

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

The financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Housing Authority (Housing Authority) was established in 2006 by the City. The Housing Authority's primary purpose is to provide safe and sanitary housing accommodations for persons with low or moderate income. The Housing Authority's activity has been combined with that of the primary government because City Council members serve as the Housing Authority's commissioners and because the City is financially accountable and operationally responsible for all matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. Pursuant to Assembly Bill 1X 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies were dissolved effective February 1, 2012. Subsequently, the City became the Successor Agency to the Redevelopment Agency. The Parking Authority of the City of Riverside was added as an additional member of the Public Financing Authority on August 14, 2012. The Public Financing Authority's activity has been combined with that of the primary government because City Council members serve as the Public Financing Authority's board members and because the Public Financing Authority exclusively provides financing assistance to the primary government. The City is also financially accountable and operationally responsible for all matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The

Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. The activity of the Municipal Improvements Corporation has been combined with that of the primary government because three members of the City Council serve as the Municipal Improvements Corporation's directors and because the Municipal Improvements Corporation exists to serve exclusively the primary government. The City is financially accountable and operationally responsible for all matters.

Fiduciary Component Unit

Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to City Council actions taken on March 15, 2011 and January 10, 2012. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor Agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund.

Complete financial statements are prepared for the Riverside Public Financing Authority and the Successor Agency to the Redevelopment Agency of the City of Riverside, which can be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522 or online at www.riversideca.gov.

B. Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide, proprietary and private-purpose trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

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. Revenues are considered to be available if they are generally collected within 60 days after year end, except for revenue associated with neglected property abatement which is eleven (11) months and except for grant revenue, including reimbursement received from

Transportation Uniform Mitigation Fees, which is six (6) months and sales tax revenue which is seven (7) months, as described below. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In 2004, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but the bonds are currently estimated to retire in 2016. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. Since 2004, the final "true-up" payment has been reported in the fiscal year that the revenue was earned and thus provides consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Outlay fund accounts for the construction and installation of street and highway capital improvements for the City, including improvements funded by the ½ % sales tax approved by Riverside County in 1988.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for self-insurance, central stores and central garage on a cost reimbursement basis.

Fiduciary funds include private-purpose trust and agency funds. The private-purpose trust fund accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust. The agency fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Non-expendable net position on the Statement of Net Position includes \$1.6 million of permanent fund principal which are considered nonexpendable.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair*

Value Measurement and Application, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value except for investments in investment contracts which are recorded at contract value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of long-term indebtedness, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Restricted cash and investments also include cash set aside for nuclear decommissioning, public benefit programs, regulatory requirements and rate stabilization because their use is legally restricted to a specific purpose. Unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Allowance for Doubtful Accounts

Management determines the allowance for doubtful accounts by analyzing customer accounts for all balances over 60 days old. The allowance for doubtful accounts is then adjusted at fiscal year-end based on the amount equal to the annual uncollectible accounts. Utility customer closed accounts are written off when deemed uncollectible. Recoveries to utility customer receivables previously written off are recorded when received. For non-utility accounts receivables, delinquent notices after 60 days are sent to customers with outstanding balances. After 120 days, accounts still outstanding are referred to the City's collection agency. As of June 30, 2016, the City had an allowance for doubtful account balance of \$6,402.

G. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value.

H. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

I. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental activities and business-type activities of the government-wide financial statements and in the proprietary funds and the fiduciary private-purpose trust fund statements of net position. The government defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed for proprietary funds. For the year ended June 30, 2016, business-type activities capitalized net interest costs of \$21,232 in the government-wide and fund financial statements. Total interest expense incurred by the business-type activities (and the enterprise funds on the proprietary funds statements) before capitalization was \$56,508.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets

other than land are depreciated using the straight-line method. Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Intangibles - Depreciable	3-15 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

K. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity. The General, Electric and Water funds have been primarily used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

L. Derivative Instruments

The City's derivative instruments are accounted for in accordance with Government Accounting Standards Board Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, which requires the City to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are reported as deferrals in the statements of net position.

The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The City had debt that was layered with "synthetic fixed rate" swaps, which was refunded in 2008 and 2011. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the statement of net

position. See Note 10 for further discussion related to the City's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights. The City has determined that all of its contracts including congestion revenue rights fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

M. Long-Term Obligations

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities columns in the government-wide financial statements and in the proprietary funds and fiduciary private-purpose trust fund statements of net position. Bond premiums and discounts 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.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of September 2014, submitted by Southern California Edison (SCE) and accepted by the Nuclear Regulatory Commission (NRC), the Electric Utility has fully funded the San Onofre Nuclear Generating Station ("SONGS") decommissioning liability.

The Electric Utility has set aside \$80,494 in cash investments with the trustee and \$4,951 in an internally designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of

June 30, 2016. With the recent retirement of SONGS units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively decided to continue to set aside \$1,581 per year in an internally designated cash reserve for unexpected costs not contemplated in the current estimates.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. As of June 30, 2016, the Electric Utility has paid to date \$14,936 in decommissioning obligations. The Electric Utility has submitted the necessary documents to the trustee and will begin drawing decommissioning trust funds to pay for the decommissioning costs as incurred. The Electric Utility anticipates receiving reimbursement from the trust starting in fiscal year ending June 30, 2017.

The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

N. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the self-insurance internal service fund. As of June 30, 2016, the City had an obligation related to claims and judgments which is reflected as a liability on the government-wide statements and is more fully described in Note 7.

O. Fund Equity

In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance is the portion of fund balance that cannot be spent due to form. Examples include inventories, prepaid amounts, long-term loans, and notes receivable, unless the proceeds are restricted, committed or assigned. Also, amounts that must be maintained intact legally or contractually, such as the principal of a permanent fund are reported within the nonspendable category.

- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.
- Committed fund balance is the portion of fund balance that can only be used for specific purposes due to formal action of the City Council through adoption of a resolution prior to the end of the fiscal year. Once adopted, the limitation imposed by resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. No amounts have been reported within this category of fund balance.
- Assigned fund balance reflects the City's intended use of resources. Intent can be expressed by the City Council or by an official to which the City Council delegates the authority. On February 22, 2011, the City Council approved a policy whereby the authority to assign fund balance was delegated to the City's chief financial officer, which authorized the assignment of fund balance for specific programs or purposes in accordance with City Council directives. The City also uses budget and finance policy to authorize the assignment of fund balance, which is done through the adoption of the budget and subsequent budget amendments throughout the year.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City's policy is to use restricted amounts before unrestricted amounts. Within unrestricted resources, committed resources are used first followed by assigned resources, and finally unassigned resources.

P. Net Position

Net position represents the difference between assets and deferred outflows less liabilities and deferred inflows. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the related acquisition, construction or improvement of those assets excluding unspent debt proceeds. Restricted net position represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors,

grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

Q. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as advances and, for governmental fund types, are equally offset by nonspendable fund balance to indicate that the receivable is not in spendable form.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

R. Unearned Revenue

Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

S. Unavailable Revenue

Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available.

T. Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position and the balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore will not be recognized as an expense or expenditure until that time.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are *not* recognized as an inflow of resources (revenue) until that time.

U. Regulatory Assets and Deferred Regulatory Charges

In accordance with GASB Statement No. 62, enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges have been recorded in the Electric, Water, Sewer and Refuse funds.

V. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent after December 10. The second installment is due February 1 and is delinquent after April 10. The City generally accrues only those taxes, which are received within sixty days after the year-end. Under the Teeter plan, the County of Riverside has responsibility for the collection of delinquent taxes and the City receives 100% of the levy.

W. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the revenues due and expenditures incurred through fiscal year end, collectability of its receivables, the valuation of property held

for resale, the useful lives of capital assets, and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

X. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Y. New Accounting Pronouncements

Effective July 1, 2015, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. The primary objective of GASB 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. Also, GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

Biannually, during the period December through February, department heads prepare estimates of required appropriations for the following two-year budget cycle. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding budget cycle. The operating budget is presented by the City Manager to the City Council for review. Public hearings

are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion.

3. Cash and Investments

Cash and investments at fiscal year-end consist of the following:

Investments	\$ 522,129
Investments at fiscal agent	245,278
	<u>767,407</u>
Cash on hand and deposits with financial institutions	47,615
Non-negotiable certificates of deposit	1,012
	<u>\$ 816,034</u>

The amounts are reflected in the statements of net position of the government-wide and fiduciary fund financial statements:

Cash and investments	\$ 465,352
Restricted cash and cash equivalents	65,251
Restricted cash and investments at fiscal agent	227,419
Total per statement of net position	<u>758,022</u>
Fiduciary fund cash and investments	39,649
Fiduciary fund cash and investments with fiscal agent	18,363
	<u>\$ 816,034</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first \$250 or by collateral held in the pledging bank's trust department in the name of the City.

