

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, 2021

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PALMDALE CIVIC AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2021**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Fund Net Position	4
Statement of Cash Flows	5
NOTES TO THE BASIC FINANCIAL STATEMENTS	7
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19

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Independent Auditor's Report

To the Honorable Members of the Board of Directors
of the 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, 2021, and the related notes to the financial statements, which collectively 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2021, and the changes in its financial position, and its cash flows 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 May 24, 2022, 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 solely 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 the effectiveness of the Authority's 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.



Rancho Cucamonga, California
May 24, 2022

CITY OF PALMDALE CIVIC AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2021

Assets:

Cash and Investments	\$ 1,079,833
Interest Receivable	<u>1,039</u>
Total Assets	<u>1,080,872</u>

Liabilities:

Total Liabilities	<u>-</u>
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Net Position:

Unrestricted	<u>1,080,872</u>
Total Net Position	<u>\$ 1,080,872</u>

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, 2021

Non-Operating Revenues:	
Interest Income from Leases Receivable	933,815
Interest Income	16,941
Net Decrease Fair Value of Investments	<u>(4,002)</u>
Total Non-Operating Revenues	<u>946,754</u>
Non-Operating Expenses:	
Lease Abatement Loss	1,321,985
Interest Expense	<u>1,143,563</u>
Total Non-Operating Expenses	<u>2,465,548</u>
Change in Net Position	(1,518,794)
Net Position, Beginning of Year	<u>2,599,666</u>
Net Position, End of Year	<u><u>\$ 1,080,872</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDING JUNE 30, 2021

Cash flows from non-capital financing activities:	
Payment from Palmdale Financing Authority	\$ 13,443,015
Principal received from Leases Receivable	525,000
Interest income from Leases Receivable	933,816
Reversal of payments to the City	<u>(5,103)</u>
Net cash provided by non-capital financing activities	<u>14,896,728</u>
Cash flows from capital and related financing activities:	
Principal paid on Long-term Debt	(525,000)
Principal paid to Bond Escrow Agent	(14,765,000)
Interest on Debt	(964,964)
Interest Payment to Escrow Agent	<u>(178,599)</u>
Net cash used for capital and related financing activities	<u>(16,433,563)</u>
Cash flows from investing activities:	
Interest on Investments	<u>16,827</u>
Net cash used for investing activities	<u>16,827</u>
Net decrease in cash and cash equivalents	(1,520,008)
Cash and cash equivalents - Beginning of Year	<u>2,599,841</u>
Cash and cash equivalents - End of Year	<u>\$ 1,079,833</u>

See Accompanying Notes to the Financial Statements

See Accompanying Notes to the Financial Statements

PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS



For the Fiscal Year Ended

June 30, 2021

**CITY OF PALMDALE CIVIC AUTHORITY
TABLE OF CONTENTS TO THE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

Note No.	Page No.
1. Summary of Significant Accounting Policies	9
A. Description of the Reporting Entity	9
B. Financial Statements Presentation, Basis of Accounting and Measurement Focus	9
C. Cash and Investments	10
D. Long-Term Obligations	10
E. Net Position	10
F. Use of Estimates	10
G. Implemented Accounting Pronouncements	10
2. Cash and Investments	11
A. Investments Authorized by the California Government Code and the Authority's Investment Policy	11
B. Interest Rate Risk	12
C. Credit Risk	13
D. Concentration of Credit Risk	13
E. Custodial Credit Risk	14
F. Disclosures Relating to Fair Value of Investments	14
3. Long-Term Receivables	15
4. Long-Term Debt	15
A. Certificates of Participation	15
B. Changes in Long-Term Liabilities	16
5. New Accounting Pronouncements	17

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

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.

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 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 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.

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

C. Cash and Investments

Cash includes amounts in demand deposits and petty cash on hand. Investments include amounts in the Local Agency Investment Fund. The Local Agency Investment Fund is reported at the carrying value because the fair value was not materially different

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 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.

E. Net Position

Net position is classified in the following category:

Unrestricted – This component of net position consists of resources that are not restricted for use by the Authority.

F. Use of Estimates

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

G. Implemented Accounting Pronouncements

GASB 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 City has determined that this statement does not apply to Palmdale Civic Authority.

GASB Statement No. 90, Majority Equity Interests – (an amendment of GASB Statements No. 14 and No. 61). The primary objective of this Statement is to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

interest using the equity method. The City has determined that this statement does not apply to Palmdale Civic Authority.

