

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

PALMDALE CIVIC AUTHORITY

(A Component Unit of the City of Palmdale)



For the Fiscal Year Ended

June 30, 2015

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PALMDALE CIVIC AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Palmdale Civic 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.

Vavrinick, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 24, 2015

CITY OF PALMDALE CIVIC AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2015

Assets:

Cash and Investments	\$	30,173
Interest Receivable		558,177
Leases Receivable - City of Palmdale		39,030,000
Loans Receivable from the Successor Agency to the Community Redevelopment Agency of the City of Palmdale		17,252,815
Restricted Assets:		
Cash and Investments		8,658,434
Interest Receivable		1,580
		<hr/>
Total Assets		65,531,179

Deferred Outflows of Resources:

Deferred Charge on Refunding		351,834
		<hr/>
Total Deferred Outflows of Resources		351,834

Liabilities:

Accrued Interest Payable		1,061,783
Deposits-Arbitrage		55,727
Non-current Liabilities:		
Due Within One Year		3,652,093
Due in More than One Year		55,168,265
		<hr/>
Total Liabilities		59,937,868

Net Position:

Unrestricted		5,945,145
		<hr/>
Total Net Position	\$	5,945,145

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDING JUNE 30, 2015

Non-Operating Revenues:	
Interest Income from Notes Receivable	\$ 983,934
Interest Income from Leases Receivable	2,623,650
Interest Income	44,586
Net Increase Fair Value of Investments	6
Contribution from City of Palmdale	<u>25,707,893</u>
Total Non-Operating Revenues	<u>29,360,069</u>
Non-Operating Expenses:	
Principal Payment to Refunded Bond Escrow Agent	25,445,000
Interest Payment to Refunded Bond Escrow Agent	262,893
Interest Expense	<u>3,515,406</u>
Change Total Non-Operating Expenses	<u>29,223,299</u>
Net Position, Beginning of Year	136,770
Net Position, End of Year	<u>5,808,375</u>
	<u><u>\$ 5,945,145</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

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

Cash flows from non-capital financing activities:	
Principal Received from Leases Receivable	\$ 1,755,000
Principal in Bond Proceeds Received from City of Palmdale	25,445,000
Interest Income from Leases Receivable	2,806,183
Interest in Bond Proceeds Received from City of Palmdale	262,893
Principal Received from Note Receivable	4,200,000
Interest Income from Note Receivable	<u>1,546,125</u>
Net cash provided by non-capital financing activities	<u>36,015,201</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(3,825,000)
Principal Payment to Refunded Bond Escrow Agent	(25,445,000)
Interest on Debt	(3,857,991)
Interest Payment to Refunded Bond Escrow Agent	<u>(262,893)</u>
Net cash used for capital and related financing activities	<u>(33,390,884)</u>
Cash flows from investing activities:	
Interest on Investments	<u>101,775</u>
Net increase in cash and cash equivalents	2,726,092
Cash and cash equivalents - Beginning of Year	<u>5,962,515</u>
Cash and cash equivalents - End of Year	<u>\$ 8,688,607</u>

See Accompanying Notes to the Financial Statements

PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS



For the Fiscal Year Ended

June 30, 2015

**CITY OF PALMDALE CIVIC AUTHORITY
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**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Palmdale Civic Authority of the City of Palmdale, California (Authority) was originally created under a joint powers agreement between the City of Palmdale (City) and the former Community Redevelopment Agency of the City of Palmdale (Agency) on May 1, 1976 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.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 that provides for the dissolution of all redevelopment agencies in the State of California effective January 31, 2012. The Successor Agency for the former Community Redevelopment Agency was formed for the purpose of holding the assets and liabilities for the former Agency until they are distributed to the other units of state and local government. The Successor Agency is subject to the control of an oversight board and remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution. All assets and liabilities of the former Agency were transferred to either the Successor Agency Private Purpose Trust Fund or the Housing Successor. Obligations owed to the Authority by the former Agency are now accounted for in the Successor Agency Private Purpose Trust Fund and can be found on the City of Palmdale's Financial Statements. The assets and activities that are reported in the Private Purpose Trust Fund and its debts and obligations are not debts of the City or the Authority. Although the former Agency has been dissolved, the Authority will continue to exist for the purpose of repayment of existing debt.

