

**ANNUAL FINANCIAL REPORT**

**CITY OF PALMDALE, CALIFORNIA**

**PALMDALE FINANCING AUTHORITY**

**(A Component Unit of the City of Palmdale)**



*For the Fiscal Year Ended*

*June 30, 2015*

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**CITY OF PALMDALE FINANCING AUTHORITY**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2015**

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## INDEPENDENT AUDITORS' REPORT

Honorable Member of the Board of Directors  
Palmdale Financing Authority  
City of Palmdale, California

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

We have audited the accompanying financial statements of the Palmdale Financing Authority (Authority), a component unit of the City of Palmdale, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Authority's basic financial statements 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 Authority, as of June 30, 2015, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the City’s internal control over financial reporting as it relates to the Authority 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 City’s internal control over financial reporting and compliance as it relates to the Authority.

*Varrinck, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
November 24, 2015

**CITY OF PALMDALE FINANCING AUTHORITY**

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

**Assets:**

Interest Receivable	\$ 86,837
Leases Receivable	<u>8,695,000</u>
Total Assets	<u>8,781,837</u>

**Liabilities:**

Accrued Interest Payable	86,837
Noncurrent Liabilities:	
Due Within One Year	490,000
Due in More than One Year	<u>8,205,000</u>
Total Liabilities	<u>8,781,837</u>

**Net Position:**

Unrestricted	<u>-</u>
Total Net Position	<u><u>\$ -</u></u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE FINANCING AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION**

**FOR THE YEAR ENDED JUNE 30, 2015**

Non-Operating Revenues:	
Payments from the City	<u>\$ 260,510</u>
Total Non-Operating Revenues	<u>260,510</u>
Non-Operating Expenses:	
Interest on Debt	<u>260,510</u>
Total Non-Operating Expenses	<u>260,510</u>
Change in Net Position	-
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u><u>\$ -</u></u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE FINANCING AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

Cash flows from non-capital financing activities:	
Lease Payments Received from the City of Palmdale	260,510
Interest Paid on Debt	<u>(260,510)</u>
Net cash used for non-capital financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on Investments	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents - Beginning of Year	<u>-</u>
Cash and cash equivalents - End of Year	<u><u>\$ -</u></u>

See Accompanying Notes to the Financial Statements

**PALMDALE FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**



*For the Fiscal Year Ended*

*June 30, 2015*

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# CITY OF PALMDALE FINANCING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### (1) Summary of Significant Accounting Policies

#### A. Description of the Reporting Entity

The Palmdale Financing Authority of the City of Palmdale, California (Authority) was originally created under a joint powers agreement between the City of Palmdale (City) and the Housing Authority of the City of Palmdale (Agency) on September 26, 2012 for the purpose of financing public improvements in the City. The Authority is financially accountable to the City and, accordingly, is a component unit of the City although it is a separate legal entity. Assets of the Authority, after providing for all debts and obligations, are to be transferred to the City upon final payment of the loans.

The Authority is a component unit of the City of Palmdale, California (as defined by the Governmental Accounting Standards Board) and, as such, is included in the Comprehensive Annual Financial Report of the City. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Although a legally separate entity, it is reported on a blended basis as part of the primary government (the City) because a voting majority of the Authority's governing board is appointed by the City Council and they are, in substance part of the City's operations.

#### B. Financial Statement Presentation, Basis of Accounting and Measurement Focus

The Palmdale Financing Authority's basic financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period incurred regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by leasing activities while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenue and expenses generated that are not directly associated with the normal business of debt activities.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The Annual Financial Statements are intended to reflect the financial position, results of operation and net position of the City of Palmdale Financing Authority. They do not present fairly the financial position and results of operations of the City of Palmdale, California, in conformity with accounting principles generally accepted in the United States of America.

#### C. Cash and Cash Equivalents

Investments include amounts invested in money market funds held by a trustee. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2015.

## CITY OF PALMDALE FINANCING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

#### D. Long-Term Obligations

In the Statement of Net Position, long-term debt is a liability. Bond premium/discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

#### E. Net Position

Net position is comprised of the cumulative net earnings from non-operating revenues and expenses. Net position is classified in the following categories:

**Unrestricted** – This component of net position consists of resources that are available to the Authority.

#### F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### G. Implemented Accounting Pronouncements

During fiscal year 2014-15, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement effected the periods beginning after June 15, 2014. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2014-15, the Authority adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to establish reporting standards related to government combinations and disposals of government operations. The statement is effective for periods beginning after December 15, 2013. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2014-15, the Authority adopted GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.. The implementation did not have any significant impact on the Authority's financial statements.

