

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM: 5.3
(ID # 11471)**

MEETING DATE:
Tuesday, December 17, 2019

FROM : EXECUTIVE OFFICE:

SUBJECT: INFRASTRUCTURE FINANCING AUTHORITY: Annual Audit Report for the year ended June 30, 2019, All Districts, [\$0]

RECOMMENDED MOTION: That the Board of Directors:

1. Receive and file the County of Riverside Infrastructure Financing Authority (IFA) Annual Audit Report for the Year Ended June 30, 2019.

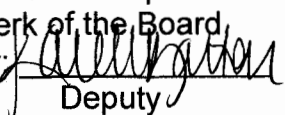
ACTION:Consent


Alex Gann 12/10/2019

MINUTES OF THE BOARD OF DIRECTORS

On motion of Director Perez, seconded by Director Hewitt and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: December 17, 2019
xc: EO

Kecia R. Harper
Clerk of the Board
By: 
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year: 2018-2019	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

The County of Riverside Infrastructure Financing Authority (IFA), a component unit of the County of Riverside, engages each year an independent auditor to conduct an audit of the basic Financial Statements which consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the related Notes to the Basic Financial Statements for the fiscal year then ended.

For fiscal year 2018/19, the County of Riverside Infrastructure Financing Authority engaged Brown Armstrong Accountancy Corporation, to conduct the audit of its financial statements and transactions for the period July 1, 2018 through June 30, 2019.

The audit was performed 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 the independent auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Based upon the results of the audit, the independent auditor issued an opinion that the financial statements of the County of Riverside Infrastructure Financing Authority presents fairly, in all material respects, the financial position of the County of Riverside Infrastructure Financing Authority as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.


Impact on Residents and Businesses

No impact on residents and business.

ATTACHMENT:

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

County of Riverside Infrastructure Financing Authority Annual Audit Report Year Ended June 30, 2019.



Don R. Kent, Assistant CEO-County Finance Officer 12/10/2019

**COUNTY OF RIVERSIDE
INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the
County of Riverside, California)**

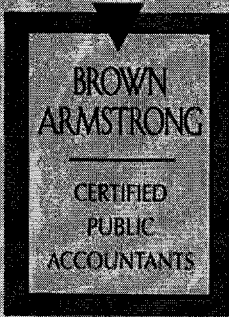
**BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

**COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the County of Riverside, California)**

FOR THE YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
Basic Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to the Basic Financial Statements.....	9
Other Report:	
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 <i>Government Auditing Standards</i>	17



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
County of Riverside Infrastructure Financing Authority
Riverside, California

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the County of Riverside Infrastructure Financing Authority (IFA), a component unit of the County of Riverside, California, as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which comprise IFA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 IFA's preparation and fair presentation of the basic 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 IFA'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 basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of IFA as of June 30, 2019, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The basic financial statements present only IFA and are not intended to present fairly the financial position of the County of Riverside, California, and results of its operations and cash flows thereof 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 the management's discussion and analysis information, on pages 3-5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, on our consideration of IFA'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 IFA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 1, 2019

**COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The following discussion and analysis of the County of Riverside (the County) Infrastructure Financing Authority's (IFA) financial performance provides an overview of its financial activities for the year ended June 30, 2019. Members of the County Executive Office prepared this discussion and analysis. Please read it in conjunction with the IFA's basic financial statements, which begin on page 6.

IFA is a joint exercise of powers authority, duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated September 15, 2015, by and between the County and the Riverside County Flood Control and Water Conservation District. The IFA is authorized and empowered to issue bonds for the purpose of financing and refinancing public capital improvements of the County. Accordingly, IFA is a blended component unit of the County for financial reporting purposes, and IFA's basic financial statements are included in the County's basic financial statements.

Financial Highlights

- IFA's total assets and deferred outflows of resources exceeded its liabilities at the close of the year 2019 by \$17,356,136.
- Revenues from base rents from the County (interest portion) totaled \$6,989,158.
- IFA's cash and investments decreased from \$12,013,271 at June 30, 2018, to \$11,463,323 at June 30, 2019, as a result of the paying down of current debt.
- IFA's net position increased \$366,342 as a result of current year changes in net position.

