

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

Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

For the Fiscal Year Ended June 30, 2016

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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 basic financial statements of Los Angeles County Capital Asset Leasing Corporation (LACCAL), a blended component unit of Los Angeles County, as of and for the year ended June 30, 2016, 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 opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of LACCAL as of June 30, 2016, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller and state regulations governing special districts.

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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LACCAL's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016, 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* considering LACCAL's internal control over financial reporting and compliance.



Los Angeles, California
December 27, 2016

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

This management's discussion and analysis of Los Angeles County Capital Asset Leasing Corporation (LACCAL) provides an overview of LACCAL's financial activities for the fiscal year ended June 30, 2016. 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 \$9.7 million (10%) from the prior fiscal year. Cash and investments decreased by \$4.1 million and net investment in direct financing leases decreased by \$5.6 million, decreasing the total assets to \$83.0 million.

Total liabilities of LACCAL decreased by \$11.7 million (15%) due in part to a net decrease of \$14.7 million in lease revenue bonds and bond anticipation notes (BANs) offset by an increase in payables and other charges of \$3.0 million.

Table 1
Summary of Net Position
As of June 30, 2016 and 2015
(In thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Assets</u>		
Total assets	\$ <u>82,978</u>	\$ <u>92,649</u>
<u>Liabilities</u>		
Current liabilities	54,211	25,394
Long-term debt and bonds payable	<u>14,344</u>	<u>54,884</u>
Total liabilities	<u>68,555</u>	<u>80,278</u>
<u>Net Position</u>		
Total net position	\$ <u>14,423</u>	\$ <u>12,371</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued*
For the Fiscal Year Ended June 30, 2016

Revenues, Expenses, and Changes in Net Position

Revenues of LACCAL decreased by \$0.4 million (12%) from the prior year due to a decrease in interest income received from investing activities.

Expenses of LACCAL increased by \$0.3 million (57%) from the prior year due to an increase in interest expense from financing activities.

Table 2
Summary of Changes in Net Position
For the Fiscal Years Ending June 30, 2016 and 2015
(In thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Revenues</u>		
Interest	\$ <u>3,004</u>	\$ <u>3,433</u>
Total revenues	3,004	3,433
<u>Expenses</u>		
Interest	938	591
Other expenses	<u>14</u>	<u>14</u>
Total expenses	952	605
<u>Change in net position</u>		
Net income	<u>2,052</u>	<u>2,828</u>
Increase in net position	\$ <u><u>2,052</u></u>	\$ <u><u>2,828</u></u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued*
For the Fiscal Year Ended June 30, 2016

Debt Management

During the year, BANs payable of LACCAL increased by \$3.0 million. The balance at year-end was \$50.0 million. Also, LACCAL redeemed Lease Revenue Bonds of \$16.9 million, resulting in an outstanding Lease Revenue Bonds balance of \$14.5 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, 2016 and 2015
(In thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Bond anticipation notes	\$ 50,000	\$ 47,000
Lease revenue bonds	<u>14,540</u>	<u>31,430</u>
Subtotal	64,540	78,430
Unamortized Premium	<u>344</u>	<u>1,134</u>
Total	\$ <u>64,884</u>	\$ <u>79,564</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	A2	AA	AA-
Lease Revenue Bond 2014A	A2	AA	AA-

During the current year, LACCAL's bond ratings were upgraded for Fitch assigned ratings to AA- 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, 2016

ASSETS

Current Assets

Pooled Cash and Investments (Note 2)	\$ 16,557,869
Interest Receivable	62,558
Total Current Assets	<u>16,620,427</u>

Non-Current Assets

Cash and Investments Held by Fiscal Agents (Note 2)	3,069,681
Net Investment in Direct Financing Leases (Note 3)	63,288,426
Total Non-Current Assets	<u>66,358,107</u>

TOTAL ASSETS	<u><u>82,978,534</u></u>
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LIABILITIES

Current Liabilities

Accounts Payable and Other Liabilities	3,152,922
Interest Payable	518,309
Bond Anticipation Notes - Current (Note 4)	40,000,000
Revenue Bonds Payable - Current (Note 4)	10,539,964
Total Current Liabilities	<u>54,211,195</u>

Non-Current Liabilities

Bond Anticipation Notes - Due in More Than One Year (Note 4)	10,000,000
Revenue Bonds Payable - Due in More Than One Year (Note 4)	4,344,195
Total Non-Current Liabilities	<u>14,344,195</u>

TOTAL LIABILITIES	<u><u>68,555,390</u></u>
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NET POSITION

