



AZUSA
PUBLIC FINANCING AUTHORITY
JUNE 30, 2016

FINANCIAL STATEMENTS

Focused
on YOU



AZUSA
PUBLIC FINANCING AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2016

AZUSA PUBLIC FINANCING AUTHORITY

JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to Financial Statements	9



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's 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 Honorable Mayor and Members of the City Council
City of 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 aggregate 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, 2016, 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

Accounting principles generally accepted in the United States of America require that 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 October 10, 2017 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.

Brea, California
October 10, 2017

AZUSA PUBLIC FINANCING AUTHORITY

STATEMENT OF NET POSITION
 JUNE 30, 2016

	<u>Primary Governmental Activities</u>
Assets:	
Receivables:	
Contracts and notes	\$ 49,760,000
Prepaid costs	4,416
Restricted assets:	
Cash with fiscal agent	<u>2,616,879</u>
Total Assets	<u>52,381,295</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	<u>599,367</u>
Total Deferred Outflows of Resources	<u>599,367</u>
Liabilities:	
Accrued interest	1,018,926
Noncurrent liabilities:	
Due within one year	1,425,000
Due in more than one year	<u>51,330,483</u>
Total Liabilities	<u>53,774,409</u>
Net Position:	
Restricted for:	
Debt service	2,621,295
Unrestricted	<u>(3,415,042)</u>
Total Net Position	<u>\$ (793,747)</u>

AZUSA PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Program Revenues			Net
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
				Governmental Activities
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 4,625	\$ -	\$ -	\$ -
Interest on long-term debt	6,667,435	-	-	-
Total Primary Government	\$ 6,672,060	\$ -	\$ -	\$ -
General Revenues:				
Use of money and property				3,411,692
Total General Revenues				3,411,692
Change in Net Position				(3,260,368)
Net Position at Beginning of Year				2,466,621
Net Position at End of Year				\$ (793,747)

AZUSA PUBLIC FINANCING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Debt Service Funds</u>			
	<u>COP - 2003</u>			<u>Total</u>
	<u>Lease</u>	<u>2006 Water</u>	<u>2015 Water</u>	<u>Governmental</u>
	<u>Revenue</u>	<u>Revenue</u>	<u>Refunding</u>	<u>Funds</u>
	<u>Refunding</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Funds</u>
Assets:				
Receivables:				
Contracts and notes	\$ 2,020,000	\$ -	\$ 47,740,000	\$ 49,760,000
Prepaid costs	4,416	-	-	4,416
Restricted assets:				
Cash and investments with fiscal agents	483,585	-	2,133,294	2,616,879
Total Assets	<u>\$ 2,508,001</u>	<u>\$ -</u>	<u>\$ 49,873,294</u>	<u>\$ 52,381,295</u>
Deferred Inflows of Resources and Fund Balances:				
Deferred Inflows of Resources:				
Unavailable revenues	\$ 2,020,000	\$ -	\$ 47,740,000	\$ 49,760,000
Total Deferred Inflows of Resources	<u>2,020,000</u>	<u>-</u>	<u>47,740,000</u>	<u>49,760,000</u>
Fund Balances:				
Restricted for:				
Debt service	488,001	-	2,133,294	2,621,295
Total Fund Balances	<u>488,001</u>	<u>-</u>	<u>2,133,294</u>	<u>2,621,295</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,508,001</u>	<u>\$ -</u>	<u>\$ 49,873,294</u>	<u>\$ 52,381,295</u>

AZUSA PUBLIC FINANCING AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Fund balances of governmental funds	\$ 2,621,295
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities as well as related unamortized bond discount/premium that have not been included in the governmental fund activity.	(52,156,116)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(1,018,926)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	<u>49,760,000</u>
Net Position of Governmental Activities	<u><u>\$ (793,747)</u></u>

AZUSA PUBLIC FINANCING AUTHORITY

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Debt Service Funds			Total Governmental Funds
	COP - 2003 Lease Revenue Refunding	2006 Water Revenue Bonds	2015 Water Refunding Bonds	
Revenues:				
Use of money and property	\$ 362,326	\$ -	\$ -	\$ 362,326
Miscellaneous	-	-	-	-
Total Revenues	362,326	-	-	362,326
Expenditures:				
Current:				
General government	4,625	-	-	4,625
Debt service:				
Principal retirement	265,000	1,090,000	-	1,355,000
Interest and fiscal charges	87,351	2,555,737	1,515,612	4,158,700
Payment to refunded bond escrow agent	-	-	3,973,165	3,973,165
Total Expenditures	356,976	3,645,737	5,488,777	9,491,490
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,350	(3,645,737)	(5,488,777)	(9,129,164)
Other Financing Sources (Uses):				
Transfers in	-	-	2,399,046	2,399,046
Transfers out	-	(2,399,046)	-	(2,399,046)
Refunding bonds issued	-	-	47,740,000	47,740,000
Bond premium	-	-	3,068,742	3,068,742
Payment to refunded bond escrow agent	-	-	(45,585,717)	(45,585,717)
Total Other Financing Sources (Uses)	-	(2,399,046)	7,622,071	5,223,025
Net Change in Fund Balances	5,350	(6,044,783)	2,133,294	(3,906,139)
Fund Balances, Beginning of Year	482,651	6,044,783	-	6,527,434
Fund Balances, End of Year	\$ 488,001	\$ -	\$ 2,133,294	\$ 2,621,295

AZUSA PUBLIC FINANCING AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds	\$ (3,906,139)
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,355,000
Issuance of bonds is a revenue in the governmental funds, but the issuance increases long-term liabilities in the statement of net position.	1,818,882
Unamortized premium or discount on bonds issued are revenue or expenditures in governmental funds, but these are spread to future period over the life of the new bonds on the statement of net position.	(5,880,682)
Contracts and notes receivable are recorded as expenditure when initiated, while repayment is recorded as use of money and property on the statement of revenues, expenditures and changes in fund balance. On the governmental fund balance sheet, this payment is recorded as an adjustment to deferred revenue. On the statement of net position, the repayment reduces the contracts and notes receivable outstanding.	3,049,366
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.	<u>303,205</u>
Change in Net Position of Governmental Activities	<u><u>\$ (3,260,368)</u></u>

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Azusa Public Financing Authority (Authority) is a joint powers agency created by a joint powers agreement between the City of Azusa and the 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. See Note 6 for more information on the dissolution.

