

**LOS ANGELES COUNTY**  
**CAPITAL ASSET LEASING CORPORATION**  
(A Not-for-Profit Public Benefit Corporation)

Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

For the Fiscal Year Ended June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Los Angeles County Capital Asset Leasing Corporation  
Los Angeles, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Los Angeles County Capital Asset Leasing Corporation (LACCAL), a blended component unit of the County of Los Angeles, California, as of and for the year ended June 30, 2017, and the related notes to the 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 LACCAL as of June 30, 2017, 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***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018, on our consideration of LACCAL's internal control over financial reporting 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 LACCAL's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Deloitte Accounting Corp." is written over a light blue horizontal line.

Los Angeles, California  
February 20, 2018

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

This management's discussion and analysis of the Los Angeles County Capital Asset Leasing Corporation (LACCAL) provides an overview of LACCAL's financial activities for the fiscal year ended June 30, 2017. We recommend that this information be used in conjunction with LACCAL's audited financial statements.

LACCAL is a blended component of a larger governmental unit, the County of Los Angeles.

### Assets, Liabilities, and Net Position

Total assets of LACCAL decreased by \$16.7 million (20%) from the prior fiscal year. Cash and investments decreased by \$3.6 million and net investment in direct financing leases decreased by \$13.1 million, decreasing the total assets to \$66.3 million.

Total liabilities of LACCAL decreased by \$17.6 million (26%) due in part to a decrease of \$16.0 million in lease revenue bonds and bond anticipation notes (BANs) and decrease in accounts payable and interest payable of \$1.6 million.

**Table 1**  
Summary of Net Position  
As of June 30, 2017 and 2016  
(In thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Assets</u>		
Total assets	\$ <u>66,277</u>	\$ <u>82,978</u>
<u>Liabilities</u>		
Current liabilities	23,955	54,211
Long-term debt and bonds payable	<u>26,995</u>	<u>14,344</u>
Total liabilities	<u>50,950</u>	<u>68,555</u>
<u>Net Position</u>		
Total net position	\$ <u>15,327</u>	\$ <u>14,423</u>

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued*  
For the Fiscal Year Ended June 30, 2017

## Revenues, Expenses, and Change in Net Position

Revenues of LACCAL decreased by \$0.1 million (4%) from the prior year due to a decrease in interest income received from investing activities.

Expenses of LACCAL increased by \$1 million (107%) from the prior year due to an increase in interest expense from financing activities and the cost of issuance for a new bond sale.

**Table 2**  
Summary of Changes in Net Position  
For the Fiscal Years Ending June 30, 2017 and 2016  
(In thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Revenues</u>		
Interest	\$ <u>2,872</u>	\$ <u>3,004</u>
Total revenues	2,872	3,004
<u>Expenses</u>		
Interest	1,768	938
Other expenses	<u>200</u>	<u>14</u>
Total expenses	1,968	952
<u>Change in net position</u>		
Net income	<u>904</u>	<u>2,052</u>
Increase in net position	\$ <u>904</u>	\$ <u>2,052</u>

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued*  
For the Fiscal Year Ended June 30, 2017

## Debt Management

During the year, BANs payable of LACCAL decreased by \$45.0 million. The balance at year-end was \$5.0 million. Also, LACCAL redeemed Lease Revenue Bonds of \$10.3 million and issued new Lease Revenue Bonds of \$37.5 million, resulting in an outstanding Lease Revenue Bonds balance of \$41.7 million. LACCAL uses the notes to purchase equipment, machinery, vehicles, and other tangible personal property for lease to the County of Los Angeles. The equipment is used as collateral to issue bonds. The proceeds from the bonds are used to retire the BANs. The lease payments received are used to service the debt payments on the bonds. For a more complete discussion, please refer to the accompanying "Notes to Basic Financial Statements."

