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. 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.

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 $1.5 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, 2018, the City had an allowance for doubtful account balance of $6,768.

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.

**For the year ended June 30, 2018** (amounts expressed in thousands)

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, 2018, business-type activities capitalized net interest costs of $12,054 in the government-wide financial statements. Total interest expense incurred by the business-type activities before capitalization was $55,301.

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 9 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

<u>Long-Term Debt</u>

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 $57,154 in cash investments with the trustee and $8,245 in an internally designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2018. 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 unrestricted 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, 2018, the Electric Utility has paid to date $23,512 in decommissioning obligations, all of which have been reimbursed by the trust funds.

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, 2018, 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. The City Council approved the General Fund Reserve Policy setting a 10% minimum in the Emergency Reserve and 5% in the Contingency Reserve with an aspirational goal of 15% in the Emergency Reserve. The Emergency Reserve was established for the purpose of addressing any extremely unusual and infrequent occurrences, such as a major natural disaster or a major unforeseen settlement. Utilization of the Emergency Reserve requires declaration of an emergency by a two-thirds majority of the City Council, and specification of the maximum dollar amount to be used. The Contingency Reserve was established for the purpose of providing a "bridge" to facilitate a measured and thoughtful reduction in expenditures during times of economic downturn, rather than making immediate and drastic budget reductions without the time for proper evaluation. Utilization of the Contingency Reserve, including

specification of the maximum dollar amount to be used, requires approval by a two-thirds majority of the City Council. The reserves committed at June 30, 2018 were calculated utilizing fiscal year 2018-2019 adopted General Fund expenditure budget of $269,000.

- 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, 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 January 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. Other Post Employment Benefit (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB liability is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the City has implemented GASB 75, which is explained in detail under *New Accounting Pronouncements.*

Z. New Accounting Pronouncements

Effective July 1, 2017, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions.* The primary objective of GASB 75 is to improve financial reporting by state and local governments in regards to postemployment benefits other than pensions (OPEB). These improvements provide users of financial statement decision-useful information, supports assessments of accountability and interperiod equity, and creates additional transparency. GASB 75 accomplishes this by requiring recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, along with new note disclosures and required supplementary information. The City implemented this Statement which resulted in a restatement of beginning net position by $1,618, recognition of deferred inflow of resources of $1,459, establishment of a net OPEB liability of $36,786, and additional disclosures (Note 15).

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.

**For the year ended June 30, 2018** (amounts expressed in thousands)

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 | $ 630,336 |
| Investments at fiscal agent | 146,488 |
| | 776,824 |
| Cash on hand and deposits with financial institutions | 46,798 |
| | $ 823,622 |

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

| | |
|---|---|
| Cash and investments | $ 572,910 |
| Restricted cash and cash equivalents | 58,928 |
| Restricted cash and investments at fiscal agent | 136,128 |
| Total per statement of net position | 767,966 |
| Fiduciary fund cash and investments | 38,754 |
| Fiduciary fund cash and investments with fiscal agent | 16,902 |
| | $ 823,622 |

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:

| | Max Maturity | Max % of Portfolio |
|---|---|---|
| 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 | 30% |
| Collateralized Time Deposits | 5 Years | 30% |
| Federally Insured Time Deposits | 5 Years | 30% |
| Supranational Securities | 5 Years | 15% |
| Federal Agency Securities | 5 Years | N/A |

**For the year ended June 30, 2018** (amounts expressed in thousands)

| | | |
|---|---|---|
| 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 Code 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 levels of valuation inputs are as follows:

Level 1 – Quoted prices for identical assets or liabilities in an active market
Level 2 – Observable inputs other than quoted market prices; and
Level 3 – Unobservable inputs

The City has the following recurring fair value measurements as of June 30, 2018:

**For the year ended June 30, 2018** (amounts expressed in thousands)

| | 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 | $ 148,627 | $ - | $ 148,627 | $ - |
| Federal Agency Securities | 7,938 | - | 7,938 | - |
| U.S. Treasury Notes/Bonds | 301,172 | - | 301,172 | - |
| Corp. Medium Term Notes | 35,839 | - | 35,839 | - |
| Negotiable Certificates of Deposits | 7,394 | - | 7,394 | - |
| Held by Fiscal Agent | | | | |
| Money Market Funds | 11,025 | - | 11,025 | - |
| Commercial Paper | 662 | - | 662 | - |
| U.S. Treasury Notes/Bonds | 66,050 | - | 66,050 | - |
| Federal Agency Securities | 1,691 | - | 1,691 | - |
| Corp. Medium Term Notes | 16,649 | - | 16,649 | - |
| Total | 597,047 | $ - | $ 597,047 | $ - |
| | | | | |
| Investments not subject to fair value hierarchy: | | | | |
| State Investment Pool | 169,016 | | | |
| Investment Contracts | 10,761 | | | |
| Total Investments | $ 776,824 | | | |

