



# Riverside Public Financing Authority

Financial and Compliance Report  
June 30, 2012

Prepared by the Finance Department  
Brent Mason, Finance Director/Treasurer

3900 Main Street, Riverside, California 92522 (951)826-5660

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## REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and Members of the City Council  
Riverside Public Financing Authority  
3900 Main Street  
Riverside, California

We have audited the accompanying financial statements of the Riverside Public Financing Authority ("the Authority"), a component unit of the City of Riverside, California, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Riverside Public Financing Authority has omitted the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has required to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Los Angeles, California  
October 24, 2012

Riverside Public Financing Authority

Statement of Net Assets  
June 30, 2012

**Assets**

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Current Assets

Current portion of loans receivable (Note 2)	\$ 6,915,000
Interest receivable	4,577,283
<b>Total current assets</b>	<u>11,492,283</u>

Loans Receivable, net of current portion (Note 2)

327,905,000

**Total assets**

\$ 339,397,283

**Liabilities and Net Assets**

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Current Liabilities

Accrued interest payable	\$ 4,577,283
Current portion of long-term obligations (Note 3)	6,915,000
<b>Total current liabilities</b>	<u>11,492,283</u>

Long-term Obligations, net of current portion (Note 3)

327,905,000

**Total liabilities**

339,397,283

Net Assets

**Total liabilities and net assets**

-

\$ 339,397,283

See Notes to Financial Statements.

Riverside Public Financing Authority

Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2012

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Interest revenue	\$ 15,012,509
Long-term obligations interest expense	<u>(15,012,509)</u>
<b>Changes in net assets</b>	-
 Net assets at beginning of year	 <u>-</u>
Net assets at end of year	 <u><u>\$ -</u></u>

See Notes to Financial Statements.

Riverside Public Financing Authority

Statement of Cash Flows  
Year Ended June 30, 2012

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Cash Flows from Capital and Related Financing Activities	
Principal reduction on long-term obligations	\$ (6,660,000)
Interest paid on long-term obligations	(15,086,039)
<b>Net cash used in capital and related financing activities</b>	<u>(21,746,039)</u>
Cash Flows from Investing Activities	
Principal received on loans receivable	6,660,000
Interest received on loans receivable	15,086,039
<b>Net cash provided by investing activities</b>	<u>21,746,039</u>
<b>Net increase in cash and cash equivalents</b>	-
Cash and Cash Equivalents	
Beginning	-
Ending	<u>\$ -</u>

See Notes to Financial Statements.

## **Note 1. Nature of Operations, Description of Reporting Entity and summary of Significant Accounting Policies**

**Nature of operations:** The Riverside Public Financing Authority (Authority), a non-profit corporation, serves as a conduit for the issuance of debt which provides financing for public capital improvements to the City of Riverside and the Redevelopment Agency of the City of Riverside. The Authority has issued tax allocation bonds secured by loan agreements between the Successor Agency to the Redevelopment Agency of the City of Riverside (Agency), the City of Riverside, California, (City) and the Authority. These loan agreements are secured by a first pledge of and lien on a portion of property tax revenues within the respective project areas.

**Reporting entity:** The Riverside Public Financing Authority was organized under and pursuant to a Joint Exercise of Powers Agreement dated December 15, 1987 by and between the Redevelopment Agency of the City of Riverside, the City of Riverside and under the Government Code of the State of California, for the primary purpose of making loans to the Agency or the City to provide financing for public capital improvements. All trustee fees and other administrative expenses are paid by the City or the Agency, as applicable.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California. The bill provided that upon dissolution of the Redevelopment Agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On March 15, 2011, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the bill as part of City resolution number 22184. Successor agencies will be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Authority is reported as a blended component unit of the Agency and the City, and the financial transactions of the Authority are included with government activities in the government-wide financial statements of the City and the Agency. Separate financial statements may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California 92522.

**Basis of accounting:** The activities of the Authority are accounted for as an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Under this method, interest revenues are recorded when earned and interest expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow occurs. In accordance with Governmental Accounting Standards Board Statement No. 20, the Authority has chosen not to apply Financial Accounting Standards Board pronouncements issued after November 1989.

**Reserve funds:** Restricted cash in the amount of \$12,454,740 as of June 30, 2012 is available in reserve funds for the 1991, 2003, 2008 and 2010 debt issuances. These reserves are not recorded in the financial statements of the Authority but are maintained in the Agency's and the City's financial statements. In the event that loan receivable payments are not received from the Agency and the City to pay debt service, these reserve funds would be available and used. These reserve funds are maintained by fiscal agents and are considered restricted by and are pledged by the Agency and the City as collateral for payment of principal and interest on bonds.

