

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, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

PALMDALE CIVIC AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2017**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' 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 AUDITORS' ON 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>	23

THIS PAGE LEFT BLANK INTENTIONALLY



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, 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 CIVIC AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2017

Assets:

Cash and Investments	\$	1,010,498
Interest Receivable		265,947
Leases Receivable - City of Palmdale:		
Current		440,000
Non-Current		16,250,000
Restricted Assets:		
Cash and Investments		1,498,176
Interest Receivable		3,450
		<hr/>
Total Assets		19,468,071
		<hr/>

Liabilities:

Accrued Interest Payable		263,326
Non-current Liabilities:		
Due Within One Year		440,000
Due in More than One Year		16,250,000
		<hr/>
Total Liabilities		16,953,326
		<hr/>

Net Position:

Unrestricted		2,514,745
		<hr/>
Total Net Position	\$	2,514,745
		<hr/> <hr/>

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, 2017

Non-Operating Revenues:	
Interest Income from Leases Receivable	\$ 1,980,175
Interest Income	27,167
Net Decrease Fair Value of Investments	<u>(10,834)</u>
Total Non-Operating Revenues	<u>1,996,508</u>
Non-Operating Expenses:	
Payments to the City	287,904
Interest Expense	2,038,474
Lease Abatement Loss	<u>914,779</u>
Total Non-Operating Expenses	<u>3,241,157</u>
Change in Net Positon	(1,244,649)
Net Position, Beginning of Year	<u>3,759,394</u>
Net Position, End of Year	<u>\$ 2,514,745</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

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

Cash flows from non-capital financing activities:	
Principal received from Leases Receivable	\$ 19,980,221
Interest income from leases receivale	2,025,469
Net cash provided by non-capital financing activities	<u>22,005,690</u>
Cash flows from capital and related financing activities:	
Principal paid on Long-term Debt	(1,475,000)
Principal paid to Bond Escrow Agent	(19,420,000)
Interest on Debt	(1,888,897)
Interest Payment to Escrow Agent	(233,920)
Payments to the City	<u>(287,904)</u>
Net cash used for capital and related financing activities	<u>(23,305,721)</u>
Cash flows from investing activities:	
Interest on Investments	<u>(32,845)</u>
Net cash used for investing activities	<u>(32,845)</u>
Net decrease in cash and cash equivalents	(1,332,876)
Cash and cash equivalents - Beginning of Year	<u>3,841,550</u>
Cash and cash equivalents - End of Year	<u>\$ 2,508,674</u>

See Accompanying Notes to the Financial Statements

THIS PAGE LEFT BLANK INTENTIONALLY

PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS



For the Fiscal Year Ended

June 30, 2017

THIS PAGE LEFT BLANK INTENTIONALLY

**CITY OF PALMDALE CIVIC AUTHORITY
TABLE OF CONTENTS TO THE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Note No.	Page No.
1. Summary of Significant Accounting Policies	11
A. Description of the Reporting Entity	11
B. Financial Statements Presentation, Basis of Accounting and Measurement Focus	11
C. Cash and Investments.....	12
D. Restricted Assets	12
E. Long-Term Obligations	12
F. Net Position	12
G. Use of Estimates.....	12
2. Cash and Investments	13
A. Investments Authorized by the California Government Code and the Authority's Investment Policy.....	13
B. Investments Authorized by Debt Agreements.....	14
C. Interest Rate Risk	14
D. Credit Risk	15
E. Concentration of Credit Risk.....	15
F. Custodial Credit Risk.....	15
G. Disclosures Relating to Fair Value of Investments	16
3. Long-Term Receivables	16
4. Long-Term Debt	17
A. Certificates of Participation.....	17
B. Current Year Defeasance of Debt	20
C. Changes in Long-Term Liabilities	20
5. New Accounting Pronouncements	21

THIS PAGE LEFT BLANK INTENTIONALLY

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

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 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.

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, 2017

C. Cash and Investments

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.

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. Restricted Assets

Restricted assets represent bond reserve amounts and interest earnings thereon related to the 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 category:

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

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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. In addition, restricted cash and investments were held by fiscal agents in accordance with bond indenture agreements.

Cash and Investments with the City of Palmdale	\$ 1,010,498
Restricted Cash and Investments	<u>1,498,176</u>
Total Cash and Investments	<u>\$ 2,508,674</u>

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

Investments:

Cash and Investments with the City of Palmdale Investment Pool	\$ 1,010,498
Held by bond trustees	<u>1,498,176</u>
Total Cash and Investments	<u>\$ 2,508,674</u>

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, 2017.

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.