## 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 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 | $ 148,627 | $ 148,627 | $ - | $ - | $ - |
| Federal Agency Securities | 7,938 | - | - | 7,938 | - |
| U.S. Treasury Notes/Bonds | 301,172 | 40,693 | 140,724 | 119,755 | - |
| Corp. Medium Term Notes | 35,839 | 8,488 | 14,870 | 12,481 | - |
| State Investment Pool | 129,366 | 129,366 | - | - | - |
| Negotiable Certificates of Deposit | 7,394 | 4,460 | 984 | 1,950 | - |
| Held by Fiscal Agent | | | | | |
| Money Market Funds | 11,025 | 11,025 | - | - | - |
| State Investment Pool | 39,650 | 39,650 | - | - | - |
| Investment Contracts | 10,761 | - | - | - | 10,761 |
| Commercial Paper | 662 | 662 | - | - | - |
| U.S. Treasury Notes/Bonds | 66,050 | 30,698 | 8,890 | 26,462 | - |
| Federal Agency Securities | 1,691 | 1,332 | - | 359 | - |
| Corp. Medium Term Notes | 16,649 | 10,303 | 3,379 | 2,967 | - |
| Total | $ 776,824 | $ 425,304 | $ 168,847 | $ 171,912 | $ 10,761 |

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 | BBB | Unrated |
|---|---|---|---|---|---|---|
| Money Market Funds | $ 148,627 | $ - | $ 143,510 | $ 5,117 | $ - | $ - |
| Federal Agency Securities | 7,938 | 7,938 | - | - | - | - |
| U.S. Treasury Notes/Bonds | 301,172 | 301,172 | - | - | - | - |
| Corp. Medium Term Notes | 35,839 | - | 35,839 | - | - | - |
| State Investment Pool | 129,366 | - | - | - | - | 129,366 |
| Negotiable Certificates of Deposits | 7,394 | - | - | - | - | 7,394 |
| Held by Fiscal Agent | | | | | | |
| Money Market Funds | 11,025 | 7,840 | - | 3,185 | - | - |
| State Investment Pool | 39,650 | - | - | - | - | 39,650 |
| Investment Contracts | 10,761 | - | 10,761 | - | - | - |
| Commercial Paper | 662 | - | - | 662 | - | - |
| U.S. Treasury Notes/Bonds | 66,050 | 66,050 | - | - | - | - |
| Federal Agency Securities | 1,691 | 1,691 | - | - | - | - |
| Corp. Medium Term Notes | 16,649 | 2,880 | 2,967 | 3,379 | 7,423 | - |
| Total | $ 776,824 | $ 387,571 | $ 193,077 | $ 12,343 | $ 7,423 | $ 176,410 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

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, 2018, 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 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:

| Fiscal Year | | |
|---|---|---|
| 2019 | $ | 2,625 |
| 2020 | | 2,659 |
| 2021 | | 2,692 |
| 2022 | | 2,724 |
| 2023 | | 2,759 |
| Thereafter | | 5,609 |
| Total Due | | 19,068 |
| Less: Amount applicable to interest | | (3,918) |
| Total direct financing lease receivable | $ | 15,150 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

## 5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2018.

| Governmental activities: | Beginning Balance | Additons/ Transfers In | Deletions/ Transfers Out | Reclassifications | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 343,918 | $ 1,091 | $ (1,987) | $ - | $ 343,022 |
| Construction in progress | 44,310 | 24,584 | - | - | 68,894 |
| Total capital assets not depreciated | 388,228 | 25,675 | (1,987) | - | 411,916 |
| Capital assets being depreciated: | | | | | |
| Buildings | 183,641 | 453 | - | - | 184,094 |
| Improvements other than buildings | 314,404 | 2,367 | - | (44,201) | 272,570 |
| Machinery and equipment | 89,501 | 6,352 | (2,826) | (386) | 92,641 |
| Intangibles, depreciable | 219 | - | - | - | 219 |
| Infrastructure | 1,013,776 | 16,838 | (10,772) | - | 1,019,842 |
| Total capital assets being depreciated | 1,601,541 | 26,010 | (13,598) | (44,587) | 1,569,366 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (68,554) | (4,738) | - | - | (73,292) |
| Improvements other than buildings | (116,922) | (12,060) | - | 2,755 | (126,227) |
| Machinery and equipment | (66,530) | (5,900) | 2,766 | 193 | (69,471) |
| Intangibles, depreciable | (88) | (44) | - | - | (132) |
| Infrastructure | (381,397) | (25,197) | 233 | - | (406,361) |
| Total accumulated depreciation | (633,491) | (47,939) | 2,999 | 2,948 | (675,483) |
| Total capital assets being depreciated, net | 968,050 | (21,929) | (10,599) | (41,639) | 893,883 |
| Governmental activities capital assets, net | $ 1,356,278 | $ 3,746 | $ (12,586) | $ (41,639) | $ 1,305,799 |