**Statement of cash flows:** For the purpose of cash flows, and since there is usually no cash or cash equivalents on hand, the Authority considers all cash received and paid out to be highly liquid (maturities of three months or less for cash equivalents).

**Loans and interest receivable:** Activity between the Authority, the Agency and City that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year that are expected to be paid back in future

years are referred to as Loans and Interest Receivable. There is no allowance for loan losses, as the Authority expects full repayment based on historic experience.

**Long-term obligations:** Long-term obligations are reported as liabilities in the financial statements of the Authority. Long-term obligations used to finance the Authority's lending activities and payable from revenues generated by the Agency and the City are recorded in the Authority's financial statements. Bond premiums and discounts, as well as issuance costs, 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.

**Net assets:** Net assets represent the difference between assets and liabilities. There are no net assets reported by the Authority, since by its very nature, the Authority acts as a conduit entity.

**Estimated amounts reported in the financial statements:** The preparation of financial statements in conformity with generally accepted accounting principles 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 year. Actual results could differ from those estimates.

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## Note 2. Loans Receivable

Loans receivable at June 30, 2012 are as follows:

\$280,000 loan to the Agency's Riverside Eastside Industrial Redevelopment Project, receivable in annual installments from \$10,000 to \$25,000 through February 1, 2018, interest of 8.0%.	\$ 115,000
\$53,185,000 loan to the City for capital improvements, receivable in annual installments from \$40,000 to \$1,195,000 through August 1, 2027, interest from 2.00% to 5.00%.	44,025,000
\$8,340,000 loan to the Successor Agency for capital improvements, receivable in annual installments from \$20,000 to \$1,835,000 through August 1, 2037, interest from 4.00% to 4.50%.	8,260,000
\$14,850,000 loan to the Successor Agency for capital improvements, receivable in annual installments from \$275,000 to \$3,150,000 through August 1, 2028, interest from 5.19% to 5.82%.	13,380,000
\$89,205,000 loan to the Successor Agency for capital improvements, receivable in annual installments from \$50,000 to \$8,790,000 through August 1, 2037, interest from 3.50% to 5.00%	88,170,000
\$43,875,000 loan to the Successor Agency for capital improvements, receivable in annual installments from \$1,600,000 to \$2,960,000 through August 1, 2032, interest from 5.24% to 5.89%.	37,810,000
\$128,300,000 loan to the City for capital improvements, receivable in annual installments from \$2,900,000 to \$7,200,000 through March 1, 2037, variable rate interest 5.00%.	122,400,000
\$20,660,000 loan to the City for capital improvements, receivable in annual installments from \$415,000 to \$1,410,000 through March 1, 2040, variable rate 5.00%.	<u>20,660,000</u>

The payments to be received from the Agency and the City in future years are equal to the future annual requirements to amortize the Revenue Bonds Payable and Certificates of Participation Payable (see Note 3).

## Note 3. Long-term Obligations

To fund the loans receivable described in Note 2 above, the Authority issued revenue bonds in 1991 in the amount of \$13,285,000 under a trust indenture with a bank acting as trustee. The bonds are limited obligations of the Authority and secured by tax increment revenues of the Agency. The Agency makes payments on the Authority's loans receivable directly to the trustee in amounts equal to those required in the debt maturity schedule as described below. The Agency is required to maintain a reserve of \$27,568 held by the trustee for the benefit of the owners of the bonds. The bonds are subject to early redemption at the option of the Authority at premiums of 100% to 102% of maturity value.

### Note 3. Long-term Obligations, Continued

To provide funds to the City to finance multiple capital improvements, the Authority issued in 2003 Certificates of Participation in the amount of \$53,185,000 under a trust indenture with a bank acting as trustee. The Certificates of Participation are limited obligations of the Authority and secured by a lease agreement between the City and the Authority. The City has covenanted in the Lease Agreement to include all lease payments in each of its budgets and to make the necessary annual appropriations for all such lease payments. The City is required to maintain a reserve of \$3,512,050 held by the trustee for the benefit of the owners of the Certificates of Participation.

To provide funds for the Agency to finance multiple capital improvements, the Authority issued tax allocation revenue bonds in 2007 in the amount of \$156,270,000 under a trust indenture with a bank acting as trustee. The bonds are limited obligations of the Authority and secured by the tax increment revenues of the Agency. The Agency makes payments on the Authority's loans receivable directly to the trustee in amounts equal to those required in the debt maturity schedule as described below.