2) Cash and Investments

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.

Statement of Net Position	
Cash and Investments with the City of Palmdale	\$ 1,079,833
Total Cash and Investments	\$ 1,079,833

Cash and investments as of June 30, 2021 consist of the following:

Investments:

Cash and Investments with the City of Palmdale Investment Pool	\$ 1,079,833
Total Cash and Investments	\$ 1,079,833

Detailed information concerning the City's pooled cash and investments can be found in the City's Annual Comprehensive Financial Report for the year ended June 30, 2021.

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 PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer**
U.S. Treasury Obligations	5 years	None	None
U.S. Federal Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	2%
Municipal Obligations	5 years	10%	15%
Medium Term Corporate Notes	3 years	10%	None
Negotiable Certificates of Deposit	5 years	30%	15%
Overnight Bank Investment Pool	N/A	10%	None
Mutual Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000
California Asset Management Program (CAMF)	N/A	None	\$65,000,000

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

**Per Account

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. 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 to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months) 12 Months or Less</u>
Cash and Investments with City of Palmdale Investment Pool	\$ 1,079,833	\$ 1,079,833
Total	<u>\$ 1,079,833</u>	<u>\$ 1,079,833</u>

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 (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 Rated</u>	<u>AAA/Aaa</u>
Cash and Investments with City of Palmdale Investment Pool	\$ 1,079,833	N/A	\$ 1,079,833	\$ -
Total	<u>\$ 1,079,833</u>		<u>\$ 1,079,833</u>	<u>\$ -</u>

D. 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. There are no Investments in any one issuer that represent 5% or more of total Authority's investments.

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

E. 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 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 Annual Comprehensive Financial Report for the year ended June 30, 2020. The report can be obtained from the City's website at www.cityofpalmdale.org.

F. 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. Deposits and withdrawals in the City pool and LAIF are made on the basis of \$1 and not fair value. Accordingly, the fair value measurements of these types of investments are based on an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

3) Long-Term Receivables

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 below in Note 4 A - Certificates of Participation. On May 27, 2021, the City issued the Refunding of the 2007 Certificates of Participation and thus also extinguished its agreement and its lease receivable with PCA. Lease receivable activity for the year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Additions	Deletions	Balance at June 30, 2021	Amount Due Within One Year
Lease Receivable Related to:					
2007 Certificate of Participation	\$ 15,290,000	-	\$ 15,290,000	\$ -	\$ -
	<u>\$ 15,290,000</u>	<u>\$ -</u>	<u>\$ 15,290,000</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2021, there are no future lease payments.

4) Long-Term Debt

A. Certificates of Participation

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.

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

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.

On May 27, 2021, the Palmdale Financing Authority issued the Refunding of the 2007 Certificates with a private placement loan with Western Alliance Bank, in the amount of \$13,584,908 with annual interest rate of 3.93 percent. The Refunding loan and other available funds in the trust accounts totaling \$1,500,584 were used to refund the outstanding principal of the 2007 Certificates. As a result of the refunding, the City entered into a new Site Lease Agreement with Palmdale Financing Authority and terminated its existing lease agreement with Palmdale Civic Authority. In addition, the refunding resulted in a lease abatement loss of \$1,321,985.

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Additions	Retirements	Balance at June 30, 2021	Amount Due Within One Year
Lease Receivable Related to:					
2007 Certificate of Participation	\$ 15,290,000	-	\$ 15,290,000	\$ -	\$ -
	<u>\$ 15,290,000</u>	<u>\$ -</u>	<u>\$ 15,290,000</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

5) New Accounting Pronouncements

The GASB has issued the following pronouncements that have effective dates which may impact future financial statement presentation. The Authority has not determined the effect of the following Statements:

GASB Statement No. 87 – *Leases.*

GASB Statement No. 89 - *Accounting for Interest Cost Incurred Before the End of a Construction Period.*

GASB Statement No. 91 - *Conduit Debt Obligations.*

GASB Statement No. 92 - *Omnibus 2020.*

GASB Statement No. 93 - *Replacement of Interbank Offered Rates.*

GASB Statement No. 94 - *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*

GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements.*

GASB Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*

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Independent Auditor’s 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
of the 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 (Authority), a component unit of the City of Palmdale, California (City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated May 24, 2022.

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 as a basis for designing 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 financial statements. 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
May 24, 2022