

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, 2017

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CITY OF PALMDALE FINANCING AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2017**

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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, 2017, 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, 2017, 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 17, 2017, 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 17, 2017

CITY OF PALMDALE FINANCING AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2017**

Assets:	
Interest Receivable	\$ 254,121
Leases Receivable:	
Current	1,750,558
Non-Current	24,801,224
Restricted Assets:	
Cash and Investments	<u>5,379</u>
Total Assets	<u>26,811,282</u>
Liabilities:	
Accrued Interest Payable	254,121
Noncurrent Liabilities:	
Due Within One Year	1,750,558
Due in More than One Year	<u>24,801,224</u>
Total Liabilities	<u>26,805,903</u>
Net Position:	
Restricted	<u>5,379</u>
Total Net Position	<u><u>\$ 5,379</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, 2017

Non-Operating Revenues:	
Interest Income from Leases Receivable	\$ 290,669
Interest Income	15
Payment Received from Palmdale Civic Authority	<u>389,034</u>
Total Non-Operating Revenues	<u>679,718</u>
Non-Operating Expenses:	
Interest on Debt	290,684
Contract Service - Trustee Fees (COI)	3,630
Cost of Issuance	<u>380,032</u>
Total Non-Operating Expenses	<u>674,346</u>
Change in Net Positon	5,372
Net Position, Beginning of Year	<u>7</u>
Net Position, End of Year	<u><u>\$ 5,379</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash flows from non-capital financing activities:	
Principal Received from Leases Receivable	500,000
Interest Income from Leases Receivable	243,195
	<hr/>
Net cash provided by non-capital financing activities	743,195
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(500,000)
Interest on Debt	(243,210)
Contract Service - Trustee Fees (COI)	(3,630)
Cost of Issuance	(380,032)
Principal in Bond Proceeds	17,475,000
Issue Premium Proceeds	1,419,256
Payment to Palmdale Civic Authority	(18,505,222)
	<hr/>
Net cash used for capital and related financing activities	(737,838)
Cash flows from investing activities:	
Interest on Investments	15
	<hr/>
Net increase (decrease) in cash and cash equivalents	5,372
Cash and cash equivalents - Beginning of Year	7
	<hr/>
Cash and cash equivalents - End of Year	<u><u>\$ 5,379</u></u>

See Accompanying Notes to the Financial Statements

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PALMDALE FINANCING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS



For the Fiscal Year Ended

June 30, 2017

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CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 leases.

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

Cash includes amounts in demand deposits and petty cash on hand. Investments include amounts in Federal Agency Securities, Certificates of Deposit, the Local Agency Investment Fund, money market funds, and investment agreements. The U.S. Treasury and Agency Securities were adjusted to fair value based on market prices on June 30, 2017. 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 agreement, which is equal to cost as of June 30, 2017.

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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:

Restricted – 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.

(2) Cash and Investments

Statement of Net Position	
Restricted Cash and Investments	\$ 5,378
Total Cash and Investments	\$ 5,378

Cash and investments as of June 30, 2017 consist of the following:

Investments:	
Held by bond trustees	\$ 5,378
Total Cash and Investments	\$ 5,378

Restricted cash and investments were held by a fiscal agent in accordance with the bond indenture agreement.

A. 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. 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.

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. 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, more sensitive it is to changes in market interest rates. Information about the sensitivity of the fair values of the Authority's 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:

Remaining Maturity (in months)	Total	12 Months or Less
<u>Investment Type</u>		
Held by bond trustees:		
Money market funds	\$ 5,378	\$ 5,378
Total	\$ 5,378	\$ 5,378

C. 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 the debt agreement, and the actual rating as of year-end for each investment type:

Investment Type	Total	Minimum Legal Rating	AAA/Aaa
Held by bond trustee:			
Money market funds	\$ 5,378	A	\$ 5,378
Total	\$ 5,378		\$ 5,378

D. Custodial Credit Risk

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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

E. Disclosures Relating to Fair Value of Investments

The Authority categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

When quoted prices in active markets are available, investments are classified within Level 1. For investments classified within Level 2, the Authority's custodians generally use asset market prices derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, broker-dealer quotes and matrix pricing. The Authority does not have any investments classified with Level 3. Money market investments are carried at amortized cost. The Authority does not have any investments classified with Level 1, 2 or 3.