Basic Financial Statements

IFA's basic financial statements are those of a special-purpose government engaged only in providing debt financing for capital improvements benefiting the County. Under Governmental Accounting Standards Board (GASB) Statement No. 34, governments like IFA that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net position; (2) statement of revenues, expenses, and changes in net position; and (3) statement of cash flows.

IFA's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. IFA is structured as a single enterprise fund for financial reporting purposes.

The following table compares the current and prior year's net position:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
Current Assets	\$ 18,336,092	\$ 18,815,574	\$ (479,482)
Noncurrent Assets	<u>171,479,475</u>	<u>177,800,110</u>	<u>(6,320,635)</u>
Total Assets	<u>189,815,567</u>	<u>196,615,684</u>	<u>(6,800,117)</u>
Deferred Outflows of Resources	<u>10,446,142</u>	<u>11,115,759</u>	<u>(669,617)</u>
Current Liabilities	7,971,707	8,129,633	(157,926)
Noncurrent Liabilities	<u>174,933,866</u>	<u>182,612,016</u>	<u>(7,678,150)</u>
Total Liabilities	<u>182,905,573</u>	<u>190,741,649</u>	<u>(7,836,076)</u>
Net Position			
Restricted for			
Debt Service	<u>17,356,136</u>	<u>16,989,794</u>	<u>366,342</u>
Total Net Position	<u>\$ 17,356,136</u>	<u>\$ 16,989,794</u>	<u>\$ 366,342</u>

The following table summarizes the changes in net position for the current and prior year:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
Base Rents from County - Interest Portion	\$ 6,989,158	\$ 5,492,305	\$ 1,496,853
Investment and Other Revenues	<u>166,423</u>	<u>84,870</u>	<u>81,553</u>
Total Revenues	<u>7,155,581</u>	<u>5,577,175</u>	<u>1,578,406</u>
General and Administrative Expenses, Net	-	883,015	(883,015)
Interest Expense	6,977,772	5,917,286	1,060,486
Other Expense (Revenue)	(188,533)	(65,254)	(123,279)
Transfers in from Other Governmental Agency	<u>-</u>	<u>(7,965,585)</u>	<u>7,965,585</u>
Total Expenses and Transfers	<u>6,789,239</u>	<u>(1,230,538)</u>	<u>8,019,777</u>
Change in Net Position	366,342	6,807,713	(6,441,371)
Net Position, Beginning of Year	<u>16,989,794</u>	<u>10,182,081</u>	<u>6,807,713</u>
Net Position, End of Year	<u>\$ 17,356,136</u>	<u>\$ 16,989,794</u>	<u>\$ 366,342</u>

Long-Term Debt

The long-term debt of IFA at June 30, 2019, included \$167,085,000 of outstanding lease revenue bonds. The lease revenue bonds will be repaid through lease agreements with the County that are structured to meet principal and interest requirements when due. During the year, outstanding bonds were reduced by a scheduled principal payment of \$6,790,000.

Additional information on the IFA's long-term debt can be found in Note 4 of this report.

Economic Factors

The primary purpose of IFA is to finance public capital needs for the County. Since IFA derives its operating revenues almost exclusively from rental income paid by the County, any economic impact on the County's operational budget could potentially have an effect on IFA's revenues. As a subdivision of the State of California (the State), the County relies on State revenues and reimbursements to fund its operations. Any reduction in these revenues could impact the ability of the County to pay lease payments to IFA.

Request for Information

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of IFA's finances and to demonstrate IFA's accountability for the money it receives. If you have any questions concerning any of the information provided in this report or requests for additional financial information, they should be addressed to the County of Riverside, County Executive Office, 4080 Lemon Street, 4th Floor, Riverside, California 92501.

COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS

Current Assets

Cash, cash equivalents, and investments	\$ 11,463,323
Interest receivable	52,769
Lease receivable	<u>6,820,000</u>
 Total Current Assets	 <u>18,336,092</u>

Noncurrent Assets

Construction in progress	11,214,475
Lease receivable	<u>160,265,000</u>
 Total Noncurrent Assets	 <u>171,479,475</u>

Total Assets	<u>189,815,567</u>
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DEFERRED OUTFLOWS OF RESOURCES

Loss of refunding	<u>10,446,142</u>
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LIABILITIES

Current Liabilities

Interest payable	1,151,707
Lease revenue bonds	<u>6,820,000</u>
 Total Current Liabilities	 <u>7,971,707</u>

Noncurrent Liabilities

Lease revenue bonds	<u>174,933,866</u>
 Total Noncurrent Liabilities	 <u>174,933,866</u>

Total Liabilities	<u>182,905,573</u>
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NET POSITION

Restricted for debt service	<u>17,356,136</u>
 Total Net Position	 <u><u>\$ 17,356,136</u></u>

See accompanying notes to the basic financial statements.

**COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Operating Revenues	
Base rents	<u>\$ 6,989,158</u>
 Total Operating Revenues	 <u>6,989,158</u>
Operating Expenses	
Interest expense	6,977,772
Amortization of lease revenue bond premium	(858,150)
Amortization of loss on refunding	<u>669,617</u>
 Total Operating Expenses	 <u>6,789,239</u>
 Operating Income	 <u>199,919</u>
Nonoperating Revenues and Expenses	
Interest income	<u>166,423</u>
 Total Nonoperating Revenues and Expenses	 <u>166,423</u>
 Change in Net Position	 <u>366,342</u>
Net Position - Beginning of Year	<u>16,989,794</u>
Net Position - End of Year	<u><u>\$ 17,356,136</u></u>

See accompanying notes to the basic financial statements.

**COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments received from leases	\$ 13,779,158
Principal paid on lease revenue bonds	(6,790,000)
Interest paid on lease revenue bonds	(7,010,230)
Net cash used in operating activities	(21,072)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for funding capital projects	(654,833)
Net cash used in capital and related financing activities	(654,833)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from earnings on investments	125,957
Net cash provided by investing activities	125,957
Net decrease in cash, cash equivalents, and investments	(549,948)
Cash, cash equivalents, and investments, beginning of year	12,013,271
Cash, cash equivalents, and investments, end of year	\$ 11,463,323
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Operating income	\$ 199,919
Adjustments to reconcile operating income to net cash used in operating activities:	
Amortization of loss on refunding	669,617
Amortization of bond premium	(858,150)
Increase in:	
Lease receivable	6,790,000
Decrease in:	
Interest payable	(32,458)
Lease revenue bonds	(6,790,000)
Net cash used in operating activities	\$ (21,072)

See accompanying notes to the basic financial statements.

COUNTY OF RIVERSIDE INFRASTRUCTURE FINANCING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The County of Riverside (the County) Infrastructure Financing Authority (IFA) is a joint exercise of powers authority, duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated September 15, 2015, by and between the County and the Riverside County Flood Control and Water Conservation District. The IFA is authorized and empowered to issue bonds for the purpose of financing and refinancing public capital improvements of the County. Accordingly, IFA is a blended component unit of the County for financial reporting purposes, and IFA's basic financial statements are included in the County's basic financial statements. IFA is a nonprofit public benefit corporation and has received tax-exempt status from the Internal Revenue Service and the California Franchise Tax Board.

B. Basis of Presentation and Accounting

All activities of IFA are accounted for within a single enterprise fund. An enterprise fund is used because IFA's activities are financed with debt that is secured solely by a pledge of lease revenue.

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. With this measurement focus, all assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated between amounts restricted for debt service and unrestricted net position.

C. Use of Estimates

The preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

D. Restricted Cash, Cash Equivalents, and Investments

IFA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. This includes deposits and money market mutual funds held in trust. IFA records investment transactions on the trade date. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost and all other investments are at fair value. Fair value is defined as the amount that IFA could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. All of IFA's restricted cash and investments at June 30, 2019, were held in trust.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Lease Receivables

As described in Note 4, debt service on the outstanding bonds and certificates of participation is funded from rents paid by the County to IFA for the use of equipment and facilities acquired by IFA. In the agreements relating to the bonds and certificates of participation, the County has covenanted to make rental payments in amounts corresponding to IFA's debt service requirements and related costs. Lease receivables consist of amounts owed to IFA from the County for costs incurred by IFA in acquiring equipment and facilities for the County. The receivable and related debt is reduced by the principal portion of each rental payment made by the County. To the extent that funds are unexpended upon completion of all projects, such funds will be used to retire outstanding debt and the rental payments required from the County will be reduced accordingly. Title to the equipment and facilities will transfer to the County at the end of the respective lease terms.

F. Deferred Charges-Bond Premium and Deferred Loss on Bond Refunding

Deferred charges, which consist of bond premiums, are amortized over the life of the bonds using the effective interest method.