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	<u>Max</u> <u>Maturity</u>	<u>Max % of</u> <u>Portfolio</u>
Local Agency Investment Fund (State Pool)	N/A	100%
Money Market Funds	N/A	20%
Mutual Funds	N/A	20%
Joint Powers Authority Pools	N/A	N/A
Corporate Medium Term Notes	5 Years	30%
Municipal Bonds	5 Years	30%
Negotiable Certificates of Deposit	5 Years	30%
Mortgage Pass-Through and Asset-Backed Securities	5 Years	20%
Certificates of Deposit Placement Services	5 Years	15%
Collateralized Time Deposits	5 Years	15%
Federally Insured Time Deposits	5 Years	15%
Supranational Securities	5 Years	15%
Federal Agency Securities	5 Years	N/A
U.S. Treasury Notes/Bonds	5 Years	N/A
Repurchase Agreements	1 Year	N/A
Commercial Paper of "prime" quality	270 Days	25%
Bankers' Acceptances	180 Days	10%
Reverse Repurchase Agreements	92 Days	20%

Investments in Corporate Medium Term Notes may be invested in securities rated "A" or better by at least two nationally recognized statistical rating agencies. No more than 5% of the market value of the portfolio may be invested in any single issuer.

Investments in Negotiable Certificates of Deposit exceeding federal deposit insurance limits shall be issued by institutions which have long-term debt obligations rated "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A1" (or the equivalent) or better by at least two nationally recognized statistical rating agencies. No more than 5% of the market value of the portfolio may be invested in any single issuer of negotiable or non-negotiable certificates of deposit.

Investments in Commercial Paper may be invested in securities rated “A1” (or the equivalent) or higher by at least one nationally recognized statistical rating agency. In addition, debt other than Commercial Paper, if any, issued by corporations in this category must be rated at least “A” (or the equivalent) or better by at least one nationally recognized statistical rating agency. No more than 5% of the market value of the portfolio may be invested in any single issuer. For purposes of this issuer limitation, holdings of Commercial Paper shall be combined with holdings of Corporate Medium-Term Notes. No more than 25% of the total market value of the portfolio may be invested in Commercial Paper. No more than 10% of the outstanding Commercial Paper of any single issuer may be purchased.

The City’s investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government CGASode or the City’s investment policy, govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

- Securities of the U.S. Government and its sponsored agencies
- Bankers’ Acceptances rated in the single highest classification
- Commercial Paper rated AA or higher at the time of purchase
- Investments in money market funds rated in the single highest classification, except for certain debt proceeds which have no minimum rating requirement
- Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody’s and S&P
- Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Fair Value Measurement and Application

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The City does not value any of its investments using Level 1 and Level 3 inputs.

The City has the following recurring fair value measurements as of June 30, 2016:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 44,450	\$ -	\$ 44,450	\$ -
Federal Agency Securities	10,622	-	10,622	-
U.S. Treasury Notes/Bonds	314,335	-	314,335	-
Corp. Medium Term Notes	36,154	-	36,154	-
Negotiable Certificates of Deposits	17,028	-	17,028	-
Held by Fiscal Agent				
Money Market Funds	53,606	-	53,606	-
Commercial Paper	4,143	-	4,143	-
U.S. Treasury Notes/Bonds	39,397	-	39,397	-
Federal Agency Securities	46,461	-	46,461	-
Corp. Medium Term Notes	17,905	-	17,905	-
Total	584,101	\$ -	\$ 584,101	\$ -
Investments not subject to fair value hierarchy:				
State Investment Pool	165,123			
Investment Contracts	18,183			
Total Investments	\$ 767,407			

Disclosures Relating to 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. The City’s investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of

City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	\$ 44,450	\$ 44,450	\$ -	\$ -	\$ -
Federal Agency Securities	10,622	-	10,622	-	-
U.S. Treasury Notes/Bonds	314,335	46,711	128,316	139,308	-
Corp. Medium Term Notes	36,154	18,697	8,807	8,650	-
State Investment Pool	99,540	99,540	-	-	-
Negotiable Certificates of Deposit	17,028	5,704	3,741	7,583	-
Held by Fiscal Agent					
Money Market Funds	53,606	53,606	-	-	-
State Investment Pool	65,583	65,583	-	-	-
Investment Contracts	18,183	-	-	7,423	10,760
Commercial Paper	4,143	4,143	-	-	-
U.S. Treasury Notes/Bonds	39,397	26,215	9,830	3,352	-
Federal Agency Securities	46,461	32,242	13,845	374	-
Corp. Medium Term Notes	17,905	13,891	4,014	-	-
Total	\$ 767,407	\$ 410,782	\$ 179,175	\$ 166,690	\$ 10,760

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of year-end for each investment type:

	Total	Ratings as of Year End			
		AAA	AA	A	Unrated
Money Market Funds	\$ 44,450	\$ 19,065	\$ 20,303	\$ 5,082	\$ -
Federal Agency Securities	10,622	10,622	-	-	-
U.S. Treasury Notes/Bonds	314,335	314,335	-	-	-
Corp. Medium Term Notes	36,154	-	34,343	1,811	-
State Investment Pool	99,540	-	-	-	99,540
Negotiable Certificates of Deposits	17,028	-	-	-	17,028
Held by Fiscal Agent					
Money Market Funds	53,606	19,822	-	33,784	-
State Investment Pool	65,583	-	-	-	65,583
Investment Contracts	18,183	-	-	-	18,183
Commercial Paper	4,143	-	-	4,143	-
U.S. Treasury Notes/Bonds	39,397	39,397	-	-	-
Federal Agency Securities	46,461	46,461	-	-	-
Corp. Medium Term Notes	17,905	-	-	17,905	-
Total	\$ 767,407	\$ 449,702	\$ 54,646	\$ 62,725	\$ 200,334

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. For fiscal year ended June 30, 2016, the City did not have any investments in any one issuer (other than U.S. Treasury securities, money market funds, and external investment pools) that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

The pledge to secure deposits is administered by the California Commissioner of Business Oversight. Collateral is required for demand deposits at 110% of all deposits not covered by federal depository insurance (FDIC) if obligations of the United States and its agencies, or obligations of the State or its

City of Riverside
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(amounts expressed in thousands)

municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the City. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however the trust department of the same institution may hold them.

Written custodial agreements are required to provide, among other things, that the collateral securities are held separate from the assets of the custodial institution.

Investment in State Investment Pool

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

4. Direct Financing Lease Receivable

The former Redevelopment Agency had a direct financing lease arrangement with the State of California (the State) for a twelve-story office building, which was transferred to the Successor Agency. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments not less than the debt service owed on the related lease revenue bonds issued by the former Redevelopment Agency for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

<u>Fiscal Year</u>	
2017	\$ 2,561
2018	2,598
2019	2,625
2020	2,659
2021	2,692
Thereafter	<u>11,092</u>
Total Due	24,227
Less: Amount applicable to interest	<u>(6,162)</u>
Total direct financing lease receivable	<u>\$ 18,065</u>

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2016.

	<u>Beginning Balance</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 339,755	\$ 3,113	\$ (76)	\$ 342,792
Construction in progress	<u>34,120</u>	<u>23,676</u>	<u>(16,261)</u>	<u>41,535</u>
Total capital assets not depreciated	<u>373,875</u>	<u>26,789</u>	<u>(16,337)</u>	<u>384,327</u>
Capital assets being depreciated:				
Buildings	183,230	715	(349)	183,596
Improvements other than buildings	301,454	8,382	-	309,836
Machinery and equipment	86,025	8,487	(2,445)	92,067
Intangibles, depreciable	201	18	-	219
Infrastructure	<u>982,126</u>	<u>16,871</u>	<u>-</u>	<u>998,997</u>
Total capital assets being depreciated	<u>1,553,036</u>	<u>34,473</u>	<u>(2,794)</u>	<u>1,584,715</u>
Less accumulated depreciation for:				
Buildings	(59,432)	(4,711)	333	(63,810)
Improvements other than buildings	(91,584)	(12,502)	-	(104,086)
Machinery and equipment	(63,595)	(5,778)	2,381	(66,992)
Intangibles, depreciable	(3)	(41)	-	(44)
Infrastructure	<u>(332,384)</u>	<u>(24,117)</u>	<u>-</u>	<u>(356,501)</u>
Total accumulated depreciation	<u>(546,998)</u>	<u>(47,149)</u>	<u>2,714</u>	<u>(591,433)</u>
Total capital assets being depreciated, net	<u>1,006,038</u>	<u>(12,676)</u>	<u>(80)</u>	<u>993,282</u>
Governmental activities capital assets, net	<u>\$ 1,379,913</u>	<u>\$ 14,113</u>	<u>\$ (16,417)</u>	<u>\$ 1,377,609</u>

