

**SAN JUAN CAPISTRANO  
HOUSING AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2015**

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

YEAR ENDED JUNE 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Chair and Members of the Commission  
San Juan Capistrano Housing Authority  
San Juan Capistrano, California

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Bradferd A. Welebir, CPA, MBA

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### Report on the Financial Statements

We have audited the accompanying financial statements of the San Juan Capistrano Housing Authority (Authority), a component unit of the City of San Juan Capistrano, as of and for the year ended June 30, 2015, 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.

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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 respective financial position of the San Juan Capistrano Housing Authority, as of June 30, 2015, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the San Juan Capistrano Housing Authority and do not purport to, and do not present fairly, the financial position of the City of San Juan Capistrano, California, as of June 30, 2015, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015, on our consideration of the Housing 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 the San Juan Capistrano Housing Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rogers Anderson Malooly & Scott, LLP". The signature is written in a cursive, flowing style.

San Bernardino, California  
December 3, 2015

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## STATEMENT OF NET POSITION JUNE 30, 2015

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### Assets

#### Current assets:

Cash and cash equivalents (Note 2)	\$ 809,985
Investments (Note 2)	5,553,132
Accounts receivable	760
Interest receivable	4,556
Notes receivable (Note 3)	274,000
Prepays and deposits	6,798

Total current assets 6,649,231

#### Noncurrent assets:

Notes receivable, net of current portion (Note 3) 4,663,218

#### Capital assets (Note 5):

Land	784,008
Buildings	4,878,900
Construction in progress	292,462
Total capital assets	5,955,370
Less accumulated depreciation	(863,260)

Net capital assets 5,092,110

Total noncurrent assets 9,755,328

**Total assets** 16,404,559

### Liabilities

#### Current liabilities:

Accounts payable and accrued liabilities	7,186
Deposits payable	25,823
Due to City of San Juan Capistrano (note 4)	13,589

Total current liabilities 46,598

**Total liabilities** 46,598

### Net Position

Net investment in capital assets	5,092,110
Unrestricted	11,265,851

**Total net position** \$ 16,357,961

The accompanying notes are an integral part of these financial statements.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2015

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<b>Operating revenues</b>	
Other revenues	\$ 239,601
Total operating revenues	<u>239,601</u>
<b>Operating expenses</b>	
Maintenance and operations	32,973
General and administrative	208,482
Rental subsidies	94,416
Depreciation	97,604
Total operating expenses	<u>433,475</u>
Operating income (loss)	<u>(193,874)</u>
<b>Nonoperating revenues</b>	
Excess bond proceeds from Successor Agency	5,200,000
Investment income	163,786
Total nonoperating revenues	<u>5,363,786</u>
Change in net position	<u>5,169,912</u>
Net position, beginning of year	<u>11,188,049</u>
Net position, end of year	<u><u>\$ 16,357,961</u></u>

The accompanying notes are an integral part of these financial statements.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2015

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### Cash flows from operating activities

Receipts from customers and user departments	\$ 268,317
Payments to suppliers for goods or services	(321,556)
Net cash used for operating activities	<u>(53,239)</u>

### Cash flows from capital and related financing activities

Acquisition of capital assets	<u>(5,285)</u>
Net cash used for capital and related financing activities	<u>(5,285)</u>

### Cash flows from investing activities

Excess bond proceeds from Successor Agency	5,200,000
Purchase of investments	(4,827,500)
Collections on notes receivable	273,542
Interest received	7,705
Net cash provided by investing activities	<u>653,747</u>

Net increase in cash and cash equivalents 595,223

Cash and cash equivalents - beginning of year 214,762

Cash and cash equivalents - end of year \$ 809,985

### Reconciliation of operating income (loss) to net cash provided by operating activities

Operating income (loss)	<u>\$ (193,874)</u>
Adjustments to reconcile operating income (loss) to net cash used for operating activities:	
Depreciation	97,604
(Increase) decrease in operating assets:	
Accounts receivable	30,365
Prepays and deposits	3,672
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	4,603
Deposits payable	(370)
Due to City of San Juan Capistrano	6,040
Unearned revenue	<u>(1,279)</u>
Total adjustments	<u>140,635</u>
Net cash used for operating activities	<u>\$ (53,239)</u>

The accompanying notes are an integral part of these financial statements.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the San Juan Capistrano Housing Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

This report only includes the financial statements of the San Juan Capistrano Housing Authority. The Housing Authority carries out the community's affordable housing obligations. These financial statements do not purport to represent the financial position or results of operations of the City of San Juan Capistrano.

