities		818,996	798,478
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Certificates-of-participation (note 3)		3,235,000	3,900,000
Total non-current liabilities		3,235,000	3,900,000
Total liabilities		4,053,996	4,698,478
Net position:			
Unrestricted		-	-
Total net position		-	-
Total liabilities and net position	$	4,053,996	4,698,478

See accompanying notes to the financial statements

Trabuco Canyon Improvement Corporation
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

		2014	2013
Operating revenues:			
Interest earnings	$	307,992	356,954
Total revenues		307,992	356,954
Operating expenses:			
Interest expense		307,992	356,954
Total operating expenses		307,992	356,954
Changes in net position		-	-
Net position – beginning of year		-	-
Net position – end of year	$	-	-

See accompanying notes to the financial statements

Trabuco Canyon Improvement Corporation
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 certificates-of-participation		(332,473)	(379,461)
Principal paid on certificates-of-participation		(620,000)	(570,000)
Interest received on installment sale agreement receivable		332,473	379,461
Principal received on installment sale agreement receivabl		620,000	570,000
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 Improvement Corporation (Corporation) was organized on September 1, 1988, pursuant to the Nonprofit Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of providing financial assistance to the Trabuco Canyon Water District (District) by financing the water improvement facilities for proposed future developments within the District.

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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation. 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.

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

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 Corporation equity during the reporting period. Actual results could differ from those estimates.

2. Revenue Recognition

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

3. Economic Dependence

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

(2) Installment Sale Agreement Receivable

On November 1, 1988, the Corporation sold $10,825,000 of certificates-of-participation (Certificates) to provide financing of certain water improvements within the District's service area. The Corporation sold the improvements to the District under the terms of an installment sale agreement. The original certificates issued in 1988 were refunded with proceeds from the 1994 refunding certificates-of-participation. The Corporation entered into an installment sale agreement on April 1, 1994, to loan the proceeds from the 1994 refunding certificates-of-participation to prepay the installment sale agreement receivable from the 1988 Certificates.

The net investment in the installment sale agreement receivable of $3,900,000 represents the gross minimum installment sale agreement payments of $6,618,905, less unearned finance charges of $1,149,443. The unearned finance charges will be recognized as income as the installment sale agreement payments are received.

Installment sale agreement receivable consists of the following at June 30:

	Balance 2013	Payments	Balance 2014	Current Portion
1994 Installment sale agreement receivable	$ 4,520,000	(620,000)	3,900,000	665,000

	Balance 2012	Payments	Balance 2013	Current Portion
1994 Installment sale agreement receivable	$ 5,090,000	(570,000)	4,520,000	620,000

(2) Installment Sale Agreement Receivable, continued

Minimum installment sale agreement payments to be received are as follows:

Year		Principal	Interest	Total
2015	$	665,000	281,734	946,734
2016		720,000	227,045	947,045
2017		775,000	168,014	943,014
2018		835,000	104,441	939,441
2019		905,000	35,735	940,735
Total	$	3,900,000	816,969	4,716,969

(3) Long-Term Debt

		Balance 2013	Payments	Balance 2014	Current Portion
1994 Refunding certificates-of-participation	$	4,520,000	(620,000)	3,900,000	665,000

		Balance 2012	Payments	Balance 2013	Current Portion
1994 Refunding certificates-of-participation	$	5,090,000	(570,000)	4,520,000	620,000

Certificates of Participation

In April 1994, the Corporation issued $11,110,000 in 1994, refunding certificates-of-participation to advance refund the 1988 certificates-of-participation. The proceeds of the refunding certificates were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 certificates-of-participation. The 1988 certificates-of-participation are considered defeased and the liability for those certificates is not included in the accompanying financial statements. On November 1, 1998, the remaining balance of $9,860,000 was called and redeemed in full. The 1994 Certificates mature annually through July 1, 2018, and bear interest at a rate of 7.897%.

Certificates-of-participation annual debt service is as follows per year at June 30:

Year		Principal	Interest	Total
2015	$	665,000	281,734	946,734
2016		720,000	227,045	947,045
2017		775,000	168,014	943,014
2018		835,000	104,441	939,441
2019		905,000	35,735	940,735
Total	$	3,900,000	816,969	4,716,969

(4) Commitments and Contingencies

Litigation

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

(5) Subsequent Events

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 Corporation is not aware of any subsequent events that would require recognition or disclosure in the financial statements