City of Riverside
Notes to Basic Financial Statements
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(amounts expressed in thousands)

	Beginning Balance	Additons/ Transfers In	Deletions/ Transfers Out	Ending Balance
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 51,187	\$ 12,652	\$ -	\$ 63,839
Intangibles, non-depreciable	21,492	-	-	21,492
Construction in progress	308,701	107,253	(65,977)	349,977
Total capital assets not depreciated	<u>381,380</u>	<u>119,905</u>	<u>(65,977)</u>	<u>435,308</u>
Capital assets being depreciated:				
Buildings	270,857	44,638	(116)	315,379
Improvements other than buildings	1,581,730	54,736	(2,556)	1,633,910
Intangibles, depreciable	14,368	7,065	-	21,433
Machinery and equipment	88,307	6,389	(5,423)	89,273
Total capital assets being depreciated	<u>1,955,262</u>	<u>112,828</u>	<u>(8,095)</u>	<u>2,059,995</u>
Less accumulated depreciation for:				
Buildings	(121,421)	(6,788)	115	(128,094)
Improvements other than buildings	(493,491)	(40,776)	2,345	(531,922)
Intangibles, depreciable	(598)	(1,617)	-	(2,215)
Machinery and equipment	(54,205)	(5,744)	4,904	(55,045)
Total accumulated depreciation	<u>(669,715)</u>	<u>(54,925)</u>	<u>7,364</u>	<u>(717,276)</u>
Total capital assets being depreciated, net	<u>1,285,547</u>	<u>57,903</u>	<u>(731)</u>	<u>1,342,719</u>
Business-type activities capital assets, net	<u>\$ 1,666,927</u>	<u>\$ 177,808</u>	<u>\$ (66,708)</u>	<u>\$ 1,778,027</u>

Depreciation expense was charged to various functions as follows:

Governmental activities:	
General government	\$ 5,022
Public safety	5,148
Highway and streets, including general infrastructure	25,295
Culture and recreation	11,684
Total depreciation expense - governmental activities	<u>\$ 47,149</u>
Business-type activities:	
Electric	\$ 30,953
Water	13,510
Sewer	7,025
Airport	707
Refuse	1,211
Transportation	526
Public Parking	993
Total depreciation expense - business-type activities	<u>\$ 54,925</u>

6. Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligations bond	\$ 13,546	\$ -	\$ (979)	\$ 12,567	\$ 1,040
Pension obligation bonds	108,725	31,145	(38,870)	101,000	40,025
Certificates of participation	187,212	-	(5,783)	181,429	5,920
Lease revenue bonds	40,891	-	(1,493)	39,398	1,420
Loan payable	45,574	-	(2,092)	43,482	2,157
Capital leases	14,966	-	(2,960)	12,006	2,769
Compensated absences	22,015	13,567	(13,138)	22,444	13,394
Claims liability	38,795	14,581	(10,107)	43,269	11,315
Judgment	3,334	-	(3,334)	-	-
OPEB obligation	16,361	2,057	(541)	17,877	-
	<u>\$ 491,419</u>	<u>\$ 61,350</u>	<u>\$ (79,297)</u>	<u>\$ 473,472</u>	<u>\$ 78,040</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds	\$ 1,239,634	\$ -	\$ (30,783)	\$ 1,208,851	\$ 26,555
Notes payable	37,225	3,081	(2,513)	37,793	2,537
Capital leases	1,720	3,648	(674)	4,694	789
Landfill capping	5,922	-	(236)	5,686	200
Arbitrage liability	15	-	(15)	-	-
Water stock acquisition rights	941	-	(3)	938	150
Compensated absences	8,444	6,954	(7,278)	8,120	6,994
OPEB obligation	13,072	1,659	(436)	14,295	-
	<u>\$ 1,306,973</u>	<u>\$ 15,342</u>	<u>\$ (41,938)</u>	<u>\$ 1,280,377</u>	<u>\$ 37,225</u>

Business-type activities:

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects.

City of Riverside
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For the year ended June 30, 2016

(amounts expressed in thousands)

Long-Term Obligations at June 30, 2016:

	<u>Principal Outstanding</u>	<u>Water</u>	
Revenue Bonds:			
<u>Electric</u>			
\$141,840 2008 Electric Refunding/Revenue Bonds; Series A & C. The bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.1% and 3.2% for the Series A & C bonds, respectively. See Note 10 for information on the swap agreements. Bonds are due in annual installments from \$700 to \$7,835 through October 1, 2035.	112,515	\$58,235 2008 Water Revenue Bonds; Series B fixed rate bonds, 4.0% to 5.0%, due in annual installments from \$1,210 to \$7,505 through October 1, 2038.	\$58,235
\$209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from \$3,460 to \$25,345 through October 1, 2038.	209,740	\$31,895 2009 Water Refunding/Revenue Bonds; Series A fixed rate bonds, 3.0% to 5.0%, due in annual installments from \$2,360 to \$4,335 through October 1, 2020. The bonds refunded the 1998 series and partially refunded the 2001 series.	12,730
\$34,920 2009 Electric Refunding/Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.0%, due in annual installments from \$1,150 to \$7,035 through October 1, 2018. The bonds refunded the 1998 series and partially refunded the 2001 series.	3,640	\$67,790 2009 Water Revenue Bonds; Series B fixed rate bonds, 3.3% to 4.1%, due in annual installments from \$2,475 to \$4,985 through October 1, 2039.	67,790
\$140,380 2010 Electric Revenue Bonds; Series A and B fixed rate bonds, 3% to 5.0%, due in annual installments from \$95 to \$33,725 through October 1, 2040.	140,380	\$59,000 2011 Water Refunding/Revenue Bonds; Series A. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see Note 10. Bonds are due in annual installments from \$600 to \$3,950 through October 1, 2035.	<u>54,725</u>
		Subtotal	<u>193,480</u>
		Add: Unamortized bond premium	<u>2,442</u>
			<u>\$195,922</u>
		<u>Sewer</u>	
\$56,450 2011 Electric Revenue Refunding Bonds; Series A. The bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see Note 10. Bonds are due in annual installments from \$725 to \$5,175 through October 1, 2035.	41,925	\$240,910 2009 Sewer Revenue Bonds; Series A & B fixed rate bonds, 3.65% to 5.0%, due in annual installments from \$5,555 to \$13,350 through August 1, 2039.	\$212,130
\$79,080 2013 Electric Revenue Refunding Bonds; Series A fixed rate bonds, 3% to 5.25%, due in annual installments from \$795 to \$12,685 through October 1, 2043.	<u>58,635</u>	On June 15, 2015, the City issued Series 2015A Sewer Revenue Bonds in the amount of \$200,030. A portion of the bond proceeds were used to refund the 2014 Sewer Revenue Bonds short term borrowing, as a result, no economic gain was achieved. Interest on the bonds is payable semi-annually on August 1 and February 1 of each year, commencing August 1, 2015. The rate of interest varies from 4% to 5% per annum depending on maturity date. Principal is payable in annual installments	
Subtotal	<u>566,835</u>		
Add: Unamortized bond premium	<u>8,213</u>		
	<u>\$575,048</u>		

City of Riverside
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ranging from \$4,790 to \$14,175 commencing August 1, 2015 and ending August 1, 2040.

	<u>200,030</u>
Subtotal	<u>412,160</u>
Add: Unamortized bond premium	<u>25,721</u>
	<u>\$437,881</u>
 Total Revenue Bonds	 <u>\$1,208,851</u>

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water and Sewer Enterprise funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Electric Utility Fund			Water Utility Fund		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 13,320	\$ 24,863	\$ 38,183	\$ 5,180	\$ 7,814	\$ 12,994
2018	13,795	24,279	38,074	5,415	7,577	12,992
2019	14,445	23,636	38,081	5,635	7,352	12,987
2020	14,995	23,066	38,061	5,865	7,120	12,985
2021	15,535	22,506	38,041	6,080	6,889	12,969
2022-2026	86,775	102,985	189,760	33,990	30,773	64,763
2027-2031	106,045	83,014	189,059	41,110	23,417	64,527
2032-2036	130,725	57,166	187,891	49,955	14,297	64,252
2037-2041	163,695	22,967	186,662	40,250	3,234	43,484
2042-2044	7,505	575	8,080	-	-	-
Premium	8,213	-	8,213	2,442	-	2,442
Total	<u>\$ 575,048</u>	<u>\$ 385,057</u>	<u>\$ 960,105</u>	<u>\$ 195,922</u>	<u>\$ 108,473</u>	<u>\$ 304,395</u>

Fiscal Year	Sewer Utility Fund		
	Principal	Interest	Total
2017	\$ 8,055	\$ 19,255	\$ 27,310
2018	8,410	18,900	27,310
2019	13,515	18,488	32,003
2020	14,075	17,929	32,004
2021	10,820	17,372	28,192
2022-2026	62,565	78,394	140,959
2027-2031	79,435	61,525	140,960
2032-2036	101,090	39,873	140,963
2037-2041	114,195	13,104	127,299
Premium	25,721	-	25,721
Total	<u>\$ 437,881</u>	<u>\$ 284,840</u>	<u>\$ 722,721</u>

General Obligation Bonds:

\$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from \$410 to \$1,740 through August 1, 2024.