#### a) Reporting Entity

The San Juan Capistrano Housing Authority was formed by the City of San Juan Capistrano on January 17, 2012, after being assigned the housing functions of the former Community Redevelopment Agency of the City of San Juan Capistrano. The Housing Authority operates under a chair-member form of government.

The Authority is considered to be a blended component unit of the City of San Juan Capistrano. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are reported with the interfund data of the City. The governing boards of the component units are comprised of the same membership as the City Council. The City may impose its will on the component units, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the City and these entities.

#### b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

These financial statements are presented using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

#### c) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Investments

Investments are recorded at fair value, except for investment contracts that are reported at cost because, they are not transferable and they have terms that are not affected by changes in market interest rates. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

#### e) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position 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 (expenses) until then. The Authority currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has no items that qualify for reporting in this category.

#### f) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

#### g) Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the Housing Authority as assets with an initial, individual cost of more than \$5,000 to \$15,000 depending upon the type of asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair market value on the date donated.

Depreciation is charged to operations using the straight-line method of depreciation over the following estimated useful lives:

Machinery and Equipment	3 - 10 years
Buildings and Improvements	10 - 50 years
Sewer system	15 - 50 years
Water system	15 - 60 years
Infrastructure	10 - 50 years

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### (2) CASH AND INVESTMENTS

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

Cash and cash equivalents	\$ 809,985
Investments	5,553,132
Total cash and investments	<u>\$ 6,363,117</u>

### Investments Authorized by the California Government Code and the Housing Authority's Investment Policy

The table below identifies the investment types that are authorized for the Housing Authority by the California Government Code (or the Housing Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Housing Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Bills, Bonds and Notes	5 years	100%	None
United States Government Sponsored Enterprise Securities	5 years	75%	None
Non-Negotiable Certificates of Deposits	5 years	25%	\$250,000
Municipal Obligations	5 years	25%	None
Negotiable Certificates of Deposits	5 years	30%	None
Passbook Savings Account			
Demand Deposits	N/A	5%	None
Money Market Mutual Funds	N/A	20%	10%
Orange County Investment Pool	N/A	40%	None
Local government investment pools	N/A	40%	None
Local Agency Investment Fund (LAIF)	N/A	40%	\$50 million per entity
Supranationals	5 years	15%	None
Bankers' Acceptances	180 days	30%	None
Commerical Paper	270 days	25%	10%
Medium-term Corporate Notes	5 years	30%	None

### Interest Rate Risk

Interest rate risk is the risk that changes in market 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 change in market interest rates. One of the ways that the Housing Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### (2) CASH AND INVESTMENTS (Continued)

As of June 30, 2015, the Housing Authority had the following investments and maturities:

Investment Type	Total	Remaining Maturity		
		12 Months or Less	13 to 24 Months	25 Months or More
Local Agency Investment Fund (LAIF)	\$ 1,877,980	\$ 1,877,980	\$ -	\$ -
United States Government				
Sponsored Enterprise Securities:				
Federal Home Loan Bank (FHLB)	525,000	-	525,000	-
Federal Farm Credit Bank (FFCB)	400,000	400,000	-	-
US Treasury Notes	1,500,152	1,500,152	-	-
Negotiable Certificates of Deposits	750,000	500,000	250,000	-
Non-Negotiable Certificates of Deposits	500,000	500,000	-	-
<b>Total</b>	<b>\$ 5,553,132</b>	<b>\$ 4,778,132</b>	<b>\$ 775,000</b>	<b>\$ -</b>

### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Housing Authority's investment policy, and the actual rating, as reported by Standard and Poor's and Moody's as of year-end for each investment type:

Investment Type	Total as of June 30, 2015	Minimum Legal Rating	S&P Rating AA+	Moody's Rating AAA
Local Agency Investment Fund (LAIF)	\$ 1,877,980	None	Not rated	Not rated
United States Government				
Sponsored Enterprise Securities:				
Federal Home Loan Bank (FHLB)	525,000	None	AA+	Aaa
Federal Farm Credit Bank (FFCB)	400,000	None	AA+	Aaa
US Treasury Notes	1,500,152	None	AA+	Aaa
Negotiable Certificates of Deposits	750,000	None	Not rated	Not rated
Non-Negotiable Certificates of Deposits	500,000	None	Not rated	Not rated
<b>Total</b>	<b>\$ 5,553,132</b>			

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### (2) CASH AND INVESTMENTS (Continued)

#### Concentration of Credit Risk

The Housing Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the Housing Authority's total investments consisted of Federal Home Loan Banks (FHLB) and Federal Farm Credit Bank (FFCB), which represented 9%, and 7%, respectively, of the Housing Authority's investments at the year ended June 30, 2015.