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.

The following is a summary of the significant accounting policies of the Authority.

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

The Palmdale Civic 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.

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

The Annual Financial Statements are intended to reflect the financial position, results of operation and net position of the City of Palmdale Civic 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 Investments

Investments include amounts in the Local Agency Investment Fund, money market funds, and investment agreements. The Local Agency Investment Fund is reported at the carrying value because the fair value was not materially different. Amounts invested in money market funds and investment agreements are reported at fair value or guaranteed amounts per investment agreements, which is equal to cost as of June 30, 2015.

D. Restricted Assets

Restricted assets represent bond reserve amounts and interest earnings thereon related to the Revenue Bonds and Certificates of Participation. The bond resolutions and indentures require that the bond reserves be maintained in amounts equal to the maximum amount of principal and interest to be paid in any single future fiscal year for each issue.

E. Long-Term Obligations

In the statement of net position, long-term debt and other long-term obligations are reported as liabilities. Bond premium/discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported in the period the cost was incurred.

F. 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.

G. 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.

H. 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

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

2) Cash and Investments

Statement of Net Position

Cash and Investments with the City of Palmdale	\$ 30,173
Restricted Cash and Investments	<u>8,658,434</u>
Total Cash and Investments	<u>\$ 8,688,607</u>

Cash and investments as of June 30, 2015 consist of the following:

Investments:

Cash and Investments with the City of Palmdale Investment Pool	\$ 30,173
Held by bond trustees	<u>8,658,434</u> <u>\$ 8,688,607</u>

Total Cash and Investments	<u><u>\$ 8,688,607</u></u>
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Cash and investments of the Authority are pooled with funds of the City for deposit and investment purposes, except for funds required to be held by outside fiscal agents. Interest earned on pooled cash and investments is credited to the Authority based on the Authority's month-end cash balance. In addition, restricted cash and investments were held by fiscal agents in accordance with bond indenture agreements.

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2015.

A. Investments Authorized by the California Government Code and the Authority's Investment Policy

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The table following identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements with the Authority, rather than the general provisions of the California Government Code or the City's investment policy.

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%
Municipal Obligations	5 years	10%	15%
Negotiable Certificates of Deposit	5 years	30%	None
Overnight Bank Investment Pool	N/A	10%	None
Mutual Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$50,000,000

*Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

The City's investment policy also authorizes Demand Deposits of up to \$2,000,000 (and \$2,500,000 in the aggregate) with Bank of America or Wells Fargo Bank.

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Investment Policy of the City, Sections 4.1 and 4.2, provide guidelines for managing risk. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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<u>Investment Type</u>	<u>Total</u>	Remaining Maturity (in Months)			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Cash and Investments with City of Palmdale Investment Pool	\$ 30,173	\$ 30,173	\$ -	\$ -	\$ -
Held by bond trustees:					
Money market funds	7,041,483	7,041,483	-	-	-
Investment agreements	1,616,951	956,951	-	-	660,000
Total	\$ 8,688,607	\$ 8,028,607	\$ -	\$ -	\$ 660,000

D. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Not Required to be Rated</u>	<u>AAA/Aaa</u>
Cash and Investments with City of Palmdale Investment Pool	\$ 30,173	N/A	\$ 30,173	\$ -
Held by bond trustee:				
Money market funds	7,041,483	A	-	7,041,483
Investment agreements	1,616,951	N/A	1,616,951	-
Total	\$ 8,688,607		\$ 1,647,124	\$ 7,041,483

E. Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total Authority's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Bayerische Landesbank	Investment Agreement	\$ 956,951
Societe Generale	Investment Agreement	660,000

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Cash in City of Palmdale Investment Pool included City deposits with financial institutions in excess of federal depository insurance limits held in collateralized accounts, but not in the name of the City or the Authority. Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2015. The report can be obtained from the City's website at www.cityofpalmdale.org.