Add: Unamortized bond premium
Total General Obligation Bonds

Principal
Outstanding

\$ 12,430
137
\$12,567

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 1,040	\$ 592	\$ 1,632
2018	1,110	544	1,654
2019	1,195	493	1,688
2020	1,290	436	1,726
2021	1,380	373	1,753
2022-2025	6,415	724	7,139
Premium	137	-	137
Total	<u>\$ 12,567</u>	<u>\$ 3,162</u>	<u>\$ 15,729</u>

Pension Obligation Bonds:

\$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from \$1,125 to \$10,715 through June 1, 2023.

\$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments \$630 to \$3,860 through June 1, 2020.

\$31,145 2016 Taxable Pension Obligation Refunding Bond Anticipation Notes; rate at June 30, 2016 was 0.75%, \$31,145 due June 1, 2017. The refunding transaction did not result in an economic gain.

Principal
Outstanding

\$ 56,600

13,255

City of Riverside
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Total Pension Obligation Bonds 31,145
\$101,000

Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 40,025	\$ 4,280	\$ 44,305
2018	9,920	3,482	13,402
2019	11,035	2,936	13,971
2020	10,760	2,329	13,089
2021	8,815	1,725	10,540
2022-2023	20,445	1,837	22,282
Total	<u>\$ 101,000</u>	<u>\$ 16,589</u>	<u>\$ 117,589</u>

Certificates of Participation:	Principal Outstanding
\$19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 5.0%, due in annual installments from \$435 to \$1,270 through September 1, 2036.	\$17,575
\$128,300 2008 Riverside Renaissance Certificates of Participation; issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.4%. For information on the swap agreement see Note 10. Due in annual installments from \$2,900 to \$7,200 through March 1, 2037.	109,300
\$20,660 2010 Recovery Zone Facility Hotel Project Certificates of Participation; 4.0% to 5.5%, due in annual installments from \$415 to \$1,410 through March 1, 2040.	19,815
\$35,235 2013 Pavement Rehab Certificates of Participation; 4.0% to 5.0%, due in annual installments from \$1,285 to \$2,855 through June 1, 2034	<u>33,950</u>
Subtotal	<u>180,640</u>
Plus: Unamortized bond premium	<u>789</u>
Total Certificates of Participation	<u>\$181,429</u>

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 5,920	\$ 7,137	\$ 13,057
2018	6,110	6,922	13,032
2019	6,310	6,700	13,010
2020	6,630	6,451	13,081
2021	6,955	6,188	13,143
2022-2026	38,780	26,602	65,382
2027-2031	47,430	18,160	65,590
2032-2036	48,815	8,066	56,881
2037-2040	13,690	950	14,640
Premium	789	-	789
Total	<u>\$ 181,429</u>	<u>\$ 87,176</u>	<u>\$ 268,605</u>

Lease Revenue Bonds – Governmental Activities:	Principal Outstanding
On August 15, 2012, the City issued the Series 2012A Lease Revenue Refunding Bonds in the amount of \$41,240. The bonds were issued to refinance the 2003 Certificates of Participation. Interest on the bonds is payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2013. The rate of interest varies from 2% to 5% per annum depending on maturity date. Principal is payable in annual installments ranging from \$1,295 to \$2,840 commencing November 1, 2013 and ending November 1, 2033.	\$37,245
Add: Unamortized bond premium	<u>2,153</u>
Total Lease Revenue Bonds – Governmental Activities	<u>\$39,398</u>

Remaining lease revenue bond debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

City of Riverside
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Fiscal Year	Principal	Interest	Total
2017	\$ 1,420	\$ 1,653	\$ 3,073
2018	1,485	1,588	3,073
2019	1,560	1,511	3,071
2020	1,640	1,431	3,071
2021	1,725	1,347	3,072
2022-2026	9,660	5,394	15,054
2027-2031	11,550	3,027	14,577
2032-2034	8,205	501	8,706
Premium	2,153	-	2,153
Total	\$ 39,398	\$ 16,452	\$ 55,850

Fiscal Year	Principal	Interest	Total
2017	\$ 2,157	\$ 1,347	\$ 3,504
2018	2,222	1,282	3,504
2019	2,283	1,220	3,503
2020	2,365	1,139	3,504
2021	2,430	1,073	3,503
2022-2026	11,340	4,308	15,648
2027-2031	12,662	2,520	15,182
2032-2035	8,023	516	8,539
Total	\$ 43,482	\$ 13,405	\$ 56,887

Loans Payable – Governmental Activities:

2012 financing arrangement in the amount of \$4,000 for the construction of Ryan Bonaminio Park at the Tequesquite Arroyo. The debt will be paid with resources from the General Fund in semi-annual debt service payments of approximately \$468 per year over a 10 year period, which includes interest at an annualized rate of 3.05%.

Principal
Outstanding

\$ 2,544

On July 19, 2012, the City secured financing in the amount of \$41,650 with BBVA Compass Bank for the renovation and expansion of the Riverside Convention Center. In March 2014, the financing arrangement with BBVA was increased to \$44,650. The financing consists of an initial 21-month variable rate interest only period during construction that has a swap transaction layered over the remaining 20-year amortization resulting in a “synthetic fixed” rate of 3.24% for 20 of the 22 years. For information on the swap agreement see Note 10. At the end of the construction period, principal and interest are due on the first of each month, with equal payments each year of approximately \$2,850.

40,938

Total Loans Payable – Governmental Activities

\$43,482

Remaining loans payable debt service payments will be made from unrestricted revenues of the debt service fund. Annual debt service requirements to maturity are as follows:

Notes Payable – Enterprise Funds:

Principal
Outstanding

Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of \$339, beginning January 29, 2003 through January 29, 2021

\$ 1,597

Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of \$477, beginning November 6, 1999 through November 6, 2018

1,383

Public parking fund loan for Fox Entertainment Plaza project, 3.85%, payable in net annual installments of \$1,747, beginning June 16, 2011 through December 16, 2031

20,247

In 2014, the Water fund purchased property from Hillwood Enterprises, L.P. (Hillwood). The property was subsequently leased back to Hillwood, which is to be developed into a logistics center. In consideration of the costs to purchase the property the Water fund will make payments to Hillwood in the form of a credit equal to Hillwood’s rental payments to the Water fund for the first 15 years of the lease. Rent will commence the earlier of when Hillwood starts construction of the logistic center or May 20, 2016.

14,566

Total notes payable – Enterprise Funds

\$37,793

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

City of Riverside
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(amounts expressed in thousands)

<u>Sewer Fund</u>			
Fiscal Year	Principal	Interest	Total
2017	\$ 759	\$ 58	\$ 817
2018	774	43	817
2019	788	28	816
2020	326	14	340
2021	333	7	340
Total	<u>\$ 2,980</u>	<u>\$ 150</u>	<u>\$ 3,130</u>

<u>Public Parking Fund</u>			
Fiscal Year	Principal	Interest	Total
2017	\$ 977	\$ 770	\$ 1,747
2018	1,014	732	1,746
2019	1,054	693	1,747
2020	1,095	652	1,747
2021	1,137	609	1,746
2022-2026	6,386	2,348	8,734
2027-2031	7,727	1,006	8,733
2032	857	17	874
Total	<u>\$ 20,247</u>	<u>\$ 6,827</u>	<u>\$ 27,074</u>

<u>Water Fund</u>			
Fiscal Year	Principal	Interest	Total
2017	\$ 801	\$ 242	\$ 1,043
2018	837	228	1,065
2019	873	214	1,087
2020	910	198	1,108
2021	947	183	1,130
2022-2026	5,346	653	5,999
2027-2030	4,852	166	5,018
Total	<u>\$ 14,566</u>	<u>\$ 1,884</u>	<u>\$ 16,450</u>

Contracts – Enterprise Funds:

Principal
Outstanding

Water stock acquisition rights payable on demand to various water companies

\$938

Letters of Credit:

The City's 2008 Certificates of Participation and 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the City and the purchaser of the bonds. The City has entered into the following letters of

credit ("LOC") in order to provide liquidity should all or a portion of the debt be optionally tendered to the remarketer without being successfully remarketed:

<u>Debt Issue</u>	<u>LOC Provider</u>	<u>Expiration Date</u>	<u>Annual Commitment Fee</u>
2008 Certificates of Participation	Bank of America, N.A.	2018	0.400%
2008A Electric Revenue Bonds	Barclays Bank, PLC	2017	0.275%
2008C Electric Revenue Bonds	Bank of America, N.A.	2017	0.390%

To the extent that remarketing proceeds are insufficient or not available, tendered amounts will be paid from drawings made under an irrevocable direct-pay letter of credit.

