Azusa Public Financing Authority

Azusa, California

Basic Financial Statements and Independent Auditors' Reports

For the year ended June 30, 2017

BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Azusa Public Financing Authority

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BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Azusa Public Financing Authority
Azusa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Azusa Public Financing Authority, (the Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 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.

To the Board of Directors
of the City of Azusa Public Financing Authority
Azusa, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregated remaining fund information of the Authority, each major fund, and the aggregate remaining fund information of the city of Azusa, California, as of June 30, 2017, and the respective 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, 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 the Authority's internal control over financial reporting and compliance.

Badawi & Associates

Badawi & Associates
Certified Public Accountants
Oakland, California
May 8, 2018

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Azusa Public Financing Authority
Statement of Net Position
June 30, 2017

ASSETS	
Current assets:	
Cash and investments	$ 8,617
Total current assets	8,617
Noncurrent assets:	
Restricted cash and investments	2,635,346
Contracts and notes receivable	48,335,000
Total noncurrent assets	50,970,346
Total assets	50,978,963
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	573,307
Total deferred outflows of resources	573,307
LIABILITIES	
Current liabilities:	
Accounts payable	1,850
Interest payable	1,237,844
Long-term debt - due in one year	1,470,000
Total current liabilities .	2,709,694
Noncurrent liabilities:	
Long-term debt - due in more than one year	49,734,749
Total noncurrent liabilities	49,734,749
Total liabilities	52,444,443
NET POSITION	
Restricted for debt service	2,642,113
Unrestricted	(3,534,286)
Net position	$ (892,173)

See accompanying Notes to Basic Financial Statements.

Azusa Public Financing Authority
Statement of Activities
For the year ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Total	Governmental Activities
Governmental activities					
General government	$ 4,600	$ -	$ -	$ -	$ (4,600)
Interest on long-term debt	2,152,009	-	-	-	(2,152,009)
Total governmental activities	$ 2,156,609	$ -	$ -	$ -	(2,156,609)

General Revenues:	
Unrestricted investment earnings	2,058,183
Total general revenues	2,058,183
Change in net position	(98,426)
Net position - beginning of year	(793,747)
Net position - end of year	$ (892,173)

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

Azusa Public Financing Authority
Balance Sheet - Governmental Funds
June 30, 2017

	COP - 2003 Lease Revenue Refunding	2015 Water Refunding Bonds	Total Governmental Funds
ASSETS			
Cash and investments	$ 8,617	$ -	$ 8,617
Receivables:			
Contracts and notes	1,745,000	46,590,000	48,335,000
Restricted assets:			
Cash and investments with fiscal agent	484,302	2,151,044	2,635,346
Total assets	$ 2,237,919	$ 48,741,044	$ 50,978,963
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,850	$ -	$ 1,850
Total liabilities	1,850	-	1,850
Deferred inflows of resources:			
Unavailable revenues	1,745,000	46,590,000	48,335,000
Total deferred inflows of resources	1,745,000	46,590,000	48,335,000
Fund Balances:			
Restricted for debt service	491,069	2,151,044	2,642,113
Total fund balances	491,069	2,151,044	2,642,113
Total liabilities, deferred inflows of resources, and fund balances	$ 2,237,919	$ 48,741,044	$ 50,978,963

See accompanying Notes to Basic Financial Statements.

Azusa Public Financing Authority
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
For the year ended June 30, 2017

Fund Balances of Governmental Funds	$	2,642,113
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Long-term receivables are not available for current period expenditures and, therefore are deferred on the modified accrual basis in governmental funds.		48,335,000
Deferred amounts related to the refunding of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt.		573,307
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.		(1,237,844)
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the funds.		
Long term debt due within one year		(1,470,000)
Long term debt due in more than one year		(49,734,749)
Net Position of Governmental Activities	$	(892,173)

See accompanying Notes to Basic Financial Statements.

Azusa Public Financing Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2017

	COP - 2003 Lease Revenue Refunding	2015 Water Refunding Bonds	Total Governmental Funds
REVENUES:			
Use of money and property	$ 366,095	$ 3,117,088	$ 3,483,183
Total revenues	366,095	3,117,088	3,483,183
EXPENDITURES:			
Current:			
General government	4,600	-	4,600
Debt service:			
Principal	275,000	1,150,000	1,425,000
Interest and fiscal charges	83,427	1,949,338	2,032,765
Total expenditures	363,027	3,099,338	3,462,365
Net change in fund balances	3,068	17,750	20,818
FUND BALANCES:			
Beginning of year	488,001	2,133,294	2,621,295
End of year	$ 491,069	$ 2,151,044	$ 2,642,113

See accompanying Notes to Basic Financial Statements.