3) 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 in pages 13-16, Note 4 A - 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:				
2002 Certificates of Participat	\$ 39,785,000	\$ -	\$ (26,195,000)	\$ 13,590,000
2004 Certificates of Participat	8,575,000	-	(635,000)	7,940,000
2007 Certificates of Participat	17,870,000	-	(370,000)	17,500,000
Total Lease Receivables	\$ 66,230,000	\$ -	\$ (27,200,000)	\$ 39,030,000

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

Fiscal Year Ended	2002 Certificates of Participation		2004 Certificates of Participation		2007 Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 390,000	\$ 671,000	\$ 660,000	\$ 327,694	\$ 395,000	\$ 1,099,516	\$ 1,445,000	\$ 2,098,210
2017	375,000	654,256	685,000	302,047	415,000	1,076,982	1,475,000	2,033,285
2018	365,000	637,163	710,000	274,575	440,000	1,053,306	1,515,000	1,965,044
2019	355,000	618,718	740,000	245,112	465,000	1,025,538	1,560,000	1,889,368
2020	350,000	600,213	770,000	213,006	495,000	996,191	1,615,000	1,809,410
2021-2025	2,675,000	2,658,000	4,375,000	516,300	2,990,000	4,471,028	10,040,000	7,645,328
2026-2030	4,710,000	1,727,250	-	-	4,060,000	3,400,367	8,770,000	5,127,617
2031-2035	4,370,000	344,000	-	-	5,515,000	1,946,628	9,885,000	2,290,628
2036-2037	-	-	-	-	2,725,000	260,644	2,725,000	260,644
	\$ 13,590,000	\$ 7,910,600	\$ 7,940,000	\$ 1,878,734	\$ 17,500,000	\$ 15,330,200	\$ 39,030,000	\$ 25,119,534

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

B. Loans Receivable

The Authority and the former Community Redevelopment Agency have entered into loan and repayment agreements whereby the Authority has loaned the proceeds of Revenue Bond debt issuances to the former Agency. The loan agreements between the Authority and the former Community Redevelopment Agency require the former Agency to pay the Authority under the same terms as the bonds were issued.

Upon dissolution of the former Community Redevelopment, Note Payables related to the Revenue Bonds were approved enforceable obligations by the State Department of Finance.

The debt service schedules, as well as the purpose for the loans, are more fully described in pages 16 - 18, Note 4 B - Revenue Bonds Payable. Loans receivable activity for the year ended June 30, 2015, was as follows:

	Balance at July 1, 2014	Additions	Payments	Balance at June 30, 2015
Loans Receivable Related to:				
1994 Revenue Bonds	\$ 402,752	\$ 15,063	\$ (420,000)	\$ (2,185)
1997 Revenue Bonds	1,755,000	-	(1,755,000)	-
2003 Revenue Bonds	13,640,000	-	(1,785,000)	11,855,000
2009 Revenue Bonds	5,640,000	-	(240,000)	5,400,000
Total Loans Receivable	\$ 21,437,752	\$ 15,063	\$ (4,200,000)	\$ 17,252,815