Unrestricted	14,423,144
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TOTAL NET POSITION	<u><u>\$ 14,423,144</u></u>
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See Accompanying Notes to Basic Financial Statements.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Activities
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUE

Interest Income	\$ 3,003,936
Total Operating Revenue	<u>3,003,936</u>

OPERATING EXPENSES

Interest Expense	938,070
Administrative	13,420
Total Operating Expenses	<u>951,490</u>

Operating Income	<u>2,052,446</u>
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Total Net Position, Beginning	12,370,698
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Total Net Position, Ending	<u><u>\$ 14,423,144</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, 2016

Cash Flows from Operating Activities:	
Principal Collections on Direct Financing Lease	\$ 27,088,734
Cash Paid for Services and Supplies	<u>(13,420)</u>
Cash Provided by Operating Activities	27,075,314
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Sale of Certificates and Notes	10,000,000
Principal Paid on Bonds, Certificates and Notes	(23,890,000)
Interest Paid on Bonds, Certificates and Notes	(1,451,410)
Acquisition of Capital Assets	<u>(18,766,429)</u>
Cash Used in Capital and Related Financing Activities	(34,107,839)
Cash Flows from Investing Activities -	
Interest Income Received	<u>2,981,189</u>
Cash Provided by Investing Activities	<u>2,981,189</u>
Net Decrease in Cash and Cash Equivalents	(4,051,336)
Cash and Cash Equivalents, Beginning	23,678,886
Cash and Cash Equivalents, Ending	<u><u>\$ 19,627,550</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, 2016

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

Operating Income	\$ 2,052,446
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Interest Revenue Classified as Investing Activities	(3,003,936)
Interest Expense Classified as Capital and Related Financing Activities	938,070

Changes in Assets and Liabilities

Increase in Net Investment in Direct Financing Leases Attributable to Operating Activities	<u>27,088,734</u>
Total Adjustments	<u>25,022,868</u>

Net Cash Provided by Operating Activities	<u><u>\$ 27,075,314</u></u>
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Reconciliation of Cash and Cash Equivalents:

Pooled Cash and Investments	\$ 16,557,869
Cash and Investments Held by Fiscal Agents	3,069,681

Total Cash and Cash Equivalents	<u><u>\$ 19,627,550</u></u>
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Supplemental Disclosure:

There were no non-cash investing and financing activities for the fiscal year ended June 30, 2016.

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, 2016

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, 2016.

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 Statement (GASB) 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, 2016

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 investment 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, 2016, 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, 2016, 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, 2016, LACCAL had a balance of \$14,423,144 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, 2016

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.

New Accounting Pronouncement

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

GASB 72	Fair Value Measurement and Application	Effective after June 15, 2015, the statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes. This statement had an impact on the financial statements. Refer to Note 2.
GASB 73	Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	Improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. 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, 2016

1. Summary of Significant Accounting Policies, *continued*

New Accounting Pronouncement, continued

GASB 76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	Reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement did not have an impact on the financial statements.
GASB 79	Certain External Investment Pools and Pool Participants	Addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it 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. This statement did not have an impact on the financial statements.

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.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2016

2. Cash and Investments, *continued*

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. Recurring fair value measurements for the entire County Investment Pool is presented in Note 5 to the County of Los Angeles Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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	\$ 16,557,869	\$ -	\$ 16,557,869
Cash Investments held by Fiscal Agents	3,054,553	15,128	3,069,681
Total	\$ 19,612,422	\$ 15,128	\$ 19,627,550

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, 2016, LACCAL's investments consisted of money market fund shares and other qualified investments in the amount of \$15,128 and investments pooled with the County Treasurer in the amount of \$19,612,422 which represents 0.07% 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, 2016

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, 2016, 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, 2016</u>
Money Market Funds	\$ 15,128	AAAm/AAAm-G	AAAm
County Pooled Funds	3,054,553		
Total	<u>\$ 3,069,681</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, 2016

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 Trustee	Remaining Maturity (in Months)				<u>Total</u>
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Qualified Investments	\$2,054,553	\$1,015,128	\$ -	\$ -	\$3,069,681

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, 2016, 46.85% of the County Investment Pool have a maturity of six months or less, 6.08% have a maturity of between six and twelve months, and 47.07% have a maturity of more than one year. The average maturity in years for the Pool was 1.66.

