

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

BASIC FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEAR ENDED JUNE 30, 2015

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

TABLE OF CONTENTS

June 30, 2015

	<u>Page Number</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Fund	5
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Fund Balance - Governmental Fund	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	8
Notes to the Basic Financial Statements	9
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	17
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Westside Cities Council of Governments
West Hollywood, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and the major fund of the Westside Cities Council of Governments (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and the major fund of the Westside Cities Council of Governments as of June 30, 2015 and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 17 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 budgetary comparison schedule 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the budgetary comparison schedule because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2016, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
February 1, 2016

BASIC FINANCIAL STATEMENTS

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
Assets:	
Current Assets:	
Cash and investments	\$ 198,557
Accrued interest on investments	<u>141</u>
Total Assets	<u>198,698</u>
Liabilities:	
Accounts payable and other liabilities	<u>32,082</u>
Total Liabilities	<u>32,082</u>
Net Position:	
Unrestricted	<u>166,616</u>
Total Net Position	<u><u>\$ 166,616</u></u>

See accompanying Notes to the Basic Financial Statements.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

For the fiscal year ended June 30, 2015

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 180,524	\$ -	\$ 120,000	\$ -	\$ (60,524)
Total governmental activities	<u>\$ 180,524</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ -</u>	<u>(60,524)</u>
General revenues:					
					1,354
					<u>1,354</u>
					(59,170)
					<u>(59,170)</u>
					225,786
					<u>225,786</u>
					\$ 166,616
					<u>\$ 166,616</u>

See accompanying Notes to the Basic Financial Statements.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2015

	<u>General Fund</u>
Assets:	
Current Assets:	
Cash and investments	\$ 198,557
Accrued interest on investments	<u>141</u>
Total Assets	<u><u>\$ 198,698</u></u>
Liabilities:	
Accounts payable and other liabilities	<u>\$ 32,082</u>
Total Liabilities	<u>32,082</u>
Fund Balance:	
Unassigned	<u>166,616</u>
Total Fund Balance	<u>166,616</u>
Total Liabilities and Fund Balance	<u><u>\$ 198,698</u></u>

See accompanying Notes to the Basic Financial Statements.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION**

June 30, 2015

Fund balance of the governmental fund	<u>\$ 166,616</u>
Net position of governmental activities	<u>\$ 166,616</u>

See accompanying Notes to the Basic Financial Statements.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the fiscal year ended June 30, 2015

	<u>General Fund</u>
Revenues:	
Intergovernmental	\$ 120,000
Investment earnings	<u>1,354</u>
Total Revenues	<u>121,354</u>
Expenditures:	
General government	<u>180,524</u>
Total Expenditures	<u>180,524</u>
Net Change in Fund Balance	(59,170)
Fund Balance at Beginning of Year, as Restated	<u>225,786</u>
Fund Balance at End of Year	<u><u>\$ 166,616</u></u>

See accompanying Notes to the Basic Financial Statements.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

For the fiscal year ended June 30, 2015

Net change in fund balance of the governmental fund	<u>\$ (59,170)</u>
Change in net position of governmental activities	<u>\$ (59,170)</u>

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Westside Cities Council of Governments (the "Authority") was created on December 20, 2005 by a Joint Exercise of Power Agreement (the "Agreement") between the City of Santa Monica, City of Beverly Hills, City of Culver City, City of Los Angeles, City of West Hollywood, and the County of Los Angeles, all in California (collectively "Members"). This Agreement shall continue in existence until the Agreement is terminated. This Agreement may not be terminated except by an affirmative vote of a majority of total voting membership of the Governing Board.

The Authority was formed to enable the Members to voluntarily engage in regional and cooperative planning and coordination of government services and responsibilities so as to assist the Members in the conduct of their affairs. The goal and intent of the Authority is one of voluntary cooperation among cities for the collective benefit of cities in the Westside area of Los Angeles County.

One elected official from each Member is appointed to the Authority as a governing board representative of the Authority (the "Governing Board"). The terms of office of the Chair and Vice Chair shall commence until July 1 of that fiscal year and expire on the following July 1. The positions of Chair and Vice Chair are alternated between the Members. For the fiscal year ended June 30, 2015, the City whose representative served as the Chair of Governing Board was the City of West Hollywood.

The Governing Board approves an annual budget based upon the costs of operating the Authority prior to July 1 of each fiscal year. The Governing Board may at any time amend the budget to incorporate additional income and disbursements that might become available to the Authority for its purposes during a fiscal year.

The books and records for the Authority for the fiscal year ended June 30, 2015, are located in the City of West Hollywood, Finance Department at 8300 Santa Monica Boulevard, West Hollywood, California 90069.