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

Fiscal Year Ended	1994 Loan to RDA		1997 Loan to RDA		2003 Loan to RDA		2009 Loan to RDA		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ (2,185)	\$ -	\$ -	\$ -	\$ 950,000	\$ 584,438	\$ 130,000	\$ 354,510	\$ 1,077,815	\$ 938,948
2017	-	-	-	-	1,000,000	545,250	125,000	345,976	1,125,000	891,226
2018	-	-	-	-	1,035,000	495,250	150,000	337,769	1,185,000	833,019
2019	-	-	-	-	1,090,000	443,500	155,000	327,922	1,245,000	771,422
2020	-	-	-	-	1,145,000	389,000	165,000	317,746	1,310,000	706,746
2021-25	-	-	-	-	6,635,000	1,027,750	1,010,000	1,409,506	7,645,000	2,437,256
2026-28	-	-	-	-	-	-	3,665,000	364,686	3,665,000	364,686
	\$ (2,185)	\$ -	\$ -	\$ -	\$ 11,855,000	\$ 3,485,188	\$ 5,400,000	\$ 3,458,114	\$ 17,252,815	\$ 6,943,301

4) Long-Term Debt

A. Certificates of Participation

2002 Certificates of Participation Payable - On December 10, 2002, the Authority issued \$43,215,000 of Certificates of Participation (2002 Certificates). Interest on the 2002 Certificates is payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 5.25% per annum. Principal installments are payable September 1 of each year from 2004 to 2032.

As a result of favorable interest rates in the municipal bond market, a portion of the 2002 Certificate of Participation Bonds was refinanced in October 2014 and the liability for the 2002 Certificates of Participation was partially defeased in November 2014 in the amount of \$25,445,000 by the City of Palmdale Financing Authority's 2014 Certificate of Participation Bonds. The refinancing was privately placed with TPB Investments, Inc., a wholly owned subsidiary of Western Alliance Bank, an Arizona Corporation.

**CITY OF PAMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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The 2002 Certificates maturing on September 1, 2024 and September 1, 2032, are subject to mandatory sinking fund redemption beginning on September 1 in each year on and after September 1, 2023 and September 1, 2025, respectively, in the amount of the principal component of scheduled lease payments required to be made by the City together with interest accrued thereon.

The 2002 Certificates maturing on or after September 1, 2004, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any 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 2002 Certificates maturing on or after September 1, 2014, may be redeemed from proceeds of optional lease prepayments made by the City at par thereafter.

The proceeds of the 2002 Certificates were used to finance a portion of the development of (1) a 33-acre eastside park site, (2) an additional 40 acres in the existing Marie Kerr 17-acre park site and (3) approximately four miles of Avenue S, between the Antelope Valley Freeway and 40th Street East. The 2002 Certificates represent direct, undivided fractional interests in a lease of Marie Kerr Park, the Eastside Park Site, Domenic Massari Park, Desert Sands Park, the Palmdale City Hall, the Palmdale Main Library, the Larry Chimbole Cultural Center, and the above referenced portion of Avenue S.

The lease agreement requires the City to pay a semi-annual base rental on August 15 and February 15 to the Authority for the facilities through September 2032. The rentals will be used by the Authority to pay principal and interest with respect to the 2002 Certificates as they become due. Title to the land and facilities covered by the lease and the 2002 Certificates is vested in the Authority, for the benefit of the 2002 Certificate holders, during the lease term. Upon completion of the term of the lease and payment in full to the 2002 Certificate 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.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 390,000	\$ 671,000	\$ 1,061,000
2017	375,000	654,256	1,029,256
2018	365,000	637,163	1,002,163
2019	355,000	618,718	973,718
2020	350,000	600,213	950,213
2021-2025	2,675,000	2,658,000	5,333,000
2026-2030	4,710,000	1,727,250	6,437,250
2031-2033	4,370,000	344,000	4,714,000
Totals	<u>\$ 13,590,000</u>	<u>\$ 7,910,600</u>	<u>\$ 21,500,600</u>

2004 Certificates of Participation Payable - On November 30, 2004, the Authority issued \$13,455,000 of Certificates of Participation (2004 Certificates). Interest on the 2004 Certificates is payable semi-annually on May 1 and November 1 at rates ranging from 2.00% to 4.625% per annum. Principal installments are payable November 1 of each year from 2005 to 2024.