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, 2016 is as follows:

Total Minimum Lease Payments Receivable	\$ 67,227,745
Less: Unearned Interest Income	<u>(3,939,319)</u>
Net Investment in Direct Financing Leases	\$ <u>63,288,426</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2016

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>
2017	\$ 29,987,837
2018	20,338,954
2019	10,985,599
2020	4,325,458
2021	1,534,284
2022	<u>55,613</u>
 Total	 <u><u>\$ 67,227,745</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, 2016 are as follows:

	Balance at <u>June 30, 2015</u>	<u>Additions</u> Principal <u>Additions</u>	<u>Deletions</u> Principal <u>Repayments</u>	Amortized Premiums <u>(Discount)</u>	Balance at <u>June 30, 2016</u>	Amounts Due Within <u>One Year</u>
Lease Revenue Bonds						
2011 Series A (#28)	\$ 1,269,699	\$ -	\$ 1,180,000	\$ 89,699	\$ -	\$ -
2011 Series A (#29)	10,089,891	-	6,845,000	257,026	2,987,865	2,987,865
2014 Series A (#30)	21,204,527	-	8,865,000	443,233	11,896,294	7,552,099
Subtotal	<u>32,564,117</u>	-	<u>16,890,000</u>	<u>789,958</u>	<u>14,884,159</u>	<u>10,539,964</u>
Bond Anticipation Notes						
Notes Payable #31	47,000,000	10,000,000	7,000,000	-	50,000,000	40,000,000
Subtotal	<u>47,000,000</u>	<u>10,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>50,000,000</u>	<u>40,000,000</u>
 Total	 <u><u>\$ 79,564,117</u></u>	 <u><u>\$ 10,000,000</u></u>	 <u><u>\$ 23,890,000</u></u>	 <u><u>\$ 789,958</u></u>	 <u><u>\$ 64,884,159</u></u>	 <u><u>\$ 50,539,964</u></u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2016

4. Long-Term Debt, *continued*

Revenue Bonds

Lease Revenue Bonds, 2011 Series A

On December 6, 2011, LACCAL issued \$55,475,000 of Lease Revenue Bonds, with interest rates of 1.5% to 5%, to partially retire \$80,500,000 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 2011 Series A Lease Revenue Bonds:

<u>Year</u>	<u>Principal Payable</u>			<u>Interest Payable</u>		
	<u>June 1</u>	<u>December 1</u>	<u>Total</u>	<u>June 1</u>	<u>December 1</u>	<u>Total</u>
2016	-	\$ 2,945,000	\$ 2,945,000	-	\$ 73,625	\$ 73,625
Plus	Unamortized Premium		42,865			-
Total			<u>\$ 2,987,865</u>			<u>\$ 73,625</u>

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>	<u>Principal Payable</u>			<u>Interest Payable</u>		
	<u>June 1</u>	<u>December 1</u>	<u>Total</u>	<u>June 1</u>	<u>December 1</u>	<u>Total</u>
2016	\$ -	\$ 4,180,000	\$ 4,180,000	\$ -	\$ 173,925	\$ 173,925
2017	3,140,000	2,900,000	6,040,000	111,225	64,125	175,350
2018	1,375,000	-	1,375,000	20,625	-	20,625
Plus	Unamortized Premium		301,294			-
Total			<u>\$11,896,294</u>			<u>\$ 369,900</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2016

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, 2016 and 2015 were \$46,500,000 and \$23,500,000, respectively.

Bond anticipation notes outstanding at June 30, 2016 mature on the following dates:

<u>Maturity Date</u>	<u>Amount</u>
June 30, 2017	\$ 40,000,000
June 30, 2018	10,000,000
Total	<u>\$ 50,000,000</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, 2016

5. Conduit Debt Obligations

The County of Los Angeles utilizes 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 upon completion. Repayment of LRON are secured by two 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 by sixteen County-owned properties pledged as collateral in a lease-revenue financing structure with LACCAL. The LOCs and the revolving credit facility 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 and the revolving credit 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 the 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, 2016, \$181,000,000 of LRON issued under the program were outstanding, including \$25,100,000 of Series A, \$156,000,000 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, 2016

7. Subsequent Event

On July 20, 2016, LACCAL issued a \$10,000,000 BAN with an initial interest rate of 0.93%. Also, on November 2, 2016, LACCAL issued a \$10,000,000 BAN with an initial interest rate of 1.00%. The rates are adjustable on January 2 and July 1 of each year. The notes were purchased by the Treasury Pool and are due on June 30, 2019. Proceeds of the notes are being used to purchase equipment. The notes are 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 Los Angeles County Capital Asset Leasing Corporation (LACCAL), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise LACCAL's basic financial statements, and have issued our report thereon dated December 27, 2016.

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.

Deloitte Accounting Corp.

Los Angeles, California
December 27, 2016