**Table 3**  
Debt Management  
As of June 30, 2017 and 2016  
(In thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Bond anticipation notes	\$ 5,000	\$ 50,000
Lease revenue bonds	<u>41,755</u>	<u>14,540</u>
Subtotal	46,755	64,540
Unamortized Premium	<u>2,175</u>	<u>344</u>
Total	\$ <u>48,930</u>	\$ <u>64,884</u>

## Bond Ratings

LACCAL's debt is rated by Moody's, Standard and Poor's and Fitch. The following is a schedule of ratings:

	<u>Moody's</u>	<u>Standard and Poor's</u>	<u>Fitch</u>
Lease Revenue Bond 2011A	Aa2	AA	AA-
Lease Revenue Bond 2014A	Aa2	AA	AA-
Lease Revenue Bond 2017A	Aa2	AA	AA-

During the current year, LACCAL's bond ratings were upgraded for Moody's assigned ratings to Aa2 for both Lease Revenue Bonds 2011A and 2014A from the previous year.

## Contacting LACCAL's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of LACCAL's finances and to demonstrate LACCAL's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012.

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION**

Statement of Net Position  
June 30, 2017

ASSETS

Current Assets

Pooled Cash and Investments (Note 2)	\$ 11,720,935
Interest Receivable	141,366
Total Current Assets	<u>11,862,301</u>

Non-Current Assets

Cash and Investments Held by Fiscal Agents (Note 2)	4,289,886
Net Investment in Direct Financing Leases (Note 3)	50,125,249
Total Non-Current Assets	<u>54,415,135</u>

TOTAL ASSETS

66,277,436

LIABILITIES

Current Liabilities

Accounts Payable and Other Liabilities	1,989,688
Interest Payable	30,644
Revenue Bonds Payable - Current (Note 4)	21,935,370
Total Current Liabilities	<u>23,955,702</u>

Non-Current Liabilities

Bond Anticipation Notes - Due in More Than One Year (Note 4)	5,000,000
Revenue Bonds Payable - Due in More Than One Year (Note 4)	21,994,886
Total Non-Current Liabilities	<u>26,994,886</u>

TOTAL LIABILITIES

50,950,588

NET POSITION

Unrestricted	15,326,848
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TOTAL NET POSITION

\$ 15,326,848

See accompanying notes to basic financial statements.



# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

## Statement of Activities For the Fiscal Year Ended June 30, 2017

### OPERATING REVENUE

Interest Income	\$ 2,872,067
Total Operating Revenue	<u>2,872,067</u>

### OPERATING EXPENSES

Interest Expense	1,768,578
Bond Issue Costs	187,365
Administrative	12,420
Total Operating Expenses	<u>1,968,363</u>

Operating Income	<u>903,704</u>
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Total Net Position, Beginning	14,423,144
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Total Net Position, Ending	<u><u>\$ 15,326,848</u></u>
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See accompanying notes to basic financial statements.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

## Statement of Cash Flows For the Fiscal Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Principal Collections on Direct Financing Lease	\$ 31,570,243
Cash Paid for Bond Issuance Costs	(187,365)
Cash Paid for Services and Supplies	<u>(12,420)</u>
Cash Provided by Operating Activities	31,370,458
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Sale of Certificates and Notes	64,586,060
Principal Paid on Bonds, Certificates and Notes	(80,265,000)
Interest Paid on Bonds, Certificates and Notes	(2,531,206)
Acquisition of Capital Assets	<u>(19,570,300)</u>
Cash Used in Capital and Related Financing Activities	(37,780,446)
Cash Flows from Investing Activities:	
Interest Income Received	<u>2,793,259</u>
Cash Provided by Investing Activities	<u>2,793,259</u>
Net Decrease in Cash and Cash Equivalents	(3,616,729)
Cash and Cash Equivalents, Beginning	19,627,550
Cash and Cash Equivalents, Ending	<u><u>\$ 16,010,821</u></u>

See accompanying notes to basic financial statements.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Cash Flows, *continued*  
For the Fiscal Year Ended June 30, 2017

## Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ 903,704
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Interest Revenue Classified as Investing Activities	(2,872,067)
Interest Expense Classified as Capital and Related Financing Activities	1,768,578
Changes in Assets and Liabilities	
Increase in Net Investment in Direct Financing Leases Attributable to Operating Activities	<u>31,570,243</u>
Total Adjustments	<u>30,466,754</u>
Net Cash Provided by Operating Activities	<u><u>\$ 31,370,458</u></u>
Reconciliation of Cash and Cash Equivalents:	
Pooled Cash and Investments	\$ 11,720,935
Cash and Investments Held by Fiscal Agents	4,289,886
Total Cash and Cash Equivalents	<u><u>\$ 16,010,821</u></u>

## Supplemental Disclosure:

There were no non-cash investing and financing activities for the fiscal year ended June 30, 2017.

See accompanying notes to basic financial statements.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

## 1. Summary of Significant Accounting Policies

### *General*

Los Angeles County Capital Asset Leasing Corporation (LACCAL) was organized as a not-for-profit public benefit corporation in February 1983. The purpose was to purchase equipment, machinery, vehicles and other tangible personal properties for lease to the County of Los Angeles (County). LACCAL is governed by a five-member Board of Directors (Board) designated by the Board of Supervisors of the County. LACCAL is included in the County's financial reporting entity and is included as a blended component unit in the County's Comprehensive Annual Financial Report for the year ended June 30, 2017.

LACCAL is exempt from the payment of Federal income and California franchise taxes. However, the Fund is subject to the arbitrage restrictions under the U.S. Treasury Regulations Section 1.103, which may result in rebates of excess earnings to the U.S. Treasury Department.

### *Basis of Presentation and Accounting*

The basic financial statements of LACCAL are prepared in accordance with generally accepted accounting principles (GAAP). LACCAL is accounted for as an enterprise fund (proprietary fund type) using the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. Revenues are recognized when they are earned and become measurable, and expenses are recorded when they are incurred. Leases are classified as direct financing leases for accounting purposes. Bond premiums and discounts are 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 recognized in the period issued.

LACCAL's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities and Statement No. 63 establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The net position is required to classify into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 1. Summary of Significant Accounting Policies, *continued*

### *Basis of Presentation and Accounting, continued*

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. As of June 30, 2017, LACCAL had no capital assets or debt obligations.

Restricted net position – This component of net position represents restricted assets net of liabilities that relate to those specific restricted assets. A restricted asset is an asset for which constraints have been placed on the asset's use by creditors, contributors, laws, or regulations of other governments, or as a consequence of a restriction established by the reporting government's own governing body at the time a particular fee, charge, levy, or assessment was approved. These restrictions must be narrower than the general purposes for which the reporting government can use its resources. As of June 30, 2017, LACCAL had no restricted net position.

Unrestricted net position – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." As of June 30, 2017, LACCAL had a balance of \$15,326,848 of unrestricted net position.

Statement No. 65 provides additional accounting and financial reporting guidance for deferred outflows of resources and/or deferred inflows of resources.

If applicable, the financial statements will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditures) until then.

If applicable, the financial statements will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

### ***Cash and Investments***

Investments are reported at fair value in accordance with the provision of GASB No. 72, *Fair Value Measurement and Application*.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that year. Investment income includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 1. Summary of Significant Accounting Policies, *continued*

### *Cash and Investments, continued*

For the purpose of the Statement of Cash Flows, cash and cash equivalents include all highly liquid investments (including restricted assets) with maturity of three months or less when purchased.

### *Revenues and Expenses*

Operating revenues consist of interest received from direct financing leases. This interest revenue is an integral part of the programs of LACCAL and is the primary source for paying the expenses of LACCAL. Operating expenses consist of interest expense on lease revenue bonds and bond anticipation notes (BANs) as well as administrative expenses to operate LACCAL. All LACCAL expenses are related to operating the programs.

### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 1. Summary of Significant Accounting Policies, *continued*

### *New Accounting Pronouncements*

The following GASB Statements have been implemented in the current basic financial statements.