The 2004 Certificates maturing on or after November 1, 2005, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any 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 2004 Certificates maturing on or after November 1, 2015, may be redeemed on or after November

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1, 2014, from proceeds of optional lease prepayments made by the City, at decreasing premiums of 2% in 2015 to 1% in 2016 and at par thereafter.

The proceeds of the 2004 Certificates were used to finance new traffic signal installation projects and finance the rehabilitation or reconstruction of various City arterial and neighborhood streets. The 2004 Certificates represent direct, undivided fractional interests in a lease of various arterial streets located in the City as discussed above.

The lease agreement requires the City to pay a semi-annual base rental on October 15 and April 15 to the Authority for the facilities through November 2024. The rentals will be used by the Authority to pay principal and interest with respect to the 2004 Certificates as they become due. Title to the land and facilities covered by the lease and the 2004 Certificates is vested in the Authority, for the benefit of the 2004 Certificate holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 2004 Certificate 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	\$ 660,000	\$ 327,694	\$ 987,694
2017	685,000	302,047	987,047
2018	710,000	274,575	984,575
2019	740,000	245,112	985,112
2020	770,000	213,006	983,006
2021-2025	4,375,000	516,300	4,891,300
Totals	<u>\$ 7,940,000</u>	<u>\$ 1,878,734</u>	<u>\$ 9,818,734</u>

2007 Certificates of Participation Payable (\$19,960,000) - On April 12, 2007, the Authority issued \$19,960,000 of Certificates of Participation (2007 Certificates). Interest on the 2007 Certificates is payable semi-annually on April 1 and October 1 at rates ranging from 5.705% to 6.311% per annum. Principal installments are payable April 1 of each year from 2008 to 2037.

The 2007 Certificates maturing on April 1, 2017 and April 1, 2037, are subject to mandatory sinking fund redemption beginning on April 1 in each year after April 1, 2018, in the amount of the principal component of scheduled lease payments required to be made by the City together with interest accrued thereon, without premium. The 2007 Certificates maturing on or after April 1, 2015, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the redemption of lease payments. The 2007 Certificates maturing on or after April 1, 2018, may be redeemed on or after April 1, 2017, from proceeds of optional lease prepayments made by the City, without premium.

The 2007 Certificates are subject to extraordinary redemption, in whole, on any date upon the election of the City to do so prior to (a) the commencement of construction of a power generating plant on the property, or (b) the closing of a construction loan to finance a power generating plant on the property, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments, without premium. The 2007 Certificates are subject to extraordinary redemption, in whole or in part, on any date on or after April 1, 2010, from the proceeds derived by the City of the sale of all or a portion of the property to the extent that the City credits these proceeds towards the prepayment of lease payments, without premium.

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property to the extent that the City credits these proceeds towards the prepayment of lease payments, without premium.

The proceeds of the 2007 Certificates were used to finance the acquisition of certain real property for future use as the site of a power generating plant and for other City uses. The 2007 Certificates represent direct, undivided fractional interests in a lease of the certain property to be the location of a power generating plant as discussed above.

The lease agreement requires the City to pay a semi-annual base rental on September 15 and March 15 to the Authority for the use and occupancy of the property through April 2037. The rentals will be used by the Authority to pay principal and interest with respect to the 2007 Certificates as they become due. Title to the property covered by the lease and the 2007 Certificates is vested in the Authority, for the benefit of the 2007 Certificate holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 2007 Certificate 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	\$ 395,000	\$ 1,099,516	\$ 1,494,516
2017	415,000	1,076,982	1,491,982
2018	440,000	1,053,306	1,493,306
2019	465,000	1,025,538	1,490,538
2020	495,000	996,191	1,491,191
2021-2025	2,990,000	4,471,028	7,461,028
2026-2030	4,060,000	3,400,367	7,460,367
2031-2035	5,515,000	1,946,628	7,461,628
2036-2037	2,725,000	260,644	2,985,644
Total	<u>\$ 17,500,000</u>	<u>\$ 15,330,200</u>	<u>\$ 32,830,200</u>