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan over a 5-year period. The City would be required to pay \$63,420 a year for 5 years (assuming a 12 percent interest rate) if \$109,300 of 2008 Certificates of Participation and \$112,515 of 2008 Electric Revenue Bonds (Series A and C) were "put" and not resold. No amounts have ever been drawn against the three letters of credit due to a failed remarketing.

The various indentures allow the City to convert the mode of the debt in the case of a failed remarketing.

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation.

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The assets acquired through capital leases are as follows:

Asset	Governmental Activities	Business-type Activities
Buildings and improvements	\$ 1,103	\$ -
Machinery and equipment	15,334	5,715
Subtotal	16,437	5,715
Less: Accumulated depreciation	(6,286)	(985)
Total	<u>\$ 10,151</u>	<u>\$ 4,730</u>

The future minimum lease obligations as of June 30, 2016 were as follows:

Fiscal Year	Governmental Activities	Business-type Activities
2017	\$ 2,971	\$ 881
2018	2,971	881
2019	2,665	881
2020	1,485	868
2021	1,485	559
Thereafter	1,019	926
Total minimum lease payments	12,596	4,996
Less: Amount representing interest (rates ranging from 1.2% to 9%)	(590)	(302)
Total capital lease payable	<u>\$ 12,006</u>	<u>\$ 4,694</u>

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2016:

<u>Governmental long-term obligations:</u>	
Certificates of participation	\$ 10,383
Total	<u>\$ 10,383</u>
<u>Enterprise funds:</u>	
Electric	\$ 10,801
Sewer	20,204
Total	<u>\$ 31,005</u>

The City has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain

expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Pledged Revenue (net of expenses, where required)	Payments (all of debt secured by this revenue)	Ratio for FY 06/30/16
Electric revenues	\$ 126,458	\$ 42,240	\$ 2.99
Water revenues	26,245	13,596	1.93
Sewer revenues	36,548*	29,191	1.25

* Includes cash set-aside in a rate stabilization account in accordance with applicable bond covenants.

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

Landfill Capping:

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2016 was 100%. The remaining post closure period is currently 14 years.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. However, there is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. The City is recovering such costs in rates charged to its customers. The portion of costs to be recovered through future rates is classified as a regulatory asset and will be amortized over future periods.

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of \$1,000,000, with a deductible of \$100. Earthquake and flood insurance coverage has a limit of \$25,000, with a deductible of 5% for earthquake and \$100 for flood. Workers' compensation insurance coverage has a limit of \$25,000, with a self-insured retention of \$3,000 per occurrence. The City carries commercial liability insurance in the amount of \$20,000 for general and auto liability claims greater than \$3,000. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

Changes in the self-insurance fund's claims liability amounts are:

Unpaid claims, June 30, 2014	\$ 35,167
Incurred claims (including IBNR's)	11,885
Claim payments and adjustments	<u>(8,257)</u>
Unpaid claims, June 30, 2015	38,795
Incurred claims (including IBNR's)	14,581
Claim payments and adjustments	<u>(10,107)</u>
Unpaid claims, June 30, 2016	<u><u>\$ 43,269</u></u>

8. Judgment

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Water Fund monies to the General Fund. Under the settlement agreement, the General Fund agreed to pay \$10 million over a three year period beginning in fiscal year 2013/14. In fiscal year 2015/16, the General Fund paid the final installment of \$3,334.

9. Other Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year for the former Redevelopment Agency, which is accounted for in the Successor Agency Trust (a fiduciary fund):
Successor Agency Trust:

	Beginning Balance	Additions *	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency Bonds	\$ 235,559	\$ -	\$ (9,269)	\$ 226,290	\$ 8,275
Notes Payable	4,902	931	(740)	5,093	393
	<u>\$ 240,461</u>	<u>\$ 931</u>	<u>\$ (10,009)</u>	<u>\$ 231,383</u>	<u>\$ 8,668</u>

* Smith's Foods OPA was reclassified from Accounts Payable to Notes Payable in fiscal year 2015/16 (\$931).

Redevelopment Agency Bonds:

Principal
Outstanding

\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; \$1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from \$100 to \$145 through Feb. 1, 2003; and \$4,175 term bonds, 8.0%, due in annual installments from \$155 to \$450 through Feb. 1, 2018 (portion not refunded).

\$ 45

\$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from \$545 to \$2,230 through Oct. 1, 2024.

15,475

\$4,810 State of California Dept. of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; \$310 serial bonds 1.20% to 1.42% through Oct. 1, 2004; \$620 term bonds at 3.090% due Oct. 1, 2008; \$1,110 term bonds at 4.340% due Oct. 1, 2014 and \$2,770 term bonds at 5.480% due Oct. 1, 2024.

2,555

\$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from \$20 to \$590 through Aug. 1,

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2025; \$4,980 term bonds at 4.5% due Aug. 1, 2029;
 \$410 term bonds at 4.375% due Aug. 1, 2037. 8,170

\$14,850 Downtown/Airport Merged Project Area and
 Casa Blanca Project Area 2007 Tax Allocation Bonds,
 Taxable, Series B, \$4,050 term bonds at 5.2% due Aug.
 1, 2017; \$10,800 term bonds at 5.8% due Aug. 1, 2028. 11,620

\$89,205 University Corridor/Sycamore Canyon Merged
 Project Area, Arlington Project Area, Hunter
 Park/Northside Project Area, Magnolia Center Project
 Area, and La Sierra/Arlanza Project Area 2007 Tax
 Allocation Bonds, Tax-Exempt, Series C, serial bonds
 4.0% to 5.0% due in annual installments from \$50 to
 \$3,210 through Aug. 1, 2025; \$17,955 term bonds at
 4.5% due Aug. 1, 2030; \$47,775 term bonds at 5.0% due
 Aug. 1, 2037. 85,960

\$43,875 University Corridor/Sycamore Canyon Merged
 Project Area, Arlington Project Area, Hunter
 Park/Northside Project Area, Magnolia Center Project
 Area, and La Sierra/Arlanza Project Area 2007 Tax
 Allocation Bonds, Taxable, Series D, \$15,740 term
 bonds at 5.24% due Aug. 1, 2017; \$28,135 term bonds
 at 5.89% due Aug. 1, 2032. 31,430

On October 16 2014, the Successor Agency to the
 Redevelopment Agency of the City of Riverside issued
 2014 Subordinate Tax Allocation Refunding Bonds
 (Series A and B) in the amount of \$62,980. The bonds
 were issued to refund certain obligations of the former
 Redevelopment Agency of the City of Riverside. The
 refunding transaction resulted in an economic gain of
 \$10,312 and a net debt service savings of \$17,345.
 Interest is due semi-annually on March 1 and September
 1, commencing March 1, 2015. Principal is due in
 annual installments from \$160 to \$4,745 through
 September 1, 2034. The rate of interest varies from
 0.6% to 5% per annum.

Subtotal 58,845
 Add: Unamortized bond premium 214,100
 Total Redevelopment Agency Bonds 12,190
\$226,290

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 8,275	\$ 10,892	\$ 19,167
2018	8,920	10,589	19,509
2019	9,320	10,222	19,542
2020	9,830	9,778	19,608
2021	10,805	9,288	20,093
2022-2026	59,140	37,860	97,000
2027-2031	49,980	23,308	73,288
2032-2036	42,735	11,453	54,188
2037-2038	15,095	1,691	16,786
Premium	12,190	-	12,190
Total	<u>\$ 226,290</u>	<u>\$ 125,081</u>	<u>\$ 351,371</u>

Notes Payable – Successor Agency: Principal Outstanding

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, subject to recording of completion. 2,987

HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning Aug. 1, 1999 of \$110 to \$420 through Aug. 1, 2018 1,175

Smith's Food & Drug Centers Inc., 6% payable in variable installments, subject to payment of annual Community Facilities District assessment. 931

Total Notes Payable – Successor Agency \$ 5,093

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

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Fiscal Year	Principal	Interest	Total
2017	\$ 393	\$ 360	\$ 753
2018	421	340	761
2019	454	326	780
2020	38	310	348
2021	42	300	342
2022-2026	1,217	1,423	2,640
2027-2031	471	1,238	1,709
2032-2036	777	933	1,710
2037-2038	1,280	430	1,710
Total	<u>\$ 5,093</u>	<u>\$ 5,660</u>	<u>\$ 10,753</u>

As a result of action by the State of California to dissolve all redevelopment agencies in the state, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the California Department of Finance.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios for the Successor Agency also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required) *	Annual Debt Service Payments (all of debt secured by this revenue)	Debt Service Coverage Ratio for FY 06/30/16
Property Taxes:			
Non-Housing	\$ 46,045	\$ 14,327	3.21
Housing	9,196	2,586	3.56

* The computations above are based on the total tax increment generated for the year ended June 30, 2016 for each project area that had been pledged as collateral for the Bonds. As discussed above, only a portion of tax increment has been actually remitted to the Successor Agency and reported as revenue in the accompanying financial statements.