GASB 74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	Requires that notes to the financial statements of all defined benefit OPEB plans that are administered through trusts that meet the specified criteria include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. All defined benefit OPEB plans are also required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year. The required supplementary information should also present the sources of changes in the net OPEB liability, and information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll. This statement did not have an impact on the financial statements.
GASB 77	Tax Abatement Disclosures	Requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered by other governments and that reduce the reporting government's tax revenues. This statement did not have an impact on the financial statements

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 1. Summary of Significant Accounting Policies, *continued*

### *New Accounting Pronouncements, continued*

GASB 78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	Amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement did not have an impact on the financial statements.
GASB 80	Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14	Amends the blending requirements for the financial statement presentation of component units of all state and local governments. 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. This statement did not have an impact on the financial statements.
GASB 82	Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73	Amends Statements 67 and 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This statement did not have an impact on the financial statements.



# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 2. Cash and Investments

Statutes authorize LACCAL to invest in obligations of the United States Treasury, federal agencies and municipalities commercial paper rated A-1 by Standard & Poor's Global Rating Services, P-1 by Moody's Commercial Paper Record, or F-1 by Fitch Ratings, bankers' acceptances, repurchase agreements and reverse repurchase agreements, including the County Treasurer's Investment Pool.

As provided by the State of California Government Code, substantially all cash balances of LACCAL are pooled and invested by the County Treasurer and are subjected to withdrawal from the pool upon demand. LACCAL's share of the total pooled cash and investments of the County Treasurer is included in the accompanying balance sheet under "Pooled Cash and Investments." The difference between LACCAL's carrying value in the investment pool and their proportional share of the fair value of the underlining securities is not material to the financial statements of LACCAL. Included in Pooled Surplus Investments portfolio are United States government and agency obligations, bankers' acceptances, commercial paper, municipal obligations, corporate and deposit notes, repurchase agreements, and negotiable certificates of deposit.

### *Fair Value Measurements*

Investments are stated at fair value and are valued on a monthly basis. The County Treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix Pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities classified in Level 3 are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION**

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

**2. Cash and Investments, *continued***

LACCAL has the following recurring fair value measurements as of June 30, 2017:

	<u>Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Current Asset - Pooled				
Cash and Investments	\$ 11,720,935	\$ -	\$ 11,720,935	\$ -
Cash Investments held by Fiscal Agents	<u>3,072,778</u>	<u>-</u>	<u>3,072,778</u>	<u>-</u>
Total Investments	<u>\$ 14,793,713</u>	<u>\$ -</u>	<u>\$ 14,793,713</u>	<u>\$ -</u>

Interest earned on pooled investments is allocated monthly to LACCAL based upon LACCAL's average daily deposit balance during the allocation period. Any investment losses are proportionately shared by all entities participating in the pool as a reduction in interest earnings.

	<u>Pooled Cash and Investments</u>	<u>Money Market Funds</u>	<u>Total</u>
Current Asset - Pooled			
Cash and Investments	\$ 11,720,935	\$ -	\$ 11,720,935
Cash Investments held by Fiscal Agents	<u>3,072,778</u>	<u>1,217,108</u>	<u>4,289,886</u>
Total	<u>\$ 14,793,713</u>	<u>\$ 1,217,108</u>	<u>\$ 16,010,821</u>

***Custodial Credit Risk***

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, LACCAL will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2017, LACCAL's investments consisted of money market fund shares and other qualified investments in the amount of \$1,217,108 and investments pooled with the County Treasurer in the amount of \$14,793,713 which represents 0.05% of the total County pooled investments. The investments held by the trustees are not exposed to custodial credit risk since they are in LACCAL's name. Likewise, the deposits pooled with the County are not exposed to custodial credit risk since all of its deposits are either covered by the federal depository insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with California Government Code Section 53652.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 2. Cash and Investments, *continued*

### *Concentration of Credit Risk*

Concentration of credit risk is the risk associated with the amount of investments LACCAL has with any one issuer that exceeds five (5%) percent or more of its total investments. Investments in money market mutual funds are excluded from this requirement. Furthermore, investments with the County Treasurer are subject to a policy that establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. Also, the County Treasurer mitigated the risks by holding a diversified portfolio of high quality investments. As of June 30, 2017, LACCAL was not exposed to concentration of credit risk.