B. Revenue Bonds

1994 Revenue Bonds Payable - On June 29, 1994, the Authority issued \$44,999,493 of 1994 Revenue Bonds (1994 Bonds). The proceeds of the 1994 Bonds were loaned to the former Community Redevelopment Agency to finance redevelopment activities in Project Area No. 2A and to fully advance refund the 1985 Tax Allocation Bonds and the 1989 Revenue Bonds. Interest on the 1994 Bonds is payable semi-annually on March 1 and September 1 at rates ranging from 4.80% to 6.40% per annum. Principal installments are payable on September 1 of each year from 2000 to 2034.

The liability for the 1994 Revenue Bonds was partially in-substance defeased in June 2004 in the amount of \$17,230,000 by the former Community Redevelopment Agency's 2004 Tax Allocation Bonds. Subsequently, on September 1, 2004, these refunded 1994 Revenue Bonds were called and redeemed at a premium of \$340,300.

The remaining 1994 Bonds maturing on September 1, 2007 through 2015 in the initial aggregate principal amount of \$1,469,493 constitute capital appreciation bonds that are not subject to optional redemption prior to their respective stated maturities. Interest on the Capital Appreciation Bonds compounds on March 1 and September 1, commencing March 1, 1995 and the principal and accreted value on the Capital Appreciation Bonds is payable at maturity or upon earlier redemption.

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The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 1994 Bonds were issued. Upon dissolution of the former Community Redevelopment Agency, the Note Payable related to the 1994 Bonds were approved enforceable obligation by the State Department of Finance, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

Year Ending June 30:	Principal	Interest	Total
2016	212,814	-	212,814
Totals	\$ 212,814	\$ -	\$ 212,814

1997 Revenue Bonds Payable - On May 28, 1997, the Authority issued \$10,890,000 of 1997 Revenue Bonds, Series A (1997 Series A Bonds). The proceeds were loaned to the former Community Redevelopment Agency to refinance the 1987 Refunding Certificates of Participation. Interest on the 1997 Series A Bonds is payable semi-annually on January 1, and July 1 at rates ranging from 4.00% to 5.60% per annum. Principal installments are payable July 1 of each year from 1998 through 2015.

The 1997 Series A Term Bonds maturing on July 1, 2012 and July 1, 2015, are subject to mandatory sinking fund redemption beginning July 1, 2011 and July 1, 2013, respectively, in the amount of principal. The 1997 Series A Bonds maturing on or after July 1, 2008, may be redeemed on or after July 1, 2007, at decreasing premiums of 2.00% in 2007 to 1.00% in 2008, and at par thereafter.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 1997 Series A Bonds were issued. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the 1997 Series A Bonds were approved enforceable obligation by the State Department of Finance, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

Year Ending June 30:	Principal	Interest	Total
2016	905,000	25,340	930,340
Totals	\$ 905,000	\$ 25,340	\$ 930,340

2003 Revenue Bonds Payable - On May 13, 2003, the Authority issued \$19,220,000 of 2003 Revenue Bonds, Series A (2003 Series A Bonds). The proceeds were loaned to the former Community Redevelopment Agency to advance refund a portion of the 1993 Revenue Bonds. Interest on the 2003 Series A Bonds is payable semi-annually on January 1, and July 1 at rates ranging from 2.00% to 5.00% per annum. Principal installments are payable July 1 of each year from 2014 through 2025.