The deferred loss on bond refunding represents the excess of the amount placed in escrow (reacquisition price) over the carrying amount of the refunded bonds and is amortized as a component of interest expense over the remaining life of the refunded bonds (i.e., the shorter of the remaining life of the refunded or refunding bonds).

G. Operating/Nonoperating Revenues and Expenses

IFA's sole operational purpose is to issue debt to acquire equipment and facilities and lease such property to the County, as well as make debt service payments. As such, IFA derives its operating revenues almost exclusively from rental income paid by the County, and its operational expenses include general and administrative expenses and the cost of projects leased to the County. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislations of other governments when those restrictions are more restrictive than the normal activities of IFA.

IFA's restricted net position consists of funds held by the trustee for the repayment of debt principal or interest or as reserves, funds held for the acquisition or construction of equipment and facilities, and administrative expenses.

I. Governmental Accounting Standards Update

During the year ending June 30, 2019, IFA implemented the following Governmental Accounting Standards Board (GASB) standards:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. IFA has implemented the provisions of GASB Statement No. 83 in the current year with no impact to the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. **Governmental Accounting Standards Update** (Continued)

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. IFA has implemented the provisions of GASB Statement No. 88 in the current year with no impact to the basic financial statements.

Recently released standards by GASB affecting future years are as follows:

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. IFA has not fully judged the effect of the implementation of GASB Statement No. 84 as of the date of the basic financial statements.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. IFA has not fully judged the effect of the implementation of GASB Statement No. 87 as of the date of the basic financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. IFA has not fully judged the effect of the implementation of GASB Statement No. 89 as of the date of the basic financial statements.

GASB Statement No. 90 – *Major Equity Interests – An Amendment of GASB Statement No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. IFA has not fully judged the effect of the implementation of GASB Statement No. 90 as of the date of the basic financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. IFA has not fully judged the effect of the implementation of GASB Statement No. 91 as of the date of the basic financial statements.

NOTE 2 – RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments at June 30, 2019, are held by the trustee. All restricted cash and investments at June 30, 2019, are stated at amortized cost. IFA categorizes its fair value measurements within the fair value hierarchy established by GASB. These principles recognize a three-tiered value hierarchy as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

Cash, cash equivalents, and investments are comprised of money market funds that are measured at amortized cost in the amount of \$11,463,323 at June 30, 2019.

NOTE 2 – RESTRICTED CASH AND INVESTMENTS (Continued)**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt (see Note 4) rather than the general provisions of the California Government Code or IFA's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risks, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bonds, Notes, Warrants, or Certificates of Indebtedness	3 years	15%	None
Bankers' Acceptances	180 days	30%	None
Commercial Paper	270 days	40%	None
State of California LAIF	3 years	2.5% max, no more than 1.25% per issuer	None
Repurchase Agreements	45 days	40% max, 25% in term repo over 7 days, no more than 20% with one dealer in term repo	None
Negotiable Certificate of Deposits	1 year	25%	None
Collateralized Time Deposits	1 year	2%	None
Reverse Repurchase Agreements	60 days	10%	None
Corporate Notes on U.S. Corporations	2 years	20%	None
Money Market Mutual Funds	Daily	20%	None
Investment Contracts	30 years	None	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. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. IFA manages its exposure to interest rate risk 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 consistent with IFA's debt service requirements. IFA monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. IFA has no specific limitations with respect to this metric.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

IFA's investments held by the bond trustee are invested in either highly liquid money market mutual funds or investment contracts with fixed interest rates. By nature, these investments are not highly sensitive to interest rate fluctuations.

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. The minimum rating (where applicable) required by the California Government Code, IFA's investment policy, or debt agreements, and the actual rating as of June 30, 2019, for money market funds is AAA/Aaa and the rating as of June 30, 2019, was AAA/Aaa.

NOTE 2 – RESTRICTED CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of IFA contains certain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, IFA should provide information about the concentration of credit risk associated with its investments by disclosing investments in any one issuer that represent 5% or more of IFA's total investments. However, money market mutual funds are excluded from this disclosure requirement. There were no investments in the current year that met this threshold.

Custodial Credit Risk

This 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. IFA does not have custodial credit risk policies for investments.