Azusa Public Financing Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds		
Amounts reported for governmental activities in the Statement of Activities are different because:		20,818
Repayment of bond principal is an expenditure in the governmental funds, but the reapyment reduces long-term liabilities in the statement of net position.		1,425,000
Unamortized premium or discount on bonds issued are other financing sources or uses in governmental funds, but these are spread to future periods over the life of the bonds on the statement of net position.		125,734
Deferred amounts related to the refunding of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt. - This amount is the current year amortization expense		(26,060)
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.		(218,918)
Some revenues reported in the statement of activities do not represent current financial resources and therefore are not reported as revenue in the governmental funds. This amount represents the change in deferred inflows.		(1,425,000)
Change in Net Position of Governmental Activities	$	(98,426)

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Azusa Public Financing Authority (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

A. Description of Reporting Entity

Azusa Public Financing Authority (the Authority) is a joint powers agency created by a joint powers agreement between the City of Azusa Redevelopment Agency, dated January 2, 1990. It was created pursuant to Articles 1 through 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California in accordance with the provisions of the Marks-Roos Local Bond Pooling Act of 1985. The purpose of the Authority is to provide loans to refinance certain debt previously issued by the City of Azusa and to finance certain capital improvement projects for the benefit of the City and the Agency. The redevelopment Agency was dissolved as of January 31, 2012, through the Supreme Court decision on Assembly Bill 1X 26.

The Authority is an integral part of the reporting entity of the City of Azusa. The funds of the Authority have been included within the scope of the financial statements of the City because of the City Council of the City of Azusa is the governing board and has responsibility over the operation of the Authority. Only the funds of the Authority are included herein; therefore, these financial statements do not purport to represent the financial position of results of operation of the City of Azusa, California.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's government-wide financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position. These statements present summaries of governmental activities for the Authority.

These statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. The Statement of Activities and Changes in Net Position presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The type of transactions reported as program revenues for the Authority are reported in charges for services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Cash Equivalent

The Authority pools its cash and investments with the City's cash & investments. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

D. Long-Term Obligations

In the basic financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, if material, are deferred and 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 expensed as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Deferred Outflows of Resources

In addition to assets, the statement of financial 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 a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding debt reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

F. Net Position

In the basic financial statements, Net Position is classified in the following category:

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

G. Use of Restricted / Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted Net Position is available, the Authority's policy is to apply restricted Net Position first.

H. Fund Balances

Fund balances are classified as follows:

Nonspendable Fund Balances

These include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact, e.g., the principal of an endowment fund. Examples of "not in spendable form" include inventory, prepaid amounts, long-term notes and loans, property held for resale and other items not expected to be converted to cash. However, if the proceeds from the eventual sale or liquidation of the items would be considered restricted, committed or assigned (as defined further on) then these amounts would be included in the restricted, committed or assigned instead of the nonspendable classification. A debt service reserve fund held by a trustee is an example of fund balance in nonspendable form that is classified as restricted instead of nonspendable since the reserve is eventually liquidated to make the final debt service principal payment.

Restricted Fund Balances

Restricted fund balances have externally enforceable limitations on use. The limitations on use can be imposed by creditors, grantors, or contributors as well as by constitutional provisions, enabling legislation, laws and government regulations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Fund Balances, Continued

Committed Fund Balances

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (Resolution) of the Board are classified as committed fund balances.

Assigned Fund Balances

Fund balance amounts for which the Board has expressed intent for use but not taken formal action to commit are reported as assigned under GASB 54.

Unassigned Fund Balance

These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, or negative balances.

Hierarchy of Expenditures to Classify Fund Balance Amounts

To determine the composition of ending fund balances, the Board established the order in which restricted and unrestricted (committed, assigned and unassigned) funds are to be expended. To this purpose, for expenditures made in any governmental fund, the restricted amounts will be reduced first, followed by committed amounts, assigned amounts, and then unassigned amounts.

I. Use of Estimates

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

J. New Pronouncements

In fiscal year 2017, the Authority adopted the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans– The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. New Pronouncements, Continued

- GASB Statement No. 77, Tax Abatement Disclosure- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement were not applicable to the Authority.

- GASB Statement No. 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans– The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the Authority.

- GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement were not applicable to the Authority.

2. CASH AND INVESTMENTS

The Authority's cash and investments consist of cash and investments held by fiscal agents and cash and investments pooled with the City's cash and investments. At June 30, 2017, the Authority had the following cash and investment balances:

	Governmental Activities	Total
Cash and investment pooled with the City of Azus	$ 8,617	$ 8,617
Restricted cash and investments	2,633,346	2,633,346
Total cash and investments	$ 2,641,963	$ 2,641,963

3. CONTRACTS AND NOTES RECEIVABLE

Lease Agreement

The Authority entered into a lease agreement with the City of Azusa to lease certain facilities of the City. Title to these facilities will remain at all times with the City of Azusa. The Authority has used the leasehold rights that it acquired as lessee to lease the facilities back to the City. Amounts paid by the City to the Authority in return for the City's right to use and operate the property are equal in amount to the debt service requirements of the Authority for the $4,825,000 2003 Lease Revenue Refunding Certificates of Participation. As of June 30, 2017, the outstanding lease receivable balance was $1,745,000.