Assessment Districts and Community Facilities Districts Bonds
(Not obligations of the City):

As of June 30, 2016, the City has several series of Assessment District and Community Facility District Bonds outstanding in the amount of \$45,805. Bonds were issued for improvements in certain districts and are long-term obligations of the property owners. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

10. Derivative Instruments

Interest Rate Swaps

The City has six cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011 and against debt issued in 2012. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. Hedge accounting was also applied to the swap associated with the debt issued in 2012, which was also determined to be effective.

The following is a summary of the derivative activity for the year ended June 30, 2016:

	Notional Amount	Fair Value as of 06/30/16	Change in Fair Value for Fiscal Year
Governmental activities			
2008 Renaissance Certificates of Participation	\$ 109,300	\$ (28,518)	\$ (7,504)
2012 Convention Center Financing	38,327	(2,946)	(2,263)
Business-type activities			
2008 Electric Refunding/Revenue Bonds Series A	68,525	(11,984)	(2,887)
2008 Electric Refunding/Revenue Bonds Series C	41,975	(11,122)	(3,508)
2011 Electric Refunding/Revenue Bonds Series A	41,925	(11,095)	(3,508)
2011 Water Refunding/Revenue Bonds Series A	54,725	(12,398)	(3,537)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the City entered into interest rate swap agreements in connection with its \$141,840 2008 Electric Revenue Bonds (Series A and C), \$56,450 2011 Electric Revenue Bonds, \$59,000 2011 Water Revenue Bonds and \$128,300

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2008 Certificates of Participation (“COP”). Also, in 2012, the City entered into an additional interest rate swap agreement in connection with the Convention Center financing with BBVA Compass Bank.

Terms: Per the existing swap agreements, the City pays a counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate (“LIBOR”) one month index plus 12 basis points for the Electric and Water swaps. For the COP swap, the City pays a fixed payment and receives a variable payment computed as 63.00% of the LIBOR one month index plus 7 basis points. The Convention Center financing consists of an initial 21-month variable rate interest only period during construction, which swaps to a fixed rate for the remaining 20-year amortization whereby the City will pay a fixed payment and will receive a variable payment computed at 65.01% of the LIBOR one month index plus 150 basis points. The lease interest rate on the Convention Center has a cap at the lesser of 12% or the highest rate permitted by applicable law whereas the related swap does not have a cap. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by \$975 to \$7,200 until the debt is completely retired in fiscal year 2037.

The bonds and the related swap agreements for the 2008A Electric Revenue Bonds mature on October 1, 2029, 2008C Electric and 2011A Electric and 2011A Water Revenue/Refunding Bonds mature on October 1, 2035. The 2008 Certificates of Participation mature on March 1, 2037. The loan with BBVA Compass Bank will be paid in full on April 1, 2034.

As of June 30, 2016, rates were as follows:

	2008 Electric Refunding/ Revenue Bonds Series A	2008 Electric Refunding/ Revenue Bonds Series C	2011 Electric Refunding/ Revenue Bonds Series A
	Rates	Rates	Rates
Interest rate swap:	3.11100%	3.20400%	3.20100%
Fixed payment to counterparty	-0.38754%	-0.38845%	-0.25894%
Net interest rate swap payments	2.72346%	2.81555%	2.94206%
Variable rate bond coupon payments	0.28295%	0.28149%	0.10774%
Synthetic interest rate on bonds	3.00641%	3.09704%	3.04980%

	2011 Water Refunding/ Revenue Bonds Series A	2008 Renaissance COPs	2012 Convention Center Financing
	Rates	Rates	Rates
Interest rate swap:	3.20000%	3.36200%	3.24000%
Fixed payment to counterparty	-0.25894%	-0.35455%	-1.64516%
Net interest rate swap payments	2.94106%	3.00745%	1.59484%
Variable rate bond coupon payments	0.15580%	0.30823%	1.64516%
Synthetic interest rate on bonds	3.09686%	3.31568%	3.24000%

Fair Value: As of June 30, 2016, in connection with all swap arrangements, the transactions had a combined net negative fair value of (\$78,063). Because the coupons on the City’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: The City is not exposed to credit risk on the swaps because those swaps have a negative fair value. The swap counterparties, Bank of America, N.A., Bank of America Corp. and J.P. Morgan Chase & Co. were rated A, BBB+ and A- respectively by Standard & Poor’s. To mitigate the potential for credit risk for these swaps, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties’ rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2016, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: The city is exposed to basis risk on its pay-fixed interest rate swap and rate cap hedging derivative instruments because the variable-rate payments received by the city on these hedging derivative instruments are based on a rate or index other than interest rates the city pays on its hedged variable-rate debt. If a change occurs that results in the rates’ moving to convergence, the expected cost savings may not be realized.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events,

City of Riverside
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such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination event.” That is, a swap may be terminated by the City if either counterparty’s credit quality falls below “BBB-“ as issued by Standard and Poor’s. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap’s fair value.

Swap payments and associated debt: As of June 30, 2016, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Variable-Rate Bonds

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2017	\$ 5,964	\$ 1,460	\$ 10,389	\$ 17,813
2018	7,217	1,419	10,210	18,846
2019	13,516	1,368	9,881	24,765
2020	16,610	1,298	9,428	27,336
2021	17,262	1,231	8,946	27,439
2022-2026	87,184	5,073	37,271	129,528
2027-2031	98,077	3,112	24,501	125,690
2032-2036	106,373	970	9,160	116,503
2037-2040	7,200	17	165	7,382
Total	<u>\$ 359,403</u>	<u>\$ 15,948</u>	<u>\$ 119,951</u>	<u>\$ 495,302</u>

11. Economic Contingency

A portion of unassigned fund balance within the General Fund is set aside for future economic contingencies. The amount that has been set aside is equal to approximately 15% of General Fund expenditures.

12. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2016:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 982
	Nonmajor Enterprise Funds	582
		<u>1,564</u>
Electric Fund	Central Stores Fund *	418
Water Fund	Central Stores Fund *	179
Total		<u>\$ 2,161</u>

* Internal service fund

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2016:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 10,084
	Water Fund	4,338
	Sewer Fund	2,775
	Nonmajor Governmental Funds	462
	Nonmajor Enterprise Funds	1,865
	Self-Insurance Trust Fund *	182
	Central Stores Fund *	191
	Central Garage Fund *	860
		<u>20,757</u>
Sewer Fund	Nonmajor Governmental Funds	5,984
Self-Insurance Trust Fund *	Nonmajor Enterprise Funds	218
	Central Garage Fund *	1,014
		<u>1,232</u>
Central Garage Fund *	Nonmajor Governmental Funds	3,460
		<u>\$ 31,433</u>

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In addition, the following advances to the former Redevelopment Agency are accounted for in the Private-Purpose Trust Fund of the Successor Agency:

<u>Receivable Funds</u>	<u>Amount</u>
General	\$ 582
Nonmajor Governmental Funds	32,470
Electric	5,113
Self-Insurance Trust *	4,240
Total	<u>\$ 42,405</u>

Transfers In/Out: Transfers are primarily used to (1) move revenues to the fund that statute or budget requires to expend them, and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

The following table shows amounts transferred to/from funds within the City for the year ended June 30, 2016:

<u>Transfers In Funds</u>	<u>Transfers Out Funds</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 38,360
	Water Fund	6,430
		<u>44,790</u>
Capital Outlay Fund	Nonmajor Governmental Funds	<u>58</u>
Nonmajor Governmental Funds	General Fund	12,693
	Capital Outlay Fund	3,105
	Nonmajor Enterprise Funds	738
		<u>16,536</u>
Water Fund	General Fund	<u>3,333</u>
Sewer Fund	General Fund	3
	Capital Outlay Fund	51
	Nonmajor Governmental Funds	207
		<u>261</u>
Nonmajor Enterprise Funds	General Fund	<u>718</u>
	Total	<u>\$ 65,696</u>

13. Deficit Net Position

Deficit net position exists in the Transportation Fund (\$468). Staff is working with its transportation funding partner, the Riverside County Transportation Commission (RCTC), to resolve this funding shortfall. It is anticipated that the deficit will be reduced through the identification of additional funding sources over the next few years.