NOTE 3 – LEASE RECEIVABLES – FACILITIES

The Lease Revenue Bonds are payable by a pledge of revenues consisting primarily of base rental payments payable by the County pursuant to Master Lease Agreements between IFA and the County for the use of facilities acquired and/or constructed by IFA. During the year ended June 30, 2019, IFA received \$13,779,158 in facility lease payments from the County, of which \$6,989,158 was related to the interest portion of the debt service requirement.

The following table shows the future lease payments due from the County as of June 30, 2019, for leased facilities:

<u>Year Ending June 30,</u>	<u>Lease Receivables</u>
2020	\$ 6,820,000
2021	7,135,000
2022	7,485,000
2023	7,870,000
2024	8,270,000
2025-2029	45,365,000
2030-2034	38,040,000
2035-2039	27,320,000
2040-2044	14,410,000
2045-2047	4,370,000
Total	<u>\$ 167,085,000</u>

NOTE 4 – LONG-TERM DEBT

Bonds payable at June 30, 2019, consist of the following:

Type of Indebtedness (Purpose)	Maturity	Interest Rate	Annual Principal Installments (in thousands)	Original Issue Amount	Outstanding at June 30, 2019
Lease Revenue Bonds					
2015 Series A Bonds					
Refunding Bonds	11/01/16 - 11/01/33	2.00% - 5.00%	\$2,630 - \$4,705	\$ 72,825,000	\$ 64,390,000
2016 Series A & A-T Bonds					
Refunding Bonds Series A	11/01/17 - 11/01/31	2.00% - 4.00%	\$435 - \$3,445	36,740,000	35,845,000
Refunding Bonds Series A-T	11/01/17 - 11/01/18	1.18% - 1.34%	\$1,620 - \$1,625	3,245,000	-
2016 Series A & A-T				39,985,000	35,845,000
2017 Series A Bonds					
Refunding Bonds	11/01/18 - 11/01/44	3.00% - 4.00%	\$1,050 - \$2,675	46,970,000	45,705,000
2017 Series B & C Bonds					
Refunding Bonds Series B	5/01/18 - 5/01/38	3.00% - 5.00%	\$355 - \$775	11,595,000	10,780,000
Refunding Bonds Series C	5/01/18 - 5/01/47	3.13% - 5.00%	\$60 - \$585	10,610,000	10,365,000
2017 Series B & C				22,205,000	21,145,000
Total Lease Revenue Bonds				\$ 181,985,000	\$ 167,085,000

The following is a summary of the changes in long-term debt for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Lease Revenue Bonds					
2015 Series A	\$ 67,290,000	\$ -	\$ (2,900,000)	\$ 64,390,000	\$ 3,060,000
2016 Series A	36,305,000	-	(460,000)	35,845,000	2,145,000
2016 Series A-T	1,625,000	-	(1,625,000)	-	-
2017 Series A	46,970,000	-	(1,265,000)	45,705,000	1,050,000
2017 Series B	11,135,000	-	(355,000)	10,780,000	370,000
2017 Series C	10,550,000	-	(185,000)	10,365,000	195,000
Deferred Amounts:					
Premiums	15,527,016	-	(858,150)	14,668,866	-
Total Lease Revenue Bonds	\$ 189,402,016	\$ -	\$ (7,648,150)	\$ 181,753,866	\$ 6,820,000

2015 Series A

On November 1, 2015, the IFA lease revenue refunding bonds, 2015 Series A (Capital Improvement Project) issued \$72,825,000 in lease revenue bonds. The Series 2015 bonds were issued for the purpose of (a) refunding a portion of the 2005 A Capital and Family Refunding Bond, and 2005 B Historic Courthouse Refunding Bond, and (b) defeased 2006 A Capital Improvement Project, in the aggregate principal of \$89.3 million. The new bonds have an interest rate of 2% to 5%.

The outstanding principal balance on the 2015 Series A, or \$64,390,000, is stated net of related unamortized bond premiums of \$6,283,160 and loss on refunding of \$7,136,381 resulting in a net carrying value of \$63,536,779.

NOTE 4 – LONG-TERM DEBT (Continued)

2016 Series A & A-T

On October 1, 2016, the IFA lease revenue refunding bonds, 2016 Series and 2016 Series A-T issued \$39,958,000 in lease revenue bonds. The 2016 Series bonds were issued for the purpose of (i) refunding the outstanding Riverside County Palm Desert Financing Authority Lease Revenues Bonds (County Facilities Projects) 2008 Series A, (ii) finance the acquisition, construction and installation of certain capital improvements to be owned and operated by the County, and (iii) pay the costs incurred in connections with the issuance of the bonds. The new bonds have an interest rate of 1% to 4%.