Detailed information concerning the fair value measurement of the Authority's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2017. The report can be obtained from the City's website at www.cityofpalmdale.org.

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 on pages 15-16, Note 4 A – Lease Revenue Bonds. Lease receivable activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Payments	Balance at June 30, 2017	Amount Due Within One Year
Lease Receivable Related to:					
2012 Lease Revenue Bonds	\$ 8,205,000	\$ -	\$ 500,000	\$ 7,705,000	\$ 515,000
2017 Lease Revenue Bonds	-	17,475,000	-	17,475,000	980,000
Plus: Deferred Issuance Premium \$17.4M	-	1,419,256	47,474	1,371,782	255,558
Total Lease Receivables	\$ 8,205,000	\$ 18,894,256	\$ 547,474	\$ 26,551,782	\$ 1,750,558

As of June 30, 2017, future lease payments for 2012 Lease Revenue Bonds are as follows:

Fiscal Year Ended	2012 Lease Receivable	
	Principal	Interest
2018	\$ 515,000	\$ 227,985
2019	530,000	212,310
2020	545,000	193,460
2021	570,000	176,148
2022	575,000	162,548
2023-2027	3,135,000	551,988
2028-2030	1,835,000	88,292
	\$ 7,705,000	\$ 1,612,730

As of June 30, 2017, future lease payments for 2017 Lease Revenue Bonds are as follows:

Fiscal Year Ended	2017 Lease Receivable	
	Principal	Interest
2018	\$ 980,000	\$ 757,737
2019	1,065,000	680,263
2020	1,080,000	642,688
2021	1,095,000	599,188
2022	1,200,000	547,288
2023-2027	5,060,000	1,866,188
2028-2032	5,530,000	778,256
2033-2035	1,465,000	25,638
	\$ 17,475,000	\$ 5,897,243

(4) 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

CITY OF PALMDALE FINANCING AUTHORITY
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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.

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 Work Source 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
2018	\$ 515,000	\$ 227,985	\$ 742,985
2019	530,000	212,310	742,310
2020	545,000	193,460	738,460
2021	570,000	176,148	746,148
2022	575,000	162,548	737,548
2023-2027	3,135,000	551,988	3,686,988
2028-2030	1,835,000	88,292	1,923,292
Totals	\$ 7,705,000	\$ 1,612,730	\$ 9,317,730

2017 Lease Revenue Bonds Payable (\$17,475,000) - On April 5, 2017, the Palmdale Financing Authority issued \$17,475,000 of Lease Revenue Refunding Bonds, Series 2017. Interest on the 2017 Series Bonds is payable semi-annually on November 1 and May 1 at rates ranging from 2.00% to 3.50% per annum. Principal installments are payable November 1 of each year to 2032.

The 2017 Series Bonds maturing on or after November 1, 2028, may be redeemed on or after November 1, 2027, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. The 2017 Series Bonds are subject to special mandatory redemption as a whole, or in part on any date, from hazard insurance proceeds or condemnation proceeds not used to repair or replace any portion of the Property damaged or destroyed and elected by the Authority, at the discretion of the City, to be used for such purpose,

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

The proceeds of the 2017 Series Bonds were \$18,894,256 (\$17,475,000 principal and \$1,419,256 premium), of which \$18,505,222 (after a payment of \$383,662 cost of issuance and debt service funds of \$5,372) were contributed to Palmdale Civic Authority to advance refund all (\$12,825,000) of the outstanding 2002 Certificates and all (\$6,595,000) of the outstanding 2004 Certificates. Concurrently, the proceeds of the 2017 Bonds were used by the City to fully pay the outstanding lease receivable for the Palmdale Civic Authority's 2002 Certificate of Participation and 2004 Certificate of Participation.