### *Credit Risk*

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 trust agreement, and the actual rating as of year-end.

Investment Type Held by <u>Bond Trustee</u>	<u>Amount</u>	<u>Minimum Rating</u>	<u>Rating as of June 30, 2017</u>
Money Market Funds	\$ 1,217,108	AAAm/AAAm-G	AAAm
County Pooled Funds	3,072,778		
Total	<u>\$ 4,289,886</u>		

The Investment Policy, approved annually by the Board, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the Pool portfolio. Exceptions to this are obligations of the United States government, and the United States government agencies or government-sponsored enterprises, which do not have a limit.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. LACCAL does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except for bills of exchange or time drafts, and commercial paper, with maturity dates not to exceed 270 days.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 2. Cash and Investments, *continued*

### *Interest Rate Risk, continued*

Information about the sensitivity of the fair values of LACCAL's investment held by trustees to market rate fluctuations is provided by the following table that shows the distribution of their investments by maturity:

Investment Type Held by <u>Trustee</u>	Remaining Maturity (in Months)				<u>Total</u>
	12 Months <u>or Less</u>	13 to 24 <u>Months</u>	25 to 60 <u>Months</u>	More than <u>60 Months</u>	
Qualified					
Investments	\$ 3,096,931	-	\$ 1,192,955	-	\$ 4,289,886

The County Treasurer mitigates exposure to declines in fair value by investing in short-term investments with maturities of six months or less and by holding asset investments to maturity. The investment guidelines limit the weighted average maturity target to a range between 1.0 and 2.0 years. At June 30, 2017, 42.10% of the County Investment Pool have a maturity of six months or less, 5.76% have a maturity of between six and twelve months, and 52.14% have a maturity of more than one year. The weighted average maturity in years for the Pool was 1.83.

## 3. Net Investment in Direct Financing Leases

The main purpose of LACCAL is to lease equipment, vehicles and other tangible personal properties to the County of Los Angeles. Lease terms generally range from three to five years and are close to the useful life of leased assets. A special lease term of seven years was allowed in 2011 for acquisitions of helicopters which have longer useful life than other equipment.

The net investment at June 30, 2017 is as follows:

Total Minimum Lease Payments Receivable	\$ 52,874,327
Less: Unearned Interest Income	<u>(2,749,078)</u>
Net Investment in Direct Financing Leases	<u><u>\$ 50,125,249</u></u>

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

### 3. Net Investment in Direct Financing Leases, *continued*

Minimum lease payments to be received under the lease provisions are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2018	\$ 25,854,284
2019	16,715,808
2020	6,365,550
2021	2,881,565
2022	807,914
2023	249,206
Total	<u><u>\$ 52,874,327</u></u>

### 4. Long-Term Debt

Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized in the period issued.

Long-term liabilities for the year ended June 30, 2017 are as follows:

	Balance at <u>June 30, 2016</u>	<u>Additions</u>		<u>Deletions</u>		Balance at <u>June 30, 2017</u>	Amounts Due Within <u>One Year</u>
		<u>Principal Additions</u>	<u>Unamortized Premiums (Discount)</u>	<u>Principal Repayments</u>	<u>Amortized Premiums (Discount)</u>		
<b>Lease Revenue Bonds</b>							
2011 Series A (#29)	\$ 2,987,865	\$ -	\$ -	\$ 2,945,000	\$ 42,865	\$ -	\$ -
2014 Series A (#30)	11,896,294	-	-	7,320,000	232,099	4,344,195	4,344,195
2017 Series A (#31)	-	37,480,000	2,106,061	-	-	39,586,061	17,591,175
Subtotal	<u>14,884,159</u>	<u>37,480,000</u>	<u>2,106,061</u>	<u>10,265,000</u>	<u>274,964</u>	<u>43,930,256</u>	<u>21,935,370</u>
<b>Bond Anticipation Notes</b>							
Notes Payable #31	50,000,000	20,000,000	-	70,000,000	-	-	-
Notes Payable #32	-	5,000,000	-	-	-	5,000,000	-
Subtotal	<u>50,000,000</u>	<u>25,000,000</u>	<u>-</u>	<u>70,000,000</u>	<u>-</u>	<u>5,000,000</u>	<u>-</u>
Total	<u><u>\$64,884,159</u></u>	<u><u>\$62,480,000</u></u>	<u><u>\$ 2,106,061</u></u>	<u><u>\$80,265,000</u></u>	<u><u>\$ 274,964</u></u>	<u><u>\$48,930,256</u></u>	<u><u>\$21,935,370</u></u>