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Housing Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Housing Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Demand deposits held in non-interest bearing checking accounts are fully insured by the Federal Depository Insurance Corporation.

At June 30, 2015, the Housing Authority deposits (bank balances) were collateralized under California Law.

#### Investment in State Investment Pool

The Housing Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Housing Authority investment in this pool is reported in the accompanying financial statements at amounts based upon the Housing Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

# SAN JUAN CAPISTRANO HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### (3) NOTES RECEIVABLE

Notes receivable at June 30, 2015, include the following:

a) SJC Housing Investors, L.P.

The Community Redevelopment Agency contracted with SJC Housing Investors, L.P. for the development, operation and maintenance of certain real property. As part of this agreement, the Community Redevelopment Agency agreed to advance \$1,550,000 to the developer. The interest rate on the advance is at 5% and payments will commence upon completion of the project and as cash flows become available. This receivable was transferred to the Housing Authority by operation of law on February 1, 2012. At June 30, 2015, the outstanding balance of \$314,126 included principal of \$310,259 and accrued interest of \$3,867.

b) Senior Seasons Apartments II, L.P.

The Community Redevelopment Agency agreed to loan \$4,900,000, with an interest rate of 3% related to a disposition and development agreement dated November 6, 2006 and amended February 18, 2008. Under the agreement, the borrower agreed to acquire the site and construct and operate a housing project for low income households. The loan amount is to be paid by the borrower annually in an amount equal to 50 percent of the residual receipts as defined in the agreement from operation of the housing project. Any remaining portion is due on the 55th anniversary of the date of the Community Redevelopment Agency's issuance of a certificate of occupancy of the project. This receivable was transferred to the Housing Authority by operation of law on February 1, 2012. At June 30, 2015, the total amount due of \$4,623,092 included \$4,524,359 in principal and \$98,733 in accrued interest.

### (4) DUE TO CITY OF SAN JUAN CAPISTRANO

As of June 30, 2015, the Housing Authority has a balance due to the City's General Fund in the amount of \$13,589 for the reimbursement of City staff time. Such balance is short-term in nature and is expected to be repaid within one year.

# CITY OF SAN JUAN CAPISTRANO

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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### (5) CAPITAL ASSETS

A summary of changes in the Housing Authority capital assets at June 30, 2015 is as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 784,008	\$ -	\$ -	\$ 784,008
Construction in Progress	287,177	5,285	-	292,462
Total capital assets, not being depreciated	<u>1,071,185</u>	<u>5,285</u>	<u>-</u>	<u>1,076,470</u>
Capital assets, being depreciated:				
Buildings	4,878,900	-	-	4,878,900
Total capital assets, being depreciated	<u>4,878,900</u>	<u>-</u>	<u>-</u>	<u>4,878,900</u>
Less accumulated depreciation for:				
Buildings	(765,656)	(97,604)	-	(863,260)
Total accumulated depreciation	<u>(765,656)</u>	<u>(97,604)</u>	<u>-</u>	<u>(863,260)</u>
Total capital assets, being depreciated, net	<u>4,113,244</u>	<u>(97,604)</u>	<u>-</u>	<u>4,015,640</u>
Total capital assets	<u>\$ 5,184,429</u>	<u>\$ (92,319)</u>	<u>\$ -</u>	<u>\$ 5,092,110</u>



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To the Honorable Chair and Members of the Commission  
San Juan Capistrano Housing Authority  
San Juan Capistrano, California

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**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**

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 San Juan Capistrano Housing Authority (Authority), a component unit of the City of San Juan Capistrano, 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 December 3, 2015.

**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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Rogers Anderson Maloney & Scott, LLP*

San Bernardino, California  
December 3, 2015