Deficit net position exists in the Self-Insurance Internal Service Fund (\$31,763). In order to begin funding a portion of the deficit in the internal service fund, self-insurance rates were increased in the prior year with additional increases to occur over the next five years. However, the increases continue to be offset by unusually large losses incurred during the year combined with an adjustment for the increase in the amount estimated for claims and judgments. Management believes that there are sufficient funds on hand to cover current payment obligations and plans to continue to control costs and increase rates over the next few years as needed to match expected long-term payment requirements. Additionally, management is working on a reserve policy that will address current and future funding needs.

Deficit net position exists in the Successor Agency Private-Purpose Trust Fund (\$178,009). The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller.

14. Litigation

The City is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the City are incidental to the ordinary course of operations and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the City.

The Water Utility is a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed March 31, 2009, and no trial date has been set.

15. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and

disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A copy of CalPERS' annual financial report may be obtained online at www.calpersca.gov.

(B) Funding Policy. The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8% for miscellaneous employees and 9% for safety employees of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. The City pays the employees' contributions to CalPERS for both miscellaneous and safety employees hired on or before specific dates as follows:

Safety (Police):

- 1st Tier (RPOA, RPOA Supervisory & RPAA) - The retirement formula is 3% at age 50 for employees hired before February 16, 2012. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier (RPOA only) - The retirement formula is 3% at age 50 and new employees hired on or after February 17, 2012 pay their share (9%) of contributions.
- 3rd Tier (RPOA, RPOA Supervisory & RPAA) – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Safety (Fire):

- 1st Tier - The retirement formula is 3% at age 50 for employees hired before June 11, 2011. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier - The retirement formula is 3% at age 55 and new employees hired on or after June 11, 2011 pay their share (9%) of contributions.
- 3rd Tier – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Miscellaneous:

- 1st Tier - The retirement formula is 2.7% at age 55. The City pays the employee share (8%) of contributions on their behalf and for their account except for general SEIU employees, which contributed 6% in fiscal year 2015/16, with the City paying the remaining 2% of the employee share.
- 2nd Tier - The retirement formula is 2.7% at age 55, and:
 - SEIU and SEIU Refuse employees hired on or after June 7, 2011 pay their share (8%) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

(D) Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms of each Plan: Inactive employees or beneficiaries currently receiving benefits are 1,889 and 700 for the Miscellaneous and Safety Plans, respectively. Inactive employees entitled to but not yet receiving benefits are 1,283 and 160 for Miscellaneous and Safety Plans, respectively. Active employees were 1,550 and 579 for Miscellaneous and Safety Plans, respectively.

(E) Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding

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contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

(F) Net Pension Liability - The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

Discount Rate – The discount rate used to measure each plan's total pension liability as of June 30, 2016 was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on

the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	Current Target <u>Allocation</u>	Real Return <u>Years 1 - 10 (1)</u>	Real Return <u>Years 11+ (2)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

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(G) Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

<i>Miscellaneous</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 1,204,099	\$ 973,650	\$ 230,449
Changes in the year:			
Service Cost	22,228	-	22,228
Interest on Total Pension Liability	87,436	-	87,436
Changes of Assumptions	(21,782)	-	(21,782)
Differences between Expected and Actual Experience	(23,549)	-	(23,549)
Contribution - employer	-	25,997	(25,997)
Contribution - employee	-	4,379	(4,379)
Net Investment Income	-	21,671	(21,671)
Benefit Payments, including Refunds of Employee Contributions	(53,853)	(53,853)	-
Administrative Expenses	-	(1,057)	1,057
Net Changes	10,480	(2,863)	13,343
Balance at June 30, 2016	<u>\$ 1,214,579</u>	<u>\$ 970,787</u>	<u>\$ 243,792</u>

Safety

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 882,153	\$ 711,642	\$ 170,511
Changes in the year:			
Service Cost	18,187	-	18,187
Interest on Total Pension Liability	64,815	-	64,815
Changes of Assumptions	(16,117)	-	(16,117)
Differences between Expected and Actual Experience	(6,835)	-	(6,835)
Contribution - employer	-	23,384	(23,384)
Contribution - employee	-	924	(924)
Net Investment Income	-	15,632	(15,632)
Benefit Payments, including Refunds of Employee Contributions	(42,076)	(42,076)	-
Administrative Expenses	-	(816)	816
Net Changes	17,974	(2,952)	20,926
Balance at June 30, 2016	<u>\$ 900,127</u>	<u>\$ 708,690</u>	<u>\$ 191,437</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<i>Miscellaneous</i>	Current		
	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 409,730	\$ 243,791	\$ 107,363

<i>Safety</i>	Current		
	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 314,293	\$ 191,437	\$ 90,643

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

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H. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions.

For the year ended June 30, 2016, the City recognized pension expense of \$28,545. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>Miscellaneous</i>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date, net	\$ 29,828	\$ -
Differences between actual and actuarial determined contribution	9,357	-
Changes of assumptions	-	(14,756)
Differences between expected and actual experience	-	(15,952)
Net differences between projected and actual earnings on plan investments	41,287	(49,946)
Total	\$ 80,472	\$ (80,654)

<i>Safety</i>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date, net	\$ 26,849	\$ -
Differences between actual and actuarial determined contributions	8,810	-
Changes of assumptions	-	(12,535)
Differences between expected and actual experience	-	(5,316)
Net differences between projected and actual earnings on plan investments	30,417	(36,710)
Total	\$ 66,076	\$ (54,561)

\$56,677 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Deferred Outflows of Resources</u>		
<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2017	\$ 14,411	\$ 10,794
2018	14,411	10,307
2019	11,500	9,802
2020	10,322	8,324
Total	\$ 50,644	\$ 39,227

<u>Deferred Inflows of Resources</u>		
<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2017	\$ (31,271)	\$ (17,338)
2018	(31,271)	(17,338)
2019	(18,112)	(17,338)
2020	-	(2,547)
Total	\$ (80,654)	\$ (54,561)

16. Other Post-Employment Benefits

The City provides healthcare benefits to retirees in the form of an implied rate subsidy. Retirees and active employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees receive the benefit of a lower rate. The difference between these amounts is the implied rate subsidy, which is considered an other post-employment benefit (OPEB) under GASB 45.

Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies. However, the retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

The contribution requirements are established by the City Council. The City is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The City's annual OPEB cost (expense) is reported based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if

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paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period not to exceed thirty years. The ARC for the year ended June 30, 2016 was \$4,076, which consisted of normal cost of \$1,975 and UAAL amortization of \$2,101. The ARC as a percentage of payroll was 2.5% for the year ended June 30, 2016.

As of June 30, 2015, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$40 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$40 million.

Determination of the net OPEB obligation as of June 30, 2016:

Annual required contribution	\$ 4,076
Interest on net OPEB obligation	1,177
Amortization of net OPEB obligation	(1,537)
Annual OPEB cost	<u>3,716</u>
Less contributions made	<u>(977)</u>
Increase in net OPEB obligation	2,739
Net OPEB liability, beginning of year	29,433
Net OPEB liability, end of year	<u>\$ 32,172</u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The method used by the actuary was the entry age normal cost method. The actuarial assumptions included (a) discount rate of 4.00%, (b) 2.75% inflation, (c) projected salary increases of 3.00% annually and (d) healthcare cost trend rates ranging from 5.0% to 7.0%.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Three-year trend information:

Fiscal Year	ARC	Actual Contributions	% of ARC Contributed
2014	\$4,913	\$1,232	25%
2015	5,061	1,431	28%
2016	4,076	977	24%

Fiscal Year	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB Obligation
2014	\$4,756	26%	\$25,842
2015	5,022	28%	29,433
2016	3,716	26%	32,172

The table below displays the funding progress of the plan and is based upon the most recent actuarial valuation data:

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Liability (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Covered Payroll
06/30/15	\$ 40,235	\$ -	\$ 40,235	0%	\$ 165,775	24%

17. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The Electric Utility Fund has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's Fund share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of production.

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Southern California Public Power Authority

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as a member. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During fiscal years ended June 30, 2016 and 2015, the Electric Utility paid approximately \$22,928 and \$22,058, respectively, to SCPPA under various take-or-pay and renewable contracts. These payments are reflected as a component of maintenance and operation expense in the financial statements.