Installment Sale Agreement

Pursuant to an installment agreement dated July 23, 2015, the Authority agrees to provide for the refinance the 2006 water revenue bonds for the water system capital improvements program. Under the terms of this agreement, the City is obligated to pay the purchase price from net revenue derived from the operation of the Water System in amounts equal to the Authority's annual debt service obligations on its $47,740,000 2015 Water System Refunding Revenue Bonds. As of June 30, 2017, the outstanding installment receivable from the City was $46,590.000

4. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year	Due in More Than One Year
2003 Lease Revenue Refunding Bonds	$ 2,020,000	$ -	$ (275,000)	$ 1,745,000	$ 285,000	$ 1,460,000
2015 Water Revenue Bonds	47,740,000	-	(1,150,000)	46,590,000	1,185,000	45,405,000
	$ 49,760,000	$ -	$ (1,425,000)	48,335,000	$ 1,470,000	$ 46,865,000
			Unamortized bond premium	2,876,946		
			Unamortized bond discount	(7,197)		
				$ 51,204,749		

A. Certificates of Participation – 2003 Lease Revenue Refunding

In August 2003, the City of Azusa issued $4,825,000 of 2003 Lease Revenue Refunding Certificates of Participation to currently refund $4,565,000 of outstanding 1994 Certificates of Participation, to provide for a reserve fund, and to pay for the costs of issuance of the Certificates.

The Certificates represent the interest in the lease payments to be made by the City to the Authority for the use and occupancy of the real property and improvement of the Azusa City Hall and construction of the Azusa Senior Center. The Certificates maturing from 2004 to 2020 are serial certificates payable in annual installments ranging from $265,000 to $845,000. Interest is payable semi-annually on each August 1 and February 1, commencing August 1, 2004, at rates ranging from 2.0% to 4.56% per annum. The outstanding principal balance as of June 30, 2017, was $1,745,000. The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2017 are as follows:

	2003 Certificates of Participation		
	Principal	Interest	Total
2018	$ 285,000	$ 69,590	$ 354,590
2019	300,000	57,337	357,337
2020	315,000	44,071	359,071
2021	845,000	18,590	863,590
Total	$ 1,745,000	$ 189,588	$ 1,934,588

4. LONG-TERM LIABILITIES, Continued

B. 2015 Water System Refunding Revenue Bonds

On July 23, 2015, the City issued $47,740,000 of 2015 Water System Refunding Revenue Bonds. The proceeds were used to refinance all of the City's obligations in connection with the Azusa Public Financing Authority Parity Revenue Bonds (Water System Capital Improvements Program) Series 2006, and pay costs of issuance incurred in connection with the issuance of the 2015 Bonds. The bonds are payable solely from the Water net revenues, and the City is not obligated to pay them except from the applicable Water net revenues. The refunding resulted in a difference between there acquisition price and the net carrying amount of the old debt of $625,426, which is reported as a deferred outflow of resources in the accompanying financial statements and amortized over the remaining life of the refunded debt. The City completed the refunding to reduce its total debt service payments by $3,440,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $14,486,840. Serial bonds mature in annual installments beginning on July 1, 2017 through July 1, 2039, in amounts ranging from $1,150,000 to $3,035,000. Interest ranges from 3.000% to 5.000% and is payable semi-annually on July 1 and January 1.

The annual requirements to amortize the outstanding bonds as of June 30, 2017, including interest are as follows:

	2015 Water System Refunding Revenue Bonds		
	Principal	Interest	Total
2018	$ 1,185,000	$ 1,908,388	$ 3,093,388
2019	1,245,000	1,853,563	3,098,563
2020	1,310,000	1,789,688	3,099,688
2021	1,375,000	1,722,563	3,097,563
2022	1,445,000	1,652,063	3,097,063
2023-2027	8,420,000	7,068,940	15,488,940
2028-2032	10,330,000	5,155,159	15,485,159
2033-2037	12,525,000	2,957,838	15,482,838
2038-2040	8,755,000	534,500	9,289,500
Totals	$ 46,590,000	$ 24,642,702	$ 71,232,702

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BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
of the City of Azusa Public Financing Authority
Azusa, 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 City of Azusa Public Financing Authority (Authority), a component unit of the City of Azusa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 8, 2018.

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 opinions 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.

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*.

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To the Board of Directors
of the City of Azusa Public Financing Authority
Azusa, California
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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.

Badawi & Associates

Badawi & Associates
Certified Public Accountants
Oakland, California
May 8, 2018