<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

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

Medium Term Corporate Notes	3 years	10%	None
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

*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:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-60 Months	More Than 60 Months
Cash and Investments with City of Palmdale Investment Pool	\$ 1,010,498	\$ 1,010,498	\$ -	\$ -	\$ -
Held by bond trustees:					
Money market funds	306	306	-	-	-
Local Agency Investment Fund	1,497,870	1,497,870	-	-	-
Total	<u>\$ 2,508,674</u>	<u>\$ 2,508,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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 Rated</u>	<u>AAA/Aaa</u>
Cash and Investments with City of Palmdale Investment Pool	\$ 1,010,498	N/A	\$ 1,010,498	\$ -
Held by bond trustee:				
Money market funds	306	A	-	306
Local Agency Investment Fund	<u>1,497,870</u>	N/A	<u>1,497,870</u>	<u>-</u>
 Total	 <u>\$ 2,508,674</u>		 <u>\$ 2,508,368</u>	 <u>\$ 306</u>

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

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 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, 2017. The report can be obtained from the City’s website at www.cityofpalmdale.org.

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

G. 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.

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.

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 in pages 18-21, Note 4 A - Certificates of Participation. Lease receivable activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017	Amounts Due Within One Year
Lease Receivable Related to:					
2002 Certificates of Participation	\$ 13,200,000	\$ -	\$ 13,200,000	\$ -	\$ -
2004 Certificates of Participation	7,280,000	-	7,280,000	-	-
2007 Certificates of Participation	17,105,000	-	415,000	16,690,000	440,000
Total Lease Receivables	\$ 37,585,000	\$ -	\$ 20,895,000	\$ 16,690,000	\$ 440,000

**CITY OF PALMDALE CIVIC AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

On April 5, 2017, the Palmdale Financing Authority issued \$17,475,000 of Lease Revenue Refunding Bond to refinance existing leases 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 were used by the Palmdale Financing Authority to advance refund all (\$12,825,000) of the outstanding 2002 Certificates and all (\$6,595,000) of the outstanding 2004 Certificates.

As of June 30, 2017, future lease payments are as follows:

Fiscal Year Ended	2007 Certificates of Participation Lease	
	Principal	Interest
2018	\$ 440,000	\$ 1,053,306
2019	465,000	1,025,537
2020	495,000	996,191
2021	525,000	964,952
2022-2026	3,180,000	4,282,329
2027-2031	4,315,000	3,144,140
2032-2036	5,865,000	1,598,576
2037	1,405,000	88,670
	<u>\$ 16,690,000</u>	<u>\$ 13,153,701</u>

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.

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

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

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 were 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.

The liability and related lease receivable for the 2002 Certificates of Participation Bonds was fully defeased by the City in April 2017 in the amount of \$12,825,000, as a result of the issuance of the Palmdale Financing Authority's 2017 Lease Revenue Refunding Bonds.

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 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 were used by the Authority to pay principal and interest with respect to the 2004 Certificates as they become due.

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

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.

The liability and related lease receivable for the 2004 Certificates of Participation Bonds was fully defeased by the City in April 2017 in the amount of \$6,595,000, as a result of the issuance of the Palmdale Financing Authority's 2017 Lease Revenue Refunding Bonds.

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.

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.

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

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
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	525,000	964,952	1,489,952
2022	560,000	931,819	1,491,819
2023-2027	3,380,000	4,081,639	7,461,639
2028-2032	4,590,000	2,871,821	7,461,821
2033-2037	6,235,000	1,228,436	7,463,436
Total	<u>\$ 16,690,000</u>	<u>\$ 13,153,702</u>	<u>\$ 29,843,702</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 with the Authority's 2002 outstanding Certificates of Participation (Park Improvement and Avenue S Construction Project) and the Authority's 2004 outstanding Certificates of Participation (Infrastructure Financing Project). The proceeds of the 2017 Bonds were used by the City to fully pay the outstanding lease receivable for the 2002 and 2004 Certificate of Participation. Concurrently, the Palmdale Financing Authority advanced refunded 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.

C. Changes in Long-Term Liabilities

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

	Principal Balance at July 1, 2016	Additions	Retirements	Principal Balance at June 30, 2017	Amounts Due Within One Year
2002 Certificates of Participation	\$ 13,200,000	\$ -	\$ 13,200,000	\$ -	\$ -
2004 Certificates of Participation	7,280,000		7,280,000	-	-
2007 Certificates of Participation	17,105,000		415,000	16,690,000	440,000
Plus: Deferred Issuance Premiums	39,049	-	39,049	-	-
Total	<u>\$ 37,624,049</u>	<u>\$ -</u>	<u>\$ 20,934,049</u>	<u>\$ 16,690,000</u>	<u>\$ 440,000</u>

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

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 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.

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

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.



**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 (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