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 4. Long-Term Debt, *continued*

### ***Revenue Bonds***

#### Lease Revenue Bonds, 2014 Series A

On June 17, 2014, LACCAL issued \$29,800,000 of Lease Revenue Bonds, with interest rates of 2% to 3% to partially retire \$49,000,000 of BANs. These mature serially December 1 and June 1 each year and interest is payable on December 1 and June 1. The following is a summary of interest and principal payable for the 2014 Series A Lease Revenue Bonds:

<u>Year</u>	Principal Payable			Interest Payable		
	<u>June 1</u>	<u>December 1</u>	<u>Total</u>	<u>June 1</u>	<u>December 1</u>	<u>Total</u>
2017	\$ -	\$ 2,900,000	\$ 2,900,000	\$ -	\$ 64,125	\$ 64,125
2018	1,375,000	-	1,375,000	20,625	-	20,625
Plus Unamortized Premium			69,195			
Total			\$ 4,344,195			\$ 84,750

#### Lease Revenue Bonds, 2017 Series A

On June 20, 2017, LACCAL issued \$37,480,000 of Lease Revenue Bonds, with an interest rate of 5% to partially retire \$70,000,000 of BANs. These mature serially December 1 and June 1 each year and interest is payable on December 1 and June 1. The following is a summary of interest and principal payable for the 2017 Series A Lease Revenue Bonds:

<u>Year</u>	Principal Payable			Interest Payable		
	<u>June 1</u>	<u>December 1</u>	<u>Total</u>	<u>June 1</u>	<u>December 1</u>	<u>Total</u>
2017	\$ -	\$ 8,520,000	\$ 8,520,000	\$ -	\$ 791,244	\$ 791,244
2018	7,875,000	7,745,000	15,620,000	724,000	527,125	1,251,125
2019	6,800,000	3,780,000	10,580,000	333,500	163,500	497,000
2020	2,145,000	615,000	2,760,000	69,000	15,375	84,375
Plus Unamortized Premium			2,106,061			
Total			\$ 39,586,061			\$ 2,623,744

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 4. Long-Term Debt, *continued*

### *Bond Anticipation Notes (BANs)*

LACCAL BANs are purchased as an investment by the County Treasury Pool in accordance with the terms of the "Resolution of the Board of Directors of the LACCAL Corporation" adopted on June 24, 1986. Later, the resolution was revised to the "Resolution of the LACCAL Reauthorization A Program for the Issuance of Bond Anticipation Notes to Finance Equipment, Increasing the Amount Thereof and Providing Additional Security for the Repayment Thereof" which was adopted by the County on February 10, 1995.

Proceeds from these notes are used to purchase equipment, machineries and vehicles and other tangible personal properties. The interest rate is based upon the pricing of the six-month U.S. Treasury Bill plus one-half of one percent (0.50%) at the time of the draw, and then adjusted to changes in that rate on a reset date. A reset date is January 2 and July 1 of each year.

Adjustments will be made to the Treasury Rate on two reset dates following the initial draw. The interest rate for draws which remain unpaid on the third reset date will convert on that date to the Bank of America prime rate and will be reset quarterly thereafter. Interest on these notes is payable to the Treasury Pool on January 2 and July 1. The principal and remaining interest on the notes are payable upon issuance of leasehold revenue bonds prior to maturity of the notes. Authorized BANs remaining in a fiscal year may be carried over to a subsequent fiscal year to fund equipment acquisition received in the fiscal year following the one in which they were initiated. The maximum aggregate principal amount of these notes authorized by the Board during the fiscal years ended June 30, 2017 and 2016 were \$31,000,000 and \$46,500,000, respectively.

Bond anticipation notes outstanding at June 30, 2017 mature on the following dates:

<u>Maturity Date</u>	<u>Amount</u>
June 30, 2019	\$ 5,000,000
Total	<u>\$ 5,000,000</u>

BANs are secured by annual base rental payments from various County departments for use of the equipment or facilities constructed or purchased from the note proceeds.

# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## 5. Conduit Debt Obligations

The County of Los Angeles utilizes the LACCAL to periodically issue Lease Revenue Obligation Notes (LRON) to finance construction costs for the County. LRON provides the County with a flexible and cost-effective source of financing to provide interim funding during the initial construction phase of a capital project, which may be refinanced with the issuance of long-term bonds. Repayment of LRON are secured by three irrevocable direct-pay Letters of Credit (LOC) from separate banks supporting the issuance of LRON and a revolving credit facility with an additional bank supporting the issuance of direct placement revolving notes.

This program is secured with twenty-four County-owned properties pledged as collateral in a lease revenue financing structure with the LACCAL. The LOCs were issued for a three-year period and have a termination date of April 12, 2019. The County has the option to extend the LOCs for an additional one-year period, or to some other term mutually agreed to with the participating banks.

The aggregate maximum principal amount of the two LOCs is \$300,000,000, which consists of \$100,000,000 of Series A (Bank of West), and \$200,000,000 of Series B (U.S. Bank). The maximum principal amount of the Series C (Wells Fargo) direct placement revolving credit facility is \$200,000,000. As of June 30, 2017, \$194,370,000 of LRON issued under the program were outstanding, including \$13,100,000 of Series A, \$181,270,000 of Series B, and \$0 of Series C.

LRON does not constitute an indebtedness of LACCAL and is payable solely by the County of Los Angeles. LRON is not payable from any revenues or assets of LACCAL, and LACCAL is not obligated to the payment of the principal or interest on LRON. Accordingly, no liability has been recorded in the accompanying basic financial statements.

## 6. Related Party Transactions

The County of Los Angeles maintains the books and records of LACCAL, including the investment with the County Treasurer.

### *Transactions with the County*

The County is responsible for performing all administrative and operational functions for LACCAL. Costs related to these functions are absorbed by the County's General Fund. Accordingly, LACCAL has no salaries and employee benefit expenditures or supplies inventory. Any surplus gained from lease revenues collected from County departments are transferred back to the County after bond maturation.



# LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*  
For the Fiscal Year Ended June 30, 2017

## **7. Subsequent Events**

On October 16, 2017, LACCAL issued a \$10,000,000 BAN with an initial interest rate of 1.75%. The rate is adjustable on January 2 and July 1 of each year. The note was purchased by the Treasury Pool and is due on June 30, 2020. Proceeds of the note are being used to purchase equipment. The note is to be paid from the proceeds of lease revenue bonds.

**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**

Board of Directors  
Los Angeles County Capital Asset Leasing Corporation  
Los Angeles, California

We have audited, 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, the basic financial statements of the Los Angeles County Capital Asset Leasing Corporation (LACCAL), a blended component unit of the County of Los Angeles, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise LACCAL’s basic financial statements, and have issued our report thereon dated February 20, 2018.

***Internal Control Over Financial Reporting***

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

*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 LACCAL’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.

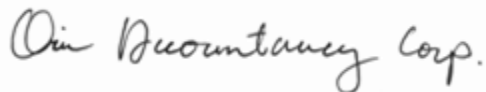
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 LACCAL'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 is 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 result 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 cursive script that reads "Deloitte Accounting Corp." The signature is written in dark ink on a light-colored background.

Los Angeles, California  
February 20, 2018