B. Measurement Focus and Basis of Accounting

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Government-wide Financial Statements

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized on an accrual basis.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are deducted from program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an "other financing source". Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

Fund financial statements for the Authority's governmental fund are presented after the government-wide financial statements.

In the fund financial statements, the governmental fund is presented using the modified-accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority uses a sixty day (60) availability period. Expenditures are recorded when the liability is incurred.

The Authority reports the following as a major governmental fund:

The General Fund is the Authority's operating fund and is used to account for all financial resources.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Annual Budget

The Authority adopted an annual budget prepared on the modified accrual basis for the General Fund, which is consistent with accounting principles generally accepted in the United States of America.

In addition, a minimum reserve of fifteen percent of operating revenues must be maintained according to the Authority's reserve policy.

Financial policies also provide for the Executive Director to transfer up to fifty percent of budget line items and to report such transfers in monthly financial reports.

D. Cash and Investments

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

The Authority's share in the investment pool of the City of West Hollywood is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated monthly to the various City funds and to the Authority based on daily average cash and investment balances.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and the governmental fund Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the Statement of Net Position and the governmental fund Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any applicable deferred inflows of resources.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (Continued)

F. Net Position

Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

At June 30, 2015, the Authority's net position was unrestricted.

G. Fund Balance

In the fund financial statements, the governmental fund reports fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the Authority's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance - amounts that are constrained by the Authority's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance - the residual classification for the Authority's funds that include amounts not contained in the other classifications.

At June 30, 2015, the Authority's fund balance was unassigned.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (Continued)

G. Fund Balance (Continued)

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

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget amendments that occur throughout the fiscal year.

H. New Accounting Pronouncements

Implemented

In fiscal year 2014-2015, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The implementation of these statements did not impact the Authority in the current fiscal year nor on any previous years.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Authority.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (Continued)

H. New Accounting Pronouncements (Continued)

Pending Accounting Standards

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future.

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- 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*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

I. Classification of Revenues

Operating revenues consist of charges to member agencies. *Non-operating revenues* consist of investment income and other non-operating income.

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

J. Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 2 - Cash and Investments

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments \$ 198,557

Cash and investments as of June 30, 2015 consist of the following:

Equity in City of West Hollywood's cash and investment pool \$ 198,557

Equity in the Cash and Investment Pool of the City of West Hollywood

The Authority has no separate bank accounts or investments other than Authority's equity in the cash and investment pool managed by the City of West Hollywood. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight policy of the Investment Policy adopted by City Council of the City of West Hollywood. The Authority has not adopted an investment policy separate from that of the City of West Hollywood. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on a market value basis. Information regarding the City of West Hollywoods' investments can be obtained in the City's Comprehensive Annual Financial Report available from the Finance Department located at 8300 Santa Monica Boulevard, West Hollywood, CA 90069.

NOTE 3 - Commitments

The Authority has a contract with an advisory firm to provide Executive Director services in effect on April 1, 2015. Under this agreement, the Authority is to pay this firm \$15,000 per month through March 31, 2016.

NOTE 4 - Restatement of Prior Year Financial Statements

The Authority had a restatement of prior year financial statements government wide net position and governmental fund balance from \$209,404 to \$225,786 to adjust for overstatement of accounts payable in the prior year.

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

NOTE 5 - Subsequent Events

Events occurring after June 30, 2015 have been evaluated for possible adjustment to the financial statements or disclosure as of February 1, 2016, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

WESTSIDE CITIES COUNCIL OF GOVERNMENTS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the fiscal year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Investment earnings	-	2,000	1,354	(646)
Total Revenues	<u>120,000</u>	<u>122,000</u>	<u>121,354</u>	<u>(646)</u>
Expenditures:				
General Government:				
Contract for Executive Director	144,000	153,000	153,000	-
Travel	2,500	1,500	1,231	269
Website and logo design	-	10,340	10,340	-
Miscellaneous printing and binding	3,000	3,000	2,785	215
Meeting setup and logistics	4,500	5,500	5,516	(16)
Telephone and conference calls	-	1,320	1,320	-
Audit services	4,500	4,500	4,500	-
Metro deputy shared salary augmentation and travel expense	<u>1,832</u>	<u>1,832</u>	<u>1,832</u>	<u>-</u>
Total Expenditures	<u>160,332</u>	<u>180,992</u>	<u>180,524</u>	<u>468</u>
Net Change in Fund Balance	(40,332)	(58,992)	(59,170)	(178)
Fund Balance at Beginning of Year, as Restated	<u>225,786</u>	<u>225,786</u>	<u>225,786</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 185,454</u>	<u>\$ 166,794</u>	<u>\$ 166,616</u>	<u>\$ (178)</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Westside Cities Council of Governments
West Hollywood, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activity and the major fund of the Westside Cities Council of Governments (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California
February 1, 2016