The outstanding principal balance on the 2016 Series A and A-T, or \$35,845,000, is stated net of related unamortized bond premiums of \$4,462,487 and loss on refunding of \$3,309,761, resulting in a net carrying value of \$36,997,726.

2017 Series A

On November 21, 2017, the IFA lease revenue refunding bonds, 2017 Series A issued \$46,970,000 in lease revenue bonds. The 2017 Series A bonds were issued for the purpose to (i) refund the outstanding Riverside Community Properties Development, Inc. Lease Revenues Bonds, 2013 (Riverside County Law Building Project) (ii) pay the costs incurred in connections with the issuance of the bonds. The new bonds have an interest rate of 3% to 4%.

The outstanding principal balance on the 2017 Series A, or \$45,705,000, is stated net of related unamortized bond premiums of \$2,509,347, resulting in a net carrying value of \$48,214,348.

2017 Series B & C

On December 14, 2017, the IFA lease revenue bonds, 2017 Series B issued \$11,595,000 and 2017 Series C issued \$10,610,000 in lease revenue bonds. The 2017 Series B bonds were issued for the purpose to (i) refund the outstanding Southwest Communities Financing Authority 2008 Lease Revenue Bonds Series A (ii) pay the costs incurred in connections with the issuance of the Series B bonds. The new Series B bonds have an interest rate of 3% to 5%. The 2017 Series C bonds were issued for the purpose to (i) provide funds to finance the acquisition and construction of certain capital improvements to be owned and operated by the County (ii) pay the costs incurred in connections with the issuance of the Series C bonds. The new Series C bonds have an interest rate of 3% to 5%.

The outstanding principal balance on the 2017 Series B, or \$10,780,000, is stated net of related unamortized bond premiums of \$894,241, resulting in a net carrying value of \$11,674,241.

The outstanding principal balance on the 2017 Series C, or \$10,365,000, is stated net of related unamortized bond premiums of \$519,630, resulting in a net carrying value of \$10,884,630.

All of IFA debt service is to be paid from proceeds received from the various master lease agreements with the County for equipment and facilities acquired or constructed by IFA and capitalized interest accounts, where applicable. No County assets are pledged to ensure repayment of the debts other than assets leased to the County under the master lease agreements.

The payments on the bonds are secured by base rental lease payments from the County. The bonds are not obligations of the County. The base rental payments are solely available to the extent that the County prepares an annual appropriation for such amounts. The County has covenanted that annual appropriations will be made.

NOTE 4 – LONG-TERM DEBT (Continued)

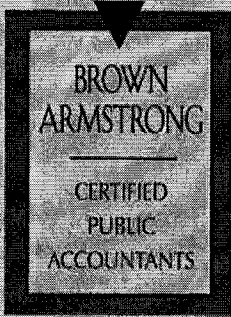
Long-Term Debt Maturity Schedule

The aggregate annual requirements to retire the Bonds Payable at June 30, 2019, are as follows:

Year Ending June 30,	Lease Revenue Bonds	
	Principal	Interest
2020	\$ 6,820,000	\$ 6,824,569
2021	7,135,000	6,543,419
2022	7,485,000	6,217,369
2023	7,870,000	5,874,919
2024	8,270,000	5,514,519
2025-2029	45,365,000	21,493,243
2030-2034	38,040,000	12,444,631
2035-2039	27,320,000	6,089,045
2040-2044	14,410,000	2,290,206
2045-2047	4,370,000	173,550
Total Requirements	<u>\$ 167,085,000</u>	<u>\$ 73,465,470</u>

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 1, 2019, which is the date the financial statements were available to be issued, noting the no subsequent events.



BROWN ARMSTRONG

Certified Public Accountants

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

Board of Directors
County of Riverside Infrastructure Financing Authority
Riverside, California

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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 basic financial statements of County of Riverside Infrastructure Financing Authority (IFA), a component unit of the County of Riverside, California as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise IFA's basic financial statements, and have issued our report thereon dated October 1, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered IFA'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 IFA's internal control. Accordingly, we do not express an opinion on the effectiveness of IFA'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 IFA'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 IFA's basic 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 IFA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IFA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 1, 2019