The projects and the Electric Utility Fund's proportionate share of SCPPA's obligations, including final maturities and contract expirations are as follows:

<u>Project</u>	<u>Percent Share</u>	<u>Entitlement</u>
Palo Verde Nuclear Generating Station (PV)	5.4%	12.3MW
Southern Transmission System (STS)	10.2%	244.0MW
Hoover Dam Upgrading (Hoover)	31.9%	30.0MW
Mead – Phoenix Transmission (MPP)	4.0%	18.0MW
Mead – Adelanto Transmission (MAT)	13.5%	118.0MW

Terms of Take or Pay Commitments

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and the remaining projects have fixed interest rates which range from 0.47 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

Fiscal Year	SCPPA						Total
	IPA	PV	STS	Hoover	MPP	MAT	
2017	\$ 11,651	\$ 675	\$ 8,212	\$ 701	\$ 262	\$ 2,951	\$ 24,452
2018	17,007	679	8,049	699	258	2,909	29,601
2019	18,603	-	7,956	-	257	2,881	29,697
2020	18,095	-	6,976	-	254	2,859	28,184
2021	16,470	-	8,302	-	189	2,136	27,097
Thereafter	20,846	-	37,987	-	-	-	58,833
Total	<u>\$ 102,672</u>	<u>\$ 1,354</u>	<u>\$ 77,482</u>	<u>\$ 1,400</u>	<u>\$ 1,220</u>	<u>\$ 13,736</u>	<u>\$ 197,864</u>

Final maturities of outstanding debt associated with take-or-pay obligations and related contract expirations are as follows:

<u>Project</u>	<u>Final Maturity</u>	<u>Contract Expiration</u>
Palo Verde Nuclear Generating Station	2017	2030
Southern Transmission System	2027	2027
Hoover Dam Upgrading	2017	2017
Mead – Phoenix Transmission	2020	2030
Mead – Adelanto Transmission	2020	2030

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year.

The costs incurred for the year ended June 30, 2016 and 2015, are as follows (in thousands):

Fiscal Year	IPA	PV	STS	Hoover	MPP	MAT	Total
2016	\$ 22,667	\$ 3,601	\$ 3,001	\$ 81	\$ 34	\$ 377	\$ 29,761
2015	23,426	2,628	2,731	113	145	285	29,328

These costs are reflected as a component of maintenance and operation expense on the statement of revenues, expenses and changes in net position.

B. Other Commitments

Power Purchase Agreements:

The Electric Utility Fund has a firm power purchase agreement with Bonneville Power Administration (BPA) for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement. On January 29, 2013, Riverside revised the delivery and return portion of the agreement to allow for a flat 40 MW of delivery during May and June through calendar year 2013, 2014 and 2015. The Agreement with BPA terminated on May 1, 2016.

On April 12, 2011, the California Renewable Energy Resources Act (SB 2 (1X)) was passed by the State Legislative and signed by the Governor. SB 2 (1X) revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SB 2 (1X) on November 18, 2011 and December 13, 2011, respectively, and further approved the City's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. It is expected that the City will be able to meet the new mandates with new resource procurement actions as outlined in the City's RPS Procurement Plan. For Calendar year 2015, renewable resources provided 22% of retail sales requirements.

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements with various entities described below on a "take-and-pay" basis. The contracts in the following table were executed as part of compliance with this standard.

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract *	Contract Expiration	Estimated Annual Cost for 2017
Salton Sea Power LLC	Geothermal	46.0 MW	05/31/20	\$ 28,309
Wintec	Wind	1.3 MW	12/30/18	239
WKN Wagner	Wind	6.0 MW	12/22/32	1,274
AP North Lake	Photovoltaic	20.0 MW	08/11/40	4,487
Dominion Columbia II	Photovoltaic	11.1 MW	12/31/34	2,314
Cabazon Wind	Wind	39.0 MW	01/01/25	4,299
First Solar - Kingbird B	Photovoltaic	14.0 MW	12/31/36	2,867
FTP Solar - Summer Solar	Photovoltaic	10.0 MW	12/31/41	1,748
FTP Solar - Antelope	Photovoltaic	10.0 MW	12/31/41	1,599
Solar Star - Tequesquite	Photovoltaic	7.3 MW	12/31/40	11,301
CalEnergy - Salton Sea Phase I	Geothermal	20.0 MW	12/31/39	11,830
		<u>184.7</u>		<u>\$ 70,267</u>

Supplier	Type	Maximum Contract *	Expected Delivery	Energy Delivery No Later Than	Contract Term In Years
Cal Energy - Salton Sea Phase 2	Geothermal	20	01/01/19	01/01/19	21
Cal Energy - Salton Sea Phase 3	Geothermal	46	06/01/20	06/01/20	20
FTO Solar Power - Antelope DSR1	Geothermal	<u>25</u>	12/31/16	06/30/17	20
		<u>91</u>			

* Contracts are contingent on energy production from specific related generating facilities. Riverside has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

Construction Commitments:

As of June 30, 2016, the Sewer and Electric Utilities Funds had approximately \$29 million and \$8 million, respectively, in major construction commitments related to unfinished capital projects. These construction commitments are expected to be funded primarily with current and future bond proceeds.

C. Jointly-Owned Utility Project - SONGS

The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County;

however, on June 7, 2013, Southern California Edison (SCE) announced in a press release its plan to retire Units 2 and 3 of SONGS permanently. Consequently, the units are no longer a source of supply for the Electric Utility, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning.

SONGS was operated and maintained by SCE, under an agreement with the City and San Diego Gas & Electric Company (SDG&E), which expires upon termination of the easement for the plant in 2024. The three-member SONGS Board of Review approved the budget for capital expenditures and operating expenses. The City and the two other owners each had one representative on that board. The participation agreement provided that each owner was entitled to its proportionate share of benefits of, and paid its proportionate share of costs and liabilities incurred by SCE for, construction, operation and maintenance of the project; each owner's obligation was several, and not joint or collective.

In 2005, the CPUC authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the Nuclear Regulatory Commission (NRC).

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At that time, Unit 2 was off-line for a planned outage when unexpected wear in areas of tube-to-support structure were found. Units 2 and 3 remained off-line for extensive inspections, testing and analysis of their steam generators. On June 7, 2013, SCE unilaterally announced its plan to retire Units 2 and 3 permanently.

The current plant site easement for SONGS terminates on May 12, 2024 and would need to be extended in order for the plant to be decommissioned and the site restored.

As a result of SCE's decision to permanently retire SONGS Units 2 and 3, SCE has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations. The regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent

removal of fuel from the reactor vessels (provided by SCE to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the announcement of retirement, SCE, as the operating licensee must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate. SCE submitted these documents to the NRC in the summer of 2014. As of August 2015, the NRC concluded their regulatory review process and accepted the regulatory filings without revision. SCE has now obtained the required regulatory approvals from the NRC to begin the decommissioning process. According to the document, total decommissioning costs for Units 2 and 3 are estimated at \$4.4 million of which the Utility's share is \$79 million.

As of June 30, 2016, the Utility has set aside \$80 million in cash investments with the trustee and \$5 million in an internally restricted decommissioning reserve for the City's share of the decommissioning costs.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's portion of current and long-term debt associated with the decommissioning of SONGS is included in the accompanying financial statements.

Replacement Power Costs

During the outage, the City has procured replacement power to serve its customers' requirements. These costs are in addition to the operating and maintenance expenses paid annually during normal operations. Replacement power costs incurred by the City as a result of the outage (commencing on January 31, 2012 for Unit 3 and March 5, 2012 for Unit 2) were approximately \$13.2 million and are reported as regulatory assets on the Statements of Net Position. During fiscal year June 30, 2016, the regulatory asset created was fully expensed as current rate revenues were adequate to absorb the previously incurred costs thus no longer requiring them to be deferred. The Electric Utility is in the process of calculating any additional costs associated with the unexpected shutdown of SONGS and will seek recovery of any such costs, as set forth herein.

Contractual Matters

The replacement steam generators for Units 2 and 3 were designed and manufactured by Mitsubishi Heavy Industries (MHI) and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain

repairs. MHI's liability under the purchase agreement is limited to \$138 million and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions.

There are insurance policies for both property damage and accidental outage issued by Nuclear Electric Insurance Limited (NEIL), and SCE has notified NEIL of claims under the two policies. On October 12, 2015, the owners of SONGS reached a \$400,000 settlement with NEIL for the outages caused by the failures of replacement steam generators. The Electric Utility's allocation of the settlement was \$7,160 and was used to offset the remaining portion of the regulatory asset expensed in fiscal year ended June 30, 2016. The owners of SONGS will continue to seek additional damages for the defective steam generators supplied by MHI and Mitsubishi Nuclear Energy Systems.

As a result of the decision by SCE to permanently retire Units 2 and 3 of SONGS prior to the expiration of the NRC licenses, the City expects to incur certain costs resulting from the early termination of long-term uranium fuel supply contracts. The Utility is in the process of calculating those damages in preparation for arbitration between SCE and MHI and will seek recovery of all such damages in that venue.

18. Subsequent Event

Measure Z

The City placed a general purpose tax measure on the November 8, 2016 ballot in hopes to raise the City of Riverside's local sales tax one penny per dollar, to 9 percent, to pay for critical unfunded City programs and services, such as public safety, prevention of homelessness, road maintenance and tree trimming, recreation and parks, and more. The one-cent increase in sales tax is estimated to generate between \$48 million and \$50 million annually specifically for the City of Riverside's General Fund, which pays for most services.