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 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 or results of operation of the City of Azusa, California.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Azusa Public Financing Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

AZUSA PUBLIC FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Amounts reported as program revenues include contributions of the participating agencies. Internally dedicated resources are reported as general revenues rather than as program revenues.

The Authority reports the following major governmental funds:

Governmental Funds

Debt Service Funds - Used to account for the payment of interest and principal on long-term obligations.

Certificates of Participation – 2003 Lease Revenue Refunding, the 2006 Water Revenue Bonds, and the 2015 Water System Refunding Bonds

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

d. Budgetary Reporting

Formal budgetary integration is not employed for the Authority because effective control is alternatively achieved through the various bond indenture provisions.

e. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental fund balance sheet includes reconciliation between fund balances of governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities as well as the related unamortized bond discount and cost of issuance have not been included in the governmental funds." The details of the \$(52,156,116) difference are as follows:

Long-term debt:

Certificate of Participation - 2003 Lease Revenue Refunding	\$ (2,020,000)
2015 Water Refunding Bonds	(47,740,000)
Deferred loss on defeasance	599,367
Unamortized bond premium	(3,004,810)
Unamortized bond discount	<u>9,327</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	<u>\$ (52,156,116)</u>

AZUSA PUBLIC FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments

As of June 30, 2016, the Authority reported cash and investment with fiscal agent of \$2,616,879.

The Authority's funds are pooled with the City of Azusa's cash and investments in order to generate optimum interest income, except for funds required to be held by fiscal agents under provisions of bond indentures. The City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the annual report of the City.

Note 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, 2016, the outstanding lease receivable balance was \$2,020,000.

Installment Sale Agreement

Pursuant to an installment agreement dated December 13, 2006, the Authority agrees to provide for the acquisition of a Water Project in a manner approved by the City and to sell the project to the City. 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 \$54,570,000 2006 Water Revenue Bonds. As of June 30, 2016, the outstanding installment receivable from the City was \$0 as a result of the issuance of the 2015 Water Refunding Bonds.

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, 2016, the outstanding installment receivable from the City was \$47,740,000.

AZUSA PUBLIC FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 4: Long-Term Debt

A summary of changes in governmental activities long-term debt for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
2003 Lease Revenue Refunding	\$ 2,285,000	\$ -	\$ 265,000	\$ 2,020,000	\$ 275,000
2006 Water Revenue Bonds	52,270,000	-	52,270,000	-	-
2015 Water Revenue Bonds	-	47,740,000	-	47,740,000	1,150,000
	<u>\$ 54,555,000</u>	<u>\$ 47,740,000</u>	<u>\$ 52,535,000</u>	49,760,000	<u>\$ 1,425,000</u>
			Unamortized bond premium	3,004,810	
			Unamortized bond discount	(9,327)	
				<u>\$ 52,755,483</u>	

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, 2016, was \$2,020,000. The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2016, are as follows:

	2003 Certificates of Participation	
	Principal	Interest
2016-2017	\$ 275,000	\$ 80,968
2017-2018	285,000	69,590
2018-2019	300,000	57,337
2019-2020	315,000	44,071
2020-2021	845,000	18,590
Total	<u>\$ 2,020,000</u>	<u>\$ 270,556</u>

2006 Water Revenue Bonds

On December 13, 2006, the Azusa Public Financing Authority, a component unit of the City of Azusa, issued \$54,850,000 of Parity Revenue Bonds, Series 2006 (2006 Water Revenue Bonds). The proceeds were used to finance certain improvements to the municipal water system of the City of Azusa. The Bonds are payable from pledged revenues comprised primarily of installment payments received by the Authority from the City. Serial bonds mature in annual installments beginning on July 1, 2009 through July 1, 2039, in amounts ranging from \$280,000 to \$3,560,000. Interest ranges from 4.000% to 5.000% and is payable semi-annually on July 1 and January 1.

AZUSA PUBLIC FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 4: Long-Term Debt (Continued)

Term bonds mature in various years beginning on July 1, 2019 through July 1, 2039, with amounts ranging from \$1,090,000 to \$16,145,000 and interest from 3.920% to 4.380%. The bonds were fully refunded in the current year with the issuance of the 2015 water system revenue refunding bonds.

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 their 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, 2016 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, 2016, including interest are as follows:

	2015 Water System Refunding Revenue Bonds	
	Principal	Interest
2016-2017	\$ 1,150,000	\$ 1,949,338
2017-2018	1,185,000	1,908,388
2018-2019	1,245,000	1,853,563
2019-2020	1,310,000	1,789,688
2020-2021	1,375,000	1,722,563
2021-2026	8,010,000	7,479,688
2026-2031	9,960,000	5,523,538
2031-2036	12,055,000	3,426,669
2036-2040	11,450,000	938,600
Total	<u>\$ 47,740,000</u>	<u>\$ 26,592,035</u>