The 2003 Series A Bonds maturing on or after July 1, 2014, may be redeemed on or after July 1, 2013, in the amount of principal and accrued interest. The 2003 Series A Bonds maturing on July 1, 2025, are subject to mandatory sinking fund redemption on July 1, 2023, and on July 1 in each year thereafter to and including July 1, 2025, in the amount on principal and accrued interest.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 2003 Series A Bonds were issued. Upon dissolution of

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the former Community Redevelopment Agency, Note Payable related to the 2003 Series A Bonds were approved enforceable obligation by the State Department of Finance, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

Year Ending June 30	Principal	Interest	Totals
2016	\$ 910,000	\$ 602,638	\$ 1,512,638
2017	950,000	564,844	1,514,844
2018	1,000,000	520,250	1,520,250
2019	1,035,000	469,375	1,504,375
2020	1,090,000	416,250	1,506,250
2021-2025	6,320,000	1,185,750	7,505,750
2026	1,460,000	36,500	1,496,500
Totals	\$12,765,000	\$3,795,606	\$16,560,606

2009 Revenue Bonds Payable (\$6,380,000) - On June 5, 2009, the Authority issued \$6,380,000 of 2009 Revenue Bonds, Series A (2009 Series A Bonds). The proceeds of the 2009 Series A Bonds were loaned to the former Community Redevelopment Agency to advance refund the 2003 Bond Anticipation Notes. Interest on the 2009 Series A Bonds is payable semi-annually on January 1 and July 1 at rates ranging from 3.625% to 6.00% per annum. Principal installments are payable July 1 of each year from 2010 through 2027.

The 2009 Series A Bonds maturing on or after July 1, 2020, may be redeemed on or after July 1, 2019, in the amount of principal and accrued interest. The 2009 Series A Term Bonds maturing on July 1, 2027, are subject to mandatory sinking fund redemption on July 1, 2021, and on July 1 in each year thereafter to and including July 1, 2027, in the amount of principal and accrued interest.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the Second Supplement to Loan Agreement No. A-2501. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the Second Supplement to Loan Agreement No. A-2501 were approved enforceable obligation by the State Department of Finance, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

Year Ending June 30	Principal	Interest	Totals
2016	\$ 150,000	\$ 332,376	\$ 482,376
2017	155,000	325,359	480,359
2018	145,000	318,182	463,182
2019	170,000	310,313	480,313
2020	175,000	301,384	476,384
2021-2025	1,040,000	1,339,245	2,379,245
2026-2028	3,925,000	452,550	4,377,550
Totals	\$ 5,760,000	\$ 3,379,408	\$ 9,139,408

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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
2002 Certificates of Participation	\$ 39,785,000	\$ -	\$ (26,195,000)	\$ 13,590,000	\$ 390,000
2004 Certificates of Participation	8,575,000	-	(635,000)	7,940,000	660,000
2007 Certificates of Participation	17,870,000	-	(370,000)	17,500,000	395,000
1994 Revenue Bonds	402,752	15,062	(205,000)	212,814	212,814
1997 Revenue Bonds	1,755,000	-	(850,000)	905,000	905,000
2003 Revenue Bonds	13,640,000	-	(875,000)	12,765,000	910,000
2009 Revenue Bonds	5,900,000	-	(140,000)	5,760,000	150,000
Plus Deferred Issuance Premiums	307,300	-	(159,756)	147,544	29,279
Total	\$ 88,235,052	\$ 15,062	\$ (29,429,756)	\$ 58,820,358	\$ 3,652,093

5) 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

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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 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.

6) Contingency

The City of Palmdale Civic Authority has a Loans Receivable balance due from the Successor Agency to the Community Redevelopment Agency of the City of Palmdale in the amount of \$17,252,815 as of June 30, 2015. The Loans are approved as enforceable obligations in existence at the date of the former Community Redevelopment Agency's dissolution and will be repaid by the Successor Agency from future property tax. Although these loan repayments have been approved on all previously submitted Recognized Obligation Payment Schedules (ROPS), the California Department of Finance has stated that items listed on future ROPS are subject to a subsequent review and may be denied even if they were not denied on a previous ROPS.



**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 Civic 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 Civic 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