Long-term obligations at June 30, 2012 are as follows:

\$13,285,000 1991 Riverside Public Financing Authority Revenue Bonds, Series A, Multi-Project Areas outstanding term bonds due in annual installments ranging from \$10,000 to \$25,000 through February 1, 2018, bearing interest at 8%.	\$ 115,000
\$53,185,000 2003 Riverside Public Financing Authority Certificates of Participation due in annual installments from \$1,125,000 to \$2,830,000 through September 1, 2033, interest from 2.00% to 5.00%.	44,025,000
\$8,340,000 2007 Riverside Public Financing Authority Redevelopment Agency Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from \$20,000 to \$590,000 through August 1, 2025; \$4,980,000 term bonds at 4.5% due August 1, 2029; \$410,000 term bonds at 4.375% due August 1, 2037	8,260,000
\$14,850,000 2007 Riverside Public Financing Authority Redevelopment Agency Tax Allocation Bonds, Taxable, Series B, \$4,050,000 term bonds at 5.2% due August 1, 2017; \$10,800,000 term bonds at 5.8% due August 1, 2028	13,380,000

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**Note 3. Long-term Obligations, Continued**

\$17,955,000 term bonds at 4.5% due August 1, 2030; \$47,755,000 term bonds at 5.0 due August 1, 2037	88,170,000
\$43,875,000 2007 Riverside Public Financing Authority Redevelopment Agency Tax Allocation Bonds, Taxable, Series D, \$15,740,000 term bonds due August 1, 2017; \$28,135,000 term bonds due August 1, 2032	37,810,000
\$128,300,000 2008 Riverside Public Financing Authority Certificates of Participation due in annual installments from \$2,900,000 to \$7,200,000 through March 1, 2037	122,400,000
\$20,660,000 2010 Riverside Public Financing Authority Certificates of Participation due in annual installments from \$415,000 to \$1,410,000 through March 1, 2040	<u>20,660,000</u>
	334,820,000
Less current portion	<u>(6,915,000)</u>
	<u><u>\$ 327,905,000</u></u>

A summary of additions and retirements of long-term obligations follows:

Beginning of year	\$ 341,480,000
Additions	-
Retirements	<u>(6,660,000)</u>
End of year	<u><u>\$ 334,820,000</u></u>

Annual debt service requirements to maturity are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,915,000	\$ 14,816,178	\$ 21,731,178
2014	7,180,000	14,534,156	21,714,156
2015	7,865,000	14,230,299	22,095,299
2016	8,290,000	13,888,841	22,178,841
2017	8,590,000	13,536,092	22,126,092
2018-2022	50,820,000	61,463,717	112,283,717
2023-2027	67,075,000	48,323,815	115,398,815
2028-2032	82,645,000	31,178,259	113,823,259
2033-2037	84,645,000	12,377,717	97,022,717
2038-2042	10,795,000	619,088	11,414,088
	<u>\$ 334,820,000</u>	<u>\$ 224,968,160</u>	<u>\$ 559,788,160</u>

**Note 4. No Commitment Debt**

The following bonds are secured by valid assessment liens upon properties within assessment district 86-1 and are not direct liabilities of the Authority. Accordingly, the following bonds have not been recorded in these financial statements. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the Authority has no duty to pay those delinquencies out of any other available funds. The Authority acts solely as an agent for those paying assessments and the bondholders.

\$16,730,000 2001 Riverside Public Financing Authority Refunding Bonds, Series A, (Orangecrest and Mission Grove), due in annual installments from \$800,000 to \$1,425,000 through September 2, 2016, interest from 3.00% to 4.75%.	\$ 4,740,000
\$1,620,000 2001 Riverside Public Financing Authority Refunding Bonds, Series B, (Orangecrest and Mission Grove), due in annual installments from \$90,000 to \$145,000 through September 2, 2016, interest from 4.125% to 5.75%.	<u>660,000</u>
	<u>\$ 5,400,000</u>

**REPORT OF INDEPENDENT AUDITORS 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**

Honorable Mayor and Members of the City Council  
Riverside Public Financing Authority  
3900 Main Street  
Riverside, California

We have audited the financial statements the Riverside Public Financing Authority (“the Authority”), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**MOSS ADAMS<sub>LLP</sub>**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of the Authority's 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.

This report is intended solely for the information and use of the Finance Committee, City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
October 24, 2012