**CITY OF PALMDALE FINANCING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(2) Long-Term Receivables**

**A. Leases Receivable**

The Authority and the City of Palmdale have entered into lease agreements that obligate the City to pay lease payments to the Authority in consideration of the City's use and enjoyment of certain property and improvements. The lease payment schedules, as well as the facilities subject to the leases, are more fully described on pages 9-10, Note 3 A – Lease Revenue Bonds and Note 3 B – Certificates of Participation. Lease receivable activity for the year ended June 30, 2015, was as follows:

	Balance at July 1, 2014	Additions	Payments	Balance at June 30, 2015
Lease Receivable Related to:				
2012 Lease Revenue Bonds	\$ 8,695,000	\$ -	\$ -	\$ 8,695,000
<b>Total Lease Receivables</b>	<b>\$ 8,695,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,695,000</b>

As of June 30, 2015, future lease payments are as follows:

Fiscal Year Ended	2012 Lease Receivable	
	Principal	Interest
2016	\$ 490,000	\$ 255,610
2017	500,000	243,210
2018	515,000	227,985
2019	530,000	212,310
2020	545,000	193,460
2021-2025	2,970,000	727,388
2026-2030	3,145,000	251,587
	<b>\$ 8,695,000</b>	<b>\$ 2,111,550</b>

**(3) Long-Term Debt**

**A. Lease Revenue Bonds**

**2012 Lease Revenue Bond Payable (\$8,695,000)** - On December 19, 2012, the Authority issued \$8,695,000 of Lease Refunding Revenue Bonds (2012 Bonds). Interest on the 2012 Bonds is payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 4.00% per annum. Principal installments are payable September 1 of each year from 2015 to 2029.

The 2012 Bonds maturing on or after September 1, 2015, are subject to extraordinary mandatory redemption from net proceeds of an insurance, title insurance, condemnation or eminent domain award on any interest payment date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments. The 2012 Bonds maturing on or after September 1, 2023, may be redeemed on or after September 1, 2022, from proceeds of optional lease prepayments made by the City, without premium.

**CITY OF PALMDALE FINANCING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

The proceeds of the 2012 Bonds were used to refinance an existing lease and refund the related certificates of participation, to satisfy the reserve requirement of the bonds, and pay the costs incurred in connection with the issuance of the bonds.

The 2012 Bonds represent direct, undivided fractional interests in a lease of the City's Development Services Building and the South Valley WorkSource Center. The City has the right, subject to certain conditions, to substitute alternate property for the above properties, as the property subject to the lease.

The lease agreement requires the City to pay a semi-annual base rental on August 15 and February 15 to the Authority for the use of the facilities through September 2029. The rentals will be used by the Authority to pay principal and interest with respect to the 2012 Bonds as they become due. Title to the land and facilities covered by the lease and the 2012 Bonds is vested in the Authority, for the benefit of the 2012 Bond holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 2012 Bond holders, title to the property shall vest in the City. The City may, on any date, deposit sufficient funds into an irrevocable trust to pay all remaining lease payments, at which time the lease agreement shall cease and terminate and title to the property shall vest in the City.

Year Ending	Principal	Interest	Total
2016	\$ 490,000	\$ 255,610	\$ 745,610
2017	500,000	243,210	743,210
2018	515,000	227,985	742,985
2019	530,000	212,310	742,310
2020	545,000	193,460	738,460
2021-2025	2,970,000	727,388	3,697,388
2026-2030	3,145,000	251,587	3,396,587
Totals	<u>\$ 8,695,000</u>	<u>\$ 2,111,550</u>	<u>\$ 10,806,550</u>

**B. Certificates of Participation**

**2014 Certificate of Participation Payable (\$25,920,000)** - On October 16, 2014, The Palmdale Financing Authority assigned the future lease revenues from the Lease Agreement dated as of October 1, 2014, by and between the City of Palmdale and the Authority, to TPB Investments, Inc., a wholly owned subsidiary of Western Alliance Bank, an Arizona corporation, in exchange for \$25,920,000. These funds were used to redeem \$25,445,000 of outstanding 2002 Palmdale Civic Authority Certificates of Participation, pay \$262,893 of interest on the outstanding 2002 Palmdale Civic Authority Certificates of Participation, and pay financing costs of \$212,107. Total lease payments of \$36,305,496 will be paid to TPB Investments, Inc. by the City of Palmdale in semiannual installments beginning March 1, 2015 through September 1, 2032 representing \$25,920,000 in principal and \$10,385,496 in interest for an effective interest rate of 3.72%. As a result, the Certificates of Participation and the associated lease receivable have been removed from the Palmdale Financing Authority's financial statements.

**CITY OF PALMDALE FINANCING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Principal Balance at July 1, 2014	Additions	Retirements	Principal Balance at June 30, 2015	Amounts Due Within One Year
2012 Lease Revenue Bonds	\$ 8,695,000	\$ -	\$ -	\$ 8,695,000	\$ 490,000
Total	<u>\$ 8,695,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,695,000</u>	<u>\$ 490,000</u>

**(4) New Accounting Pronouncements**

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 73**– In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 74** – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 75** - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement 75 are effective for fiscal

**CITY OF PALMDALE FINANCING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
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years beginning after June 15, 2017. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 76** – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is not effective until the fiscal year ending June 30, 2016. The Authority has not determined the effect of this statement.

**GASB Statement No. 77** – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. 2. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is not effective until the fiscal year ending June 30, 2017. The Authority has not determined the effect of this statement.



**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**

To the Honorable Members of the Board of Directors  
Palmdale Financing Authority  
City of Palmdale, 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 Palmdale Financing Authority (Authority), a component unit of the City of Palmdale, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated November 24, 2015.

**Internal Control over Financial Reporting**

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

*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 entity'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 the Authority's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
November 24, 2015