

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, 2016

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF PALMDALE FINANCING AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

TABLE OF CONTENTS

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 Financial Statements	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	19

THIS PAGE LEFT BLANK INTENTIONALLY



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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No., 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinions are not modified with respect to this matter.

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 23, 2016, on our consideration of the City's internal control over financial reporting as it relates to the Authority and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Authority.

Varrinck, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 23, 2016

CITY OF PALMDALE FINANCING AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets:

Interest Receivable	\$ 83,570
Leases Receivable:	
Current	500,000
Non-Current	7,705,000
Restricted Assets:	
Cash and Investments	<u>7</u>
Total Assets	<u>8,288,577</u>

Liabilities:

Accrued Interest Payable	83,570
Noncurrent Liabilities:	
Due Within One Year	500,000
Due in More than One Year	<u>7,705,000</u>
Total Liabilities	<u>8,288,570</u>

Net Position:

Unrestricted	<u>7</u>
Total Net Position	<u><u>\$ 7</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, 2016

Non-Operating Revenues:	
Interest Income from Leases Receivable	\$ 255,603
Interest Income	<u>14</u>
Total Non-Operating Revenues	<u>255,617</u>
Non-Operating Expenses:	
Interest on Debt	<u>255,610</u>
Total Non-Operating Expenses	<u>255,610</u>
Change in Net Positon	7
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u><u>\$ 7</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash flows from non-capital financing activities:	
Principal Received from Leases Receivable	490,000
Interest Income from Leases Receivable	<u>255,603</u>
Net cash used for non-capital financing activities	<u>745,603</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(490,000)
Interest on Debt	<u>(255,610)</u>
Net cash used for capital and related financing activities	(745,610)
Cash flows from investing activities:	
Interest on Investments	<u>14</u>
Net increase (decrease) in cash and cash equivalents	7
Cash and cash equivalents - Beginning of Year	<u>-</u>
Cash and cash equivalents - End of Year	<u><u>\$ 7</u></u>

See Accompanying Notes to the Financial Statements

THIS PAGE LEFT BLANK INTENTIONALLY

PALMDALE FINANCING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS



For the Fiscal Year Ended

June 30, 2016

THIS PAGE LEFT BLANK INTENTIONALLY

**CITY OF PALMDALE FINANCING AUTHORITY
TABLE OF CONTENTS TO THE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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 Cash Equivalents	11
D. Long-Term Obligations	12
E. Net Position	12
F. Use of Estimates	12
G. Implemented Accounting Pronouncements	12
2. Cash and Investments	13
A. Investments Authorized by Debt Agreements	13
B. Interest Rate Risk	14
C. Credit Risk	14
D. Custodial Credit Risk	14
E. Disclosures Relating to Fair Value of Investments	14
3. Long-Term Receivables	14
A. Leases Receivable	14
4. Long-Term Debt	15
A. Lease Revenue Bonds	15
B. Changes in Long-Term Liabilities	16
5. New Accounting Pronouncements	16

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

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

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

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

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

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

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

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

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

C. Cash and Cash Equivalents

Investments include amounts invested in money market funds held by a trustee. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2016.

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

D. Long-Term Obligations

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

E. Net Position

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

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

F. Use of Estimates

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

G. Implemented Accounting Pronouncements

During fiscal year 2015-16, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. This Statement was implemented effective July 1, 2015 and did not have a material effect on the financial statements.

During fiscal year 2015-16, the Authority adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is not effective until the fiscal year ending June 30, 2016. This Statement was implemented effective July 1, 2015 and did not have a material effect on the financial statements.

During fiscal year 2015-16, the Authority adopted GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Statement establishes additional note disclosure requirements for qualifying external investment pools that require measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Both the qualifying external investment pools and their participants are required to disclose information about any limitations or restrictions on participant withdrawals. The Statement is effective for the periods beginning after June 15, 2015, or the 2016-2017 fiscal year, except for certain provisions on portfolio quality, custodial credit

**CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

risk, and shadow pricing. This Statement was implemented effective July 1, 2015 and did not have a material effect on the financial statements.

(2) Cash and Investments

Statement of Net Position	
Restricted Cash and Investments	\$ 7
Total Cash and Investments	<u>\$ 7</u>

Cash and investments as of June 30, 2016 consist of the following:

Investments:	
Held by bond trustees	\$ 7
Total Cash and Investments	<u>\$ 7</u>

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.

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. 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)	<u>Total</u>	<u>12 Months or Less</u>
<u>Investment Type</u>		
Held by bond trustees:		
Money market funds	\$ 7	\$ 7
Total	<u>\$ 7</u>	<u>\$ 7</u>

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>AAA/Aaa</u>
Held by bond trustee:			
Money market funds	\$ 7	A	\$ 7
Total	\$ 7		\$ 7

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.

Investments in money market investments, such as trustee held accounts, are so close to fair value when measured at amortized cost that they are generally equivalent. Thus, these investments are excluded from measurement at fair value.

(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, 2016, was as follows:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2016</u>	<u>Amount Due Within One Year</u>
Lease Receivable Related to: 2012 Lease Revenue Bonds	\$ 8,695,000	\$ -	\$ 490,000	\$ 8,205,000	\$ 500,000
Total Lease Receivables	\$ 8,695,000	\$ -	\$ 490,000	\$ 8,205,000	\$ 500,000

**CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

As of June 30, 2016, future lease payments are as follows:

Fiscal Year Ended	2012 Lease Receivable	
	Principal	Interest
2017	\$ 500,000	\$ 243,210
2018	515,000	227,985
2019	530,000	212,310
2020	545,000	193,460
2021	570,000	176,147
2022-2026	3,045,000	643,247
2027-2030	2,500,000	159,581
	\$ 8,205,000	\$ 1,855,940

(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 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.

**CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Year Ending	Principal	Interest	Total
2017	\$ 500,000	\$ 243,210	\$ 743,210
2018	515,000	227,985	742,985
2019	530,000	212,310	742,310
2020	545,000	193,460	738,460
2021	570,000	176,147	746,147
2022-2026	3,045,000	643,247	3,688,247
2027-2030	2,500,000	159,581	2,659,581
Totals	<u>\$ 8,205,000</u>	<u>\$ 1,855,940</u>	<u>\$ 10,060,940</u>

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Principal Balance at July 1, 2015	Additions	Retirements	Principal Balance at June 30, 2016	Amounts Due Within One Year
2012 Lease Revenue Bonds	\$ 8,695,000	\$ -	\$ 490,000	\$ 8,205,000	\$ 500,000
Total	<u>\$ 8,695,000</u>	<u>\$ -</u>	<u>\$ 490,000</u>	<u>\$ 8,205,000</u>	<u>\$ 500,000</u>

(5) New Accounting Pronouncements

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

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The Authority has not determined its effect on the financial statements.

CITY OF PALMDALE FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

GASB Statement No. 78 - In December 2015, GASB issued Statement No 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 80 - In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-2017 fiscal year. The Authority has not determined the effect of implementing this statement.

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.

THIS PAGE LEFT BLANK INTENTIONALLY



**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, 2016, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated November 23, 2016. Our report contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective, July 1, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 23, 2016