Trabuco Canyon Improvement District

Trabuco Canyon, California

Annual Financial Report

For the Years Ended June 30, 2015 and 2014

THE PUN GROUP
ACCOUNTANTS & ADVISORS

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For the Years Ended June 30, 2015 and 2014

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FINANCIAL SECTION

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Trabuco Canyon Improvement District
Trabuco Canyon, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Trabuco Canyon Improvement District (District), which comprise of the balance sheet as of June 30, 2015, and the related statements of revenues, expenses and change in net position, cash flows, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 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 respective financial position of the District, as of June 30, 2015, and the respective changes in financial position, and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

2014 Financial Information

Trabuco Canyon Improvement District's basic financial statements for the year ended June 30, 2014, were audited by other auditors whose report thereon dated September 22, 2014, expressed an unmodified opinion on the respective financial statements of the District.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

The Pun Group, LLP

Santa Ana, California
January 19, 2016

BASIC FINANCIAL STATEMENS

Trabuco Canyon Improvement Corporation
Balance Sheets
June 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Accrued interest receivable	$ 127,738	$ 153,996
Installment sale agreement receivable (note 2)	720,000	665,000
Total current assets	847,738	818,996
Noncurrent assets:		
Installment sale agreement receivable (note 2)	2,515,000	3,235,000
Total noncurrent assets	2,515,000	3,235,000
Total assets	3,362,738	4,053,996
LIABILITIES		
Current liabilities:		
Accrued interest payable	127,738	153,996
Long-term liabilities – due within one year:		
Certificates-of-participation (note 3)	720,000	665,000
Total current liabilities	847,738	818,996
Noncurrent liabilities:		
Long-term liabilities – due in more than one year:		
Certificates-of-participation (note 3)	2,515,000	3,235,000
Total noncurrent liabilities	2,515,000	3,235,000
Total liabilities	3,362,738	4,053,996
NET POSITION		
Unrestricted:	-	-
Total net position	-	-
Total liabilities and net position	$ 3,362,738	$ 4,053,996

See accompanying Notes to the Basic Financial Statements.

Trabuco Canyon Improvement Corporation
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Interest earnings	$ 281,734	$ 307,992
Total operating revenues	281,734	307,992
Operating expenses:		
Interest expense	281,734	307,992
Total operating expenses	281,734	307,992
Change in net position	-	-
Net position:		
Beginning of year	-	-
End of year	$ -	$ -

See accompanying Notes to the Basic Financial Statements.

Trabuco Canyon Improvement Corporation
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Interest paid on certificates-of-participation	$ (307,992)	$ (332,473)
Principal paid on certificates-of-participation	(665,000)	(620,000)
Interest received on installment sale agreement receivable	307,992	332,473
Principal received on installment sale agreement receivable	665,000	620,000
Net change in cash and cash equivalents	-	-
Cash and cash equivalents:		
Beginning of year	-	-
End of year	$ -	$ -

See accompanying Notes to the Basic Financial Statements.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

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 District 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 District 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.

Basis of Accounting and Measurement Focus

The District 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.

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 enterprise fund.

Use of Estimates

The preparation of the basic 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 they also include disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

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.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

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.

Note 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 $3,235,000 represents the gross minimum installment sale agreement payments of $3,770,235, less unearned finance charges of $535,235. The unearned finance charges will be recognized as income as the installment sale agreement payments are received.

Changes in installment sale agreement receivable were as follows:

Balance July 1, 2014	Payments	Balance June 30, 2015	Current Portion	Noncurrent Portion
$ 3,900,000	$ (665,000)	$ 3,235,000	$ 720,000	$ 2,515,000

Balance July 1, 2013	Payments	Balance June 30, 2014	Current Portion	Noncurrent Portion
$ 4,520,000	$ (620,000)	$ 3,900,000	$ 665,000	$ 3,235,000

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

Year	Principal	Interest	Total
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	$ 3,235,000	$ 535,235	$ 3,770,235

Note 3 – Long-Term Debt

Changes in long-term debt were as follows:

Balance July 1, 2014	Payments	Balance June 30, 2015	Current Portion	Noncurrent Portion
$ 3,900,000	$ (665,000)	$ 3,235,000	$ 720,000	$ 2,515,000

Balance July 1, 2013	Payments	Balance June 30, 2014	Current Portion	Noncurrent Portion
$ 4,520,000	$ (620,000)	$ 3,900,000	$ 665,000	$ 3,235,000

Certificates of Participation

In April 1994, the Corporation issued $11,110,000 in 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 are not included in the accompanying financial statements. 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
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	$ 3,235,000	$ 535,235	$ 3,770,235

Note 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.