

# **Trabuco Canyon Public Financing Authority**

Trabuco Canyon, California

## **Annual Financial Report**

*For the Years Ended June 30, 2015 and 2014*



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**Trabuco Canyon Public Financing Authority**  
**Annual Financial Report**  
**For the Years Ended June 30, 2015 and 2014**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Trabuco Canyon Public Financing Authority (Authority), 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 Authority'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 Authority, 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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To the Board of Directors  
of the Trabuco Canyon Public Financing Authority  
Trabuco Canyon, California  
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***Other Matters***

***2014 Financial Information***

Trabuco Canyon Public Financing Authority'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 Authority.

***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 Pen Group, LLP*

Santa Ana, California  
January 19, 2016

## **BASIC FINANCIAL STATEMENS**

**Trabuco Canyon Public Financing Authority**  
**Balance Sheets**  
**June 30, 2015 and 2014**

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<b><u>ASSETS</u></b>	<b>2015</b>	<b>2014</b>
<b>Current assets:</b>		
Accrued interest receivable	\$ 129,091	\$ 163,395
Installment sale agreement receivable (note 2)	<u>1,280,000</u>	<u>1,540,000</u>
<b>Total current assets</b>	<u>1,409,091</u>	<u>1,703,395</u>
<b>Noncurrent assets:</b>		
Installment sale agreement receivable (note 2)	3,245,000	4,525,000
<b>Total noncurrent assets</b>	<u>3,245,000</u>	<u>4,525,000</u>
<b>Total assets</b>	<u>4,654,091</u>	<u>6,228,395</u>
 <b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Accrued interest payable	129,091	163,395
Long-term liabilities – due within one year:		
Refunding revenue bonds (note 3)	<u>1,280,000</u>	<u>1,540,000</u>
<b>Total current liabilities</b>	<u>1,409,091</u>	<u>1,703,395</u>
<b>Noncurrent liabilities:</b>		
Long-term liabilities – due in more than one year:		
Refunding revenue bonds (note 3)	<u>3,245,000</u>	<u>4,525,000</u>
<b>Total noncurrent liabilities</b>	<u>3,245,000</u>	<u>4,525,000</u>
<b>Total liabilities</b>	<u>4,654,091</u>	<u>6,228,395</u>
 <b><u>NET POSITION</u></b>		
<b>Unrestricted:</b>	-	-
<b>Total net position</b>	-	-
<b>Total liabilities and net position</b>	<u>\$ 4,654,091</u>	<u>\$ 6,228,395</u>

**Trabuco Canyon Public Financing Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2015 and 2014**

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	<b>2015</b>	<b>2014</b>
<b>Operating revenues:</b>		
Interest earnings	\$ 447,431	\$ 503,096
<b>Total operating revenues</b>	<u>447,431</u>	<u>503,096</u>
<b>Operating expenses:</b>		
Interest expense	447,431	503,096
<b>Total operating expenses</b>	<u>447,431</u>	<u>503,096</u>
<b>Change in net position</b>	-	-
<b>Net position:</b>		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

**Trabuco Canyon Public Financing Authority**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2015**

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	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Interest paid on refunding revenue bonds	\$ (481,735)	\$ (572,441)
Principal paid on refunding revenue bonds	(1,540,000)	(3,930,000)
Interest received on special assessment receivable	481,735	572,441
Principal received on special assessment receivable	1,540,000	3,930,000
<b>Net change in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	-	-
End of year	<b>\$ -</b>	<b>\$ -</b>

**Trabuco Canyon Public Financing Authority**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2015 and 2014**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

***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.

***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.

***Financial Reporting***

The Authority'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 Authority solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Authority'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 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.

**Trabuco Canyon Public Financing Authority**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2015 and 2014**

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

**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.

**Note 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.

Changes in special assessment receivable were as follows:

Balance July 1, 2014	Payments	Balance June 30, 2015	Current Portion	Noncurrent Portion
\$ 6,065,000	\$ (1,540,000)	\$ 4,525,000	\$ 1,280,000	\$ 3,245,000
Balance July 1, 2013	Payments	Balance June 30, 2014	Current Portion	Noncurrent Portion
\$ 9,995,000	\$ (3,930,000)	\$ 6,065,000	\$ 1,540,000	\$ 4,525,000

Special assessment payments to be received are as follows:

Year	Principal	Interest	Total
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	\$ 4,525,000	\$ 646,761	\$ 5,171,761

**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
\$ 6,065,000	\$ (1,540,000)	\$ 4,525,000	\$ 1,280,000	\$ 3,245,000
Balance July 1, 2013	Payments	Balance June 30, 2014	Current Portion	Noncurrent Portion
\$ 9,995,000	\$ (3,930,000)	\$ 6,065,000	\$ 1,540,000	\$ 4,525,000

**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. The 1994 Series B refunding revenue bonds was paid off in 2015.

**Trabuco Canyon Public Financing Authority**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2015 and 2014**

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**Note 3 – Long-Term Debt (Continued)**

**1994 Series A – Refunding Revenue Bonds**

The bonds are scheduled to mature in fiscal year 2016. Interest installments are payable each fiscal year at rates of 6.0% to 6.1% on October 1<sup>st</sup> and April 1<sup>st</sup>, while principal payments are due on October 1<sup>st</sup>. 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
2016	\$ 585,000	\$ 17,842	\$ 602,842
Total	585,000	<u>\$ 17,842</u>	<u>\$ 602,842</u>
Current	(585,000)		
Long-term	<u>\$ -</u>		

**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 1<sup>st</sup> and January 1<sup>st</sup>, while principal payments are due on July 1<sup>st</sup>. Annual debt service requirements on the loan are as follows:

Year	Principal	Interest	Total
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	3,940,000	<u>\$ 628,919</u>	<u>\$ 4,568,919</u>
Current	(695,000)		
Long-term	<u>\$ 3,245,000</u>		

**Note 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.