| Business-type activities: | Beginning Balance | Additons/ Transfers In | Deletions/ Transfers Out | Reclassifications | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not depreciated: | | | | | |
| Land | $ 80,246 | $ 14,654 | $ - | $ - | $ 94,900 |
| Intangibles, non-depreciable | 21,492 | - | - | - | 21,492 |
| Construction in progress | 80,934 | 69,647 | (48,002) | - | 102,579 |
| Total capital assets not depreciated | 182,672 | 84,301 | (48,002) | - | 218,971 |
| Capital assets being depreciated: | | | | | |
| Buildings | 606,984 | 8,256 | (39) | - | 615,201 |
| Improvements other than buildings | 1,695,979 | 57,003 | (2,088) | 44,201 | 1,795,095 |
| Machinery and equipment | 96,617 | 3,550 | (2,464) | 386 | 98,089 |
| Intangibles, depreciable | 24,597 | 1,016 | - | - | 25,613 |
| Total capital assets being depreciated | 2,424,177 | 69,825 | (4,591) | 44,587 | 2,533,998 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (135,847) | (13,134) | 39 | - | (148,942) |
| Improvements other than buildings | (572,788) | (43,883) | 1,996 | (2,755) | (617,430) |
| Machinery and equipment | (59,537) | (6,664) | 2,193 | (193) | (64,201) |
| Intangibles, depreciable | (4,670) | (2,951) | | - | (7,621) |
| Total accumulated depreciation | (772,842) | (66,632) | 4,228 | (2,948) | (838,194) |
| Total capital assets being depreciated, net | 1,651,335 | 3,193 | (363) | 41,639 | 1,695,804 |
| Business-type activities capital assets, net | $ 1,834,007 | $ 87,494 | $ (48,365) | $ 41,639 | $ 1,914,775 |

Depreciation expense was charged to various functions as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 5,394 |
| Public safety | 5,667 |
| Highway and streets, including general infrastructure | 25,951 |
| Culture and recreation | 10,927 |
| Total depreciation expense - governmental activities | $ 47,939 |
| Business-type activities: | |
| Electric | $ 33,585 |
| Water | 14,914 |
| Sewer | 13,621 |
| Entertainment | 975 |
| Airport | 693 |
| Refuse | 1,138 |
| Transportation | 714 |
| Public Parking | 992 |
| Total depreciation expense - business-type activities | $ 66,632 |

## 6. Long-Term Obligations

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

| Governmental activities: | Beginning Balance | Additions | Reclass | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| General obligations bond | $ 11,513 | $ - | $ - | $ (1,125) | $ 10,388 | $ 1,195 |
| Pension obligation bonds | 92,592 | - | (22,210) | (9,499) | 60,883 | 10,435 |
| Certificates of participation | 156,516 | - | - | (5,716) | 150,800 | 5,825 |
| Lease revenue bonds | 37,854 | - | - | (1,608) | 36,246 | 1,560 |
| Loan payable | 41,325 | - | (39,174) | (405) | 1,746 | 417 |
| Capital leases | 17,193 | 14,500 | (2,152) | (3,894) | 25,647 | 4,284 |
| Compensated absences | 22,790 | 16,167 | - | (13,972) | 24,985 | 15,306 |
| Claims liability | 44,945 | 13,690 | - | (12,403) | 46,232 | 9,872 |
| | $ 424,728 | $ 44,357 | $ (63,536) | $ (48,622) | $ 356,927 | $ 48,894 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

| Business-type activities: | Beginning Balance | Additions | Reclass | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| Revenue bonds | $ 1,180,345 | $ - | $ - | $ (40,481) | $ 1,139,864 | $ 33,595 |
| Pension obligation bonds | - | - | 21,656 | (3,332) | 18,324 | 3,550 |
| Notes payable | 35,255 | 8,600 | 39,174 | (4,446) | 78,583 | 4,910 |
| Capital leases | 6,209 | - | 2,152 | (1,540) | 6,821 | 1,568 |
| Water stock acquisition rights | 938 | - | - | - | 938 | 150 |
| Landfill capping | 5,390 | - | - | (620) | 4,770 | 250 |
| Compensated absences | 8,279 | 7,714 | - | (7,397) | 8,596 | 7,671 |
| | $ 1,236,416 | $ 16,314 | $ 62,982 | $ (57,816) | $ 1,257,896 | $ 51,694 |

Governmental activities:

| General Obligation Bonds – Governmental Activities: | Principal Outstanding |
|---|---|
| $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. | $ 10,280 |
| Add: Unamortized bond premium | 108 |
| Total General Obligation Bonds | $10,388 |