The Bonds are payable from the revenues pledged under the Indenture, consisting primarily of lease payments to be made by the City of Palmdale to the Palmdale Financing Authority as rental for certain properties pursuant to a Lease Agreement. The 2017 Bonds represent direct, undivided fractional interests in a lease of the Palmdale City Hall, Palmdale Main Library, Larry Chimbole Cultural Center, Domenic Massari Park, and Desert Sands Park. 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 to the Authority on October 25 and April 25 for the use of the facilities through November 2032. The rentals will be used by the Authority to pay principal and interest with respect to the 2017 Bonds as they become due. Title to the land and facilities covered by the lease and the 2017 Bonds is vested in the Authority, for the benefit of the 2017 Bond holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 2017 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
2018	\$ 980,000	\$ 757,737	\$ 1,737,737
2019	1,065,000	680,263	1,745,263
2020	1,080,000	642,688	1,722,688
2021	1,095,000	599,188	1,694,188
2022	1,200,000	547,288	1,747,288
2023-2027	5,060,000	1,866,188	6,926,188
2028-2032	5,530,000	778,256	6,308,256
2033-2035	1,465,000	25,638	1,490,638
Totals	<u>\$ 17,475,000</u>	<u>\$ 5,897,243</u>	<u>\$ 23,372,243</u>

B. Current Year Defeasance of Debt

On April 5, 2017, the Palmdale Financing Authority issued \$17,475,000 of Lease Revenue Refunding Bond to assist the City with refinancing existing leases it has with the Palmdale Civic Authority by current refunding the City's outstanding 2002 Certificates of Participation (Park Improvement and Avenue S Construction Project) and the City's 2004 outstanding Certificates of Participation (Infrastructure Financing Project). The proceeds of the 2017 Bonds was used by the Palmdale Financing

CITY OF PALMDALE FINANCING AUTHORITY
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Authority to advance refund all (\$12,825,000) of the outstanding 2002 Certificates and all (\$6,595,000) of the outstanding 2004 Certificates. The funds were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the 2002 Certificates of Participation Bonds and the 2004 Certificates of Participation Bonds on April 24, 2017. There are no outstanding, defeased 2002 Certificates of Participation Bonds and 2004 Certificates of Participation Bonds as of June 30, 2017 as they have been fully paid by the escrow agent. The refunding resulted in a lease abatement loss of \$914,779 for the Palmdale Civic Authority.

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Payments	Balance at June 30, 2017	Amounts Due Within One
2012 Lease Revenue Bonds	\$ 8,205,000	\$ -	\$ 500,000	\$ 7,705,000	\$ 515,000
2017 Lease Revenue Bonds	-	17,475,000	-	17,475,000	980,000
Plus: Deferred Issuance Premium \$17.4M	-	1,419,256	47,474	1,371,782	255,558
Total	<u>\$ 8,205,000</u>	<u>\$ 18,894,256</u>	<u>\$ 547,474</u>	<u>\$ 26,551,782</u>	<u>\$ 1,750,558</u>

(5) New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 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 No. 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. 81 In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government’s ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible

CITY OF PALMDALE FINANCING AUTHORITY
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capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The Authority has not determined the effect of the Statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The Authority has not determined the effect of this Statement.

GASB Statement No. 85 - In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The Authority has not determined the effect of the Statement.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The Authority has not determined the effect of the Statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The Authority has not determined the effect of the Statement.

(6) Subsequent Event

On September 7, 2017, the City of Palmdale entered into an installment sale agreement with the Palmdale Financing Authority for \$11,397,102 to finance the acquisition of 17,352 streetlight poles within the City of Palmdale. The Installment Sale Agreement is secured by installment payments paid with streetlight assessments. The Palmdale Financing Authority has assigned the installment payments to Opus Bank as lender at an interest rate of 2.48%.



**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, 2017, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated November 17, 2017.

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 17, 2017