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 |
|---|---|---|---|
| 2019 | $ 1,195 | $ 492 | $ 1,687 |
| 2020 | 1,290 | 436 | 1,726 |
| 2021 | 1,380 | 373 | 1,753 |
| 2022 | 1,475 | 306 | 1,781 |
| 2023 | 1,560 | 229 | 1,789 |
| 2024-2028 | 3,380 | 189 | 3,569 |
| Premium | 108 | - | 108 |
| Total | $ 10,388 | $ 2,025 | $ 12,413 |

| Pension Obligation Bonds – Governmental Activities: | Principal Outstanding |
|---|---|
| In 2018, the 2005 and 2017 Taxable Pension Obligation Bonds were distributed between Governmental Activities, Business-Type Activities, and the Successor Agency to properly reflect their proportional share. | |
| $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. | $ 44,400 |
| $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; $3,122 relates to Governmental Activities. | 3,122 |
| $31,960 2017 Taxable Pension Obligation Bonds Series A; 1.25% to 3.125%, due in annual installments from $2,910 to $3,580 through June 1, 2027; $13,704 relates to Governmental Activities. | 13,704 |
| Subtotal | 61,226 |
| Less: Bond Discount | (343) |
| Total Pension Obligation Bonds – Governmental Activities | $60,883 |

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 |
|---|---|---|---|
| 2019 | $ 10,435 | $ 3,126 | $ 13,561 |
| 2020 | 10,675 | 2,591 | 13,266 |
| 2021 | 10,280 | 2,030 | 12,310 |
| 2022 | 11,226 | 1,478 | 12,704 |
| 2023 | 12,247 | 867 | 13,114 |
| 2024-2028 | 6,363 | 504 | 6,867 |
| Discount | (343) | - | (343) |
| Total | $ 60,883 | $ 10,596 | $ 71,479 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

| Certificates of Participation – Governmental Activities: | 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. | $16,485 |
| $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 9. Due in annual installments from $2,900 to $7,200 through March 1, 2037. | 102,000 |
| $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, 2033. | 31,220 |
| Subtotal | 149,705 |
| Plus: Unamortized bond premium | 1,095 |
| Total Certificates of Participation | $150,800 |

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 |
|---|---|---|---|
| 2019 | $ 5,825 | $ 5,694 | $ 11,519 |
| 2020 | 6,120 | 5,468 | 11,588 |
| 2021 | 6,420 | 5,232 | 11,652 |
| 2022 | 6,625 | 4,984 | 11,609 |
| 2023 | 6,835 | 4,728 | 11,563 |
| 2024-2028 | 38,680 | 19,367 | 58,047 |
| 2029-2033 | 47,065 | 11,178 | 58,243 |
| 2034-2038 | 32,135 | 2,601 | 34,736 |
| Premium | 1,095 | - | 1,095 |
| Total | $ 150,800 | $ 59,252 | $ 210,052 |

| 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. | $34,340 |
| Add: Unamortized bond premium | 1,906 |
| Total Lease Revenue Bonds – Governmental Activities | $36,246 |

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:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 1,560 | $ 1,511 | $ 3,071 |
| 2020 | 1,640 | 1,432 | 3,072 |
| 2021 | 1,725 | 1,347 | 3,072 |
| 2022 | 1,810 | 1,259 | 3,069 |
| 2023 | 1,905 | 1,166 | 3,071 |
| 2024-2028 | 10,230 | 4,518 | 14,748 |
| 2029-2033 | 12,630 | 1,921 | 14,551 |
| 2034-2038 | 2,840 | 57 | 2,897 |
| Premium | 1,906 | - | 1,906 |
| Total | $ 36,246 | $ 13,211 | $ 49,457 |

| Loans Payable – Governmental Activities: | Principal Outstanding |
|---|---|
| 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 | |

**For the year ended June 30, 2018** (amounts expressed in thousands)

10 year period, which includes interest at an annualized rate of 3.05%. $1,746

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:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 417 | $ 50 | $ 467 |
| 2020 | 430 | 37 | 467 |
| 2021 | 443 | 24 | 467 |
| 2022 | 456 | 11 | 467 |
| Total | $ 1,746 | $ 122 | $ 1,868 |

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.

Long-Term Obligations at June 30, 2018:

| Revenue Bonds: | Principal Outstanding |
|---|---|
| **Electric** | |
| $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 9 for information on the swap agreements. Bonds are due in annual installments from $700 to $7,835 through October 1, 2035. | $112,515 |
| $209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from $3,460 to $22,540 through October 1, 2038. In May 2018, the Electric Fund defeased $11,005 of the total outstanding $206,280 of 2008 Electric Revenue Bonds, Series D with monies received from settlements and cost recoveries associated with the early closure of the San Onofre Nuclear Generation Station Units 2 and 3 (SONGS). The partial defeasance related to bond proceeds that funded part of the Steam Generator Replacement Project and other SONGS capital costs. The partial bond defeasance will reduce debt and realized interest savings of $10,233 over the remaining 20-year life of the bonds. | 195,275 |
| $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. | 1,275 |
| $140,380 2010 Electric Revenue Bonds; Series A and B fixed rate bonds, 3% to 7.65%, due in annual installments from $95 to $33,725 through October 1, 2040. | 137,940 |
| $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 9. Bonds are due in annual installments from $725 to $5,175 through October 1, 2035. | 41,925 |
| $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. | 39,785 |
| Subtotal | 528,715 |
| Add: Unamortized bond premium | 6,624 |
| Subtotal | $535,339 |
| **Water** | |
| $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. | $55,415 |
| $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. | 7,255 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

| | |
|---|---|
| $67,790 2009 Water Revenue Bonds; Series B fixed rate bonds, 5.1% to 6.3%, due in annual installments from $2,475 to $4,985 through October 1, 2039. | 67,790 |
| $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 9. Bonds are due in annual installments from $600 to $3,950 through October 1, 2035. | 52,425 |
| Subtotal | 182,885 |
| Add: Unamortized bond premium | 1,748 |
| Subtotal | $184,633 |

Sewer

| | |
|---|---|
| $240,910 2009 Sewer Revenue Bonds; Series A & B fixed rate bonds, 4% to 7.2%, due in annual installments from $5,555 to $13,350 through August 1, 2039. | $195,665 |
| $200,030 2015 Sewer Revenue Bonds; Series A fixed rate bonds, 4% to 5%, due in annual installments from $4,790 to $14,175 through August 1, 2040. | 200,030 |
| Subtotal | 395,695 |
| Add: Unamortized bond premium | 24,197 |
| Subtotal | $419,892 |
| Total Revenue Bonds | $1,139,864 |

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:

| | Electric Utility Fund | | | Water Utility Fund | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Total | Principal | Interest | Total |
| 2019 | $ 14,445 | $ 23,086 | $ 37,531 | $ 5,635 | $ 7,352 | $ 12,987 |
| 2020 | 14,995 | 22,516 | 37,511 | 5,865 | 7,120 | 12,985 |
| 2021 | 15,535 | 21,955 | 37,490 | 6,080 | 6,889 | 12,969 |
| 2022 | 16,085 | 21,371 | 37,456 | 6,320 | 6,658 | 12,978 |
| 2023 | 16,675 | 20,758 | 37,433 | 6,535 | 6,426 | 12,961 |
| 2024-2028 | 93,830 | 92,890 | 186,720 | 36,630 | 28,032 | 64,662 |
| 2029-2033 | 115,230 | 70,709 | 185,939 | 44,420 | 20,007 | 64,427 |
| 2034-2038 | 133,885 | 42,946 | 176,831 | 54,120 | 10,002 | 64,122 |
| 2039-2043 | 105,410 | 9,385 | 114,795 | 17,280 | 595 | 17,875 |
| 2044-2048 | 2,625 | 66 | 2,691 | - | - | - |
| Premium | 6,624 | - | 6,624 | 1,748 | - | 1,748 |
| Total | $ 535,339 | $ 325,682 | $ 861,021 | $ 184,633 | $ 93,081 | $ 277,714 |

| | Sewer Utility Fund | | |
|---|---|---|---|
| Fiscal Year | Principal | Interest | Total |
| 2019 | $ 13,515 | $ 18,488 | $ 32,003 |
| 2020 | 14,075 | 17,929 | 32,004 |
| 2021 | 10,820 | 17,372 | 28,192 |
| 2022 | 11,345 | 16,844 | 28,189 |
| 2023 | 11,905 | 16,289 | 28,194 |
| 2024-2028 | 68,835 | 72,128 | 140,963 |
| 2029-2033 | 87,445 | 53,517 | 140,962 |
| 2034-2038 | 111,180 | 29,779 | 140,959 |
| 2039-2043 | 66,575 | 4,339 | 70,914 |
| Premium | 24,197 | | 24,197 |
| Total | $ 419,892 | $ 246,685 | $ 666,577 |

| Pension Obligation Bonds – Business Type Activities: | Principal Outstanding |
|---|---|
| In 2018, the 2005 and 2017 Taxable Pension Obligation Bonds were distributed between Governmental Activities, Business-Type Activities, and the Successor Agency to properly reflect their proportional share. | |
| $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. $3,400 relates to Business Type Activities. | $3,400 |

$31,960 2017 Taxable Pension Obligation Bonds Series A; 1.25% to 3.125%, due in annual installments from

**For the year ended June 30, 2018** (amounts expressed in thousands)

| | |
|---|---|
| $2,910 to $3,580 through June 1, 2027. $14,924 relates to Business Type Activities. | 14,924 |
| Total Pension Obligation Bonds – Business Type Activities | $18,324 |

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 3,550 | $ 553 | $ 4,103 |
| 2020 | 2,952 | 432 | 3,384 |
| 2021 | 1,595 | 331 | 1,926 |
| 2022 | 1,629 | 297 | 1,926 |
| 2023 | 1,668 | 256 | 1,924 |
| 2024-2028 | 6,930 | 549 | 7,479 |
| Total | $ 18,324 | $ 2,418 | $ 20,742 |

| 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 | $ 978 |
| 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 | 469 |
| 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. | 18,256 |
| Notes payable consists of several agreements with Hillwood Enterprises, L.P. (Hillwood) for its development of logistic centers located in the City of San Bernardino. As part of these agreements, the Water fund purchased land from Hillwood and subsequently leased it back to the entity. In addition, the agreements require Hillwood to relocate wells located on the properties as well as terminate an existing lease. In consideration of the cost of the land purchase, well relocations and lease termination, the Water fund will make payments to Hillwood in a form of a credit with Hillwood's rental payments to the Water fund for the first 15 years of the leases. | 21,524 |
| 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 9. 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. | 37,356 |
| Total notes payable – Enterprise Funds | $78,583 |

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:

Sewer Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 788 | $ 28 | $ 816 |
| 2020 | 326 | 14 | 340 |
| 2021 | 333 | 7 | 340 |
| Total | $ 1,447 | $ 49 | $ 1,496 |

Public Parking Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 1,054 | $ 693 | $ 1,747 |
| 2020 | 1,095 | 652 | 1,747 |
| 2021 | 1,137 | 609 | 1,746 |
| 2022 | 1,182 | 565 | 1,747 |
| 2023 | 1,227 | 519 | 1,746 |
| 2024-2028 | 6,892 | 1,842 | 8,734 |
| 2029-2033 | 5,669 | 445 | 6,114 |
| Total | $ 18,256 | $ 5,325 | $ 23,581 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

Water Fund

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 1,202 | $ 556 | $ 1,758 |
| 2020 | 1,273 | 524 | 1,797 |
| 2021 | 1,348 | 490 | 1,838 |
| 2022 | 1,428 | 455 | 1,883 |
| 2023 | 1,511 | 415 | 1,926 |
| 2024-2028 | 8,970 | 1,389 | 10,359 |
| 2029-2033 | 5,792 | 212 | 6,004 |
| Total | $ 21,524 | $ 4,041 | $ 25,565 |

Convention Center

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2019 | 1,866 | 1,170 | 3,036 |
| 2020 | 1,935 | 1,102 | 3,037 |
| 2021 | 1,987 | 1,049 | 3,036 |
| 2022 | 2,048 | 989 | 3,037 |
| 2023 | 2,110 | 926 | 3,036 |
| 2024-2028 | 11,561 | 3,621 | 15,182 |
| 2029-2033 | 13,459 | 1,722 | 15,181 |
| 2034-2038 | 2,390 | 76 | 2,466 |
| Total | 37,356 | 10,655 | 48,011 |

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.

The assets acquired through capital leases are as follows:

| Asset | Governmental Activities | Business-type Activities |
|---|---|---|
| Buildings and improvements | $ 1,103 | $ 728 |
| Machinery and equipment | 32,493 | 6,086 |
| Subtotal | 33,596 | 6,814 |
| Less: Accumulated depreciation | (10,817) | (3,024) |
| Total | $ 22,779 | $ 3,790 |

The future minimum lease obligations as of June 30, 2018 were as follows:

| Fiscal Year | Governmental Activities | Business-type Activities |
|---|---|---|
| 2019 | $ 4,821 | $ 1,700 |
| 2020 | 3,640 | 1,687 |
| 2021 | 3,640 | 1,378 |
| 2022 | 3,640 | 819 |
| 2023 | 2,808 | 626 |
| Thereafter | 9,478 | 1,039 |
| Total minimum lease payments | 28,027 | 7,249 |
| Less: Amount representing interest (rates ranging from 1.2% to 9%) | (2,380) | (428) |
| Total capital lease payable | $ 25,647 | $ 6,821 |

| 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:

| Debt Issue | LOC Provider | LOC Expiration Date | Annual Commitment Fee |
|---|---|---|---|
| 2008 Certificates of Participation | Bank of America, N.A. | 2021 | 0.400% |
| 2008A Electric Revenue Bonds | Barclays Bank, PLC | 2021 | 0.325% |
| 2008C Electric Revenue Bonds | Barclays Bank, PLC | 2021 | 0.325% |

**For the year ended June 30, 2018** (amounts expressed in thousands)

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 with principal to be paid quarterly not to exceed a 5-year period. The City would be required to pay annual interest equal to the highest of 8.0%, the Prime Rate plus 2.50%, the Federal Funds Rate plus 2.50% and 150% of the yield on the 30-year U.S. Treasury Bond. 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.

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, 2018:

| | | |
|---|---|---|
| Governmental long-term obligations: | | |
| Certificates of participation | $ | 8,771 |
| Total | $ | 8,771 |
| | | |
| Enterprise funds: | | |
| Electric | $ | 10,800 |
| Sewer | | 16,508 |
| Total | $ | 27,308 |

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 | 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 06/30/18 |
|---|---|---|---|---|
| Electric revenues | $ 110,331 | * | $ 40,720 | $ 2.71 |
| Water revenues | 30,287 | * | 14,147 | 2.14 |
| Sewer revenues | 37,221 | ** | 28,320 | 1.31 |

* Excludes non-cash pension expense
** 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, 2018 was 100%. The remaining post closure period is currently 12 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% (subject to $100 minimum) 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 general liability insurance coverage in the amount of $20,000 per occurrence 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.

**For the year ended June 30, 2018** (amounts expressed in thousands)

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, 2016 | $ 43,269 |
| Incurred claims (including IBNR's) | 10,284 |
| Claim payments and adjustments | (8,608) |
| Unpaid claims, June 30, 2017 | 44,945 |
| Incurred claims (including IBNR's) | 13,690 |
| Claim payments and adjustments | (12,403) |
| Unpaid claims, June 30, 2018 | $ 46,232 |

8. 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):

| | Beginning Balance | Additions | Reclass | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| Successor Agency Bonds | $ 217,147 | $ - | $ - | $ (9,788) | $ 207,359 | $ 9,320 |
| Pension obligation bonds | - | | 554 | | 554 | - |
| Notes Payable | 4,728 | - | - | (390) | 4,338 | 448 |
| | $ 221,875 | $ - | $ 554 | $ (10,178) | $ 212,251 | $ 9,768 |

| Successor Agency Bonds: | Principal Outstanding |
|---|---|
| $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. | 12,835 |
| $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. | 2,090 |
| $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, 2025; $4,980 term bonds at 4.5% due Aug. 1, 2029; $410 term bonds at 4.375% due Aug. 1, 2037. | 8,120 |
| $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. | 10,800 |
| $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. | 83,885 |
| $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. | 28,135 |

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. 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,

**For the year ended June 30, 2018** (amounts expressed in thousands)

| | |
|---|---|
| 2034. The rate of interest varies from 0.6% to 5% per annum. | 51,040 |
| Subtotal | 196,905 |
| Add: Unamortized bond premium | 10,454 |
| Total Successor Agency Bonds | $207,359 |

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 |
|---|---|---|---|
| 2019 | $ 9,320 | $ 9,778 | $ 19,098 |
| 2020 | 9,830 | 9,288 | 19,118 |
| 2021 | 10,805 | 8,762 | 19,567 |
| 2022 | 11,405 | 8,197 | 19,602 |
| 2023 | 11,945 | 7,600 | 19,545 |
| 2024-2028 | 56,525 | 28,833 | 85,358 |
| 2029-2033 | 45,560 | 15,956 | 61,516 |
| 2034-2038 | 41,515 | 4,962 | 46,477 |
| Premium | 10,454 | - | 10,454 |
| Total | $ 207,359 | $ 93,376 | $ 300,735 |

| Pension Obligation Bonds – Successor Agency: | Principal Outstanding |
|---|---|
| In 2018, the 2005 and 2017 Taxable Pension Obligation Bonds were distributed between Governmental Activities, Business-Type Activities, and the Successor Agency to properly reflect their proportional share. | |
| $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; $133 relates to the Successor Agency. | 133 |
| $31,960 2017 Taxable Pension Obligation Bonds Series A; 1.25% to 3.125%, due in annual installments from $2,910 to $3,580 through June 1, 2027; $421 relates to the Successor Agency. | 421 |
| Total Pension Obligation Bonds – Successor Agency | $554 |

| 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. | 420 |
| 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 | $ 4,338 |

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 |
|---|---|---|---|
| 2019 | $ 448 | $ 320 | $ 768 |
| 2020 | 31 | 310 | 341 |
| 2021 | 34 | 307 | 341 |
| 2022 | 38 | 304 | 342 |
| 2023 | 42 | 300 | 342 |
| 2024-2028 | 1,217 | 1,423 | 2,640 |
| 2029-2033 | 471 | 1,238 | 1,709 |
| 2034-2038 | 777 | 933 | 1,710 |
| 2039-2043 | 1,280 | 430 | 1,710 |
| Total | $ 4,338 | $ 5,565 | $ 9,903 |

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 year ended June 30, 2018** (amounts expressed in thousands)

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 06/30/18 |
|---|---|---|---|
| Property Taxes: | | | |
| Non-Housing | $ 56,415 | $ 14,307 | 3.94 |
| Housing | 10,358 | 2,353 | 4.40 |

* The computations above are based on the total tax increment generated for the year ended June 30, 2018 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, 2018, the City has several series of Assessment District and Community Facility District Bonds outstanding in the amount of $42,375. 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.

9. 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, 2018:

| | Notional Amount | Fair Value as of 06/30/18 | Change in Fair Value for Fiscal Year |
|---|---|---|---|
| Governmental activities | | | |
| 2008 Renaissance Certificates of Participation | $ 102,000 | $ (13,977) | $ 5,521 |
| Business-type activities | | | |
| 2008 Electric Refunding/Revenue Bonds Series A | 68,525 | (4,777) | 2,888 |
| 2008 Electric Refunding/Revenue Bonds Series C | 41,975 | (5,235) | 2,207 |
| 2011 Electric Refunding/Revenue Bonds Series A | 41,925 | (5,216) | 2,202 |
| 2011 Water Refunding/Revenue Bonds Series A | 52,425 | (5,593) | 2,600 |
| 2012 Convention Center Financing | 35,045 | 299 | 1,165 |

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 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.

**For the year ended June 30, 2018** (amounts expressed in thousands)

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, 2018, 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: | | | |
| Fixed payment to counterparty | 3.11100% | 3.20400% | 3.20100% |
| Variable payment from counterparty | -0.47498% | -0.47558% | -0.44435% |
| Net interest rate swap payments | 2.63602% | 2.72842% | 2.75665% |
| Variable rate bond coupon payments | 0.39419% | 0.39465% | 0.36625% |
| Synthetic interest rate on bonds | 3.03021% | 3.12307% | 3.12290% |

| | 2011 Water Refunding/ Revenue Bonds Series A | 2008 Renaissance COPs | 2012 Convention Center Financing |
|---|---|---|---|
| | Rates | Rates | Rates |
| Interest rate swap: | | | |
| Fixed payment to counterparty | 3.20000% | 3.36200% | 3.24000% |
| Variable payment from counterparty | -0.41887% | -0.43840% | -1.90203% |
| Net interest rate swap payments | 2.78113% | 2.92360% | 1.33797% |
| Variable rate bond coupon payments | 0.32721% | 0.41818% | 1.90203% |
| Synthetic interest rate on bonds | 3.10834% | 3.34178% | 3.24000% |

Fair Value: As of June 30, 2018, in connection with all swap arrangements, the transactions had a combined net negative fair value of ($34,499). 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, 2018, 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, 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, 2018, 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.

For the year ended June 30, 2018 (amounts expressed in thousands)

| | Variable-Rate Bonds | | | |
|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Interest Rate Swaps, Net | Total |
| 2019 | $ 13,516 | $ 1,905 | $ 9,344 | $ 24,765 |
| 2020 | 16,610 | 1,809 | 8,917 | 27,336 |
| 2021 | 17,262 | 1,718 | 8,458 | 27,438 |
| 2022 | 17,823 | 1,621 | 7,979 | 27,423 |
| 2023 | 18,310 | 1,519 | 7,488 | 27,317 |
| 2024-2028 | 88,561 | 6,103 | 30,579 | 125,243 |
| 2029-2033 | 102,849 | 3,308 | 17,655 | 123,812 |
| 2034-2038 | 71,290 | 473 | 3,468 | 75,231 |
| Total | $ 346,221 | $ 18,456 | $ 93,888 | $ 458,565 |

10. Economic Contingency

A portion of fund balance has been committed within the General Fund for future economic contingencies. The amount that has been set aside is equal to approximately 20% of the 2018-2019 General Fund adopted expenditure budget.

11. 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, 2018:

| Receivable Funds | Payable Funds | Amount |
|---|---|---|
| General Fund | Nonmajor Governmental Funds | $ 633 |
| | Nonmajor Enterprise Funds | 225 |
| | | 858 |
| Electric Fund | Central Stores Fund * | 305 |
| Water Fund | Central Stores Fund * | 131 |
| Total | | $ 1,294 |

* 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, 2018:

| Receivable Funds | Payable Funds | Amount |
|---|---|---|
| Sewer Fund | Nonmajor Governmental Funds | $ 3,992 |
| Self-Insurance Trust Fund * | Central Garage Fund* | 335 |
| Central Garage Fund * | Nonmajor Governmental Funds | 2,068 |
| Total | | $ 6,395 |

* Internal service fund

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

| Receivable Funds | Amount |
|---|---|
| Nonmajor Governmental Funds | 3,327 |
| Electric Fund | 4,227 |
| Total | $ 7,554 |

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, 2018:

**For the year ended June 30, 2018** (amounts expressed in thousands)

| Transfers In Funds | Transfers Out Funds | Amount |
|---|---|---|
| General Fund | Nonmajor Governmental Funds | $ 12,186 |
| | Electric Fund | 40,073 |
| | Water Fund | 6,173 |
| | Sewer Fund | 900 |
| | | 59,332 |
| Capital Outlay Fund | General Fund | 6,276 |
| | Nonmajor Governmental Funds | 36 |
| | | 6,312 |
| Nonmajor Governmental Funds | General Fund | 31,041 |
| | Capital Outlay Fund | 3,004 |
| | Nonmajor Governmental Funds | 57 |
| | Nonmajor Enterprise Funds | 3,028 |
| | | 37,130 |
| Nonmajor Enterprise Funds | General Fund | 8,421 |
| | Nonmajor Enterprise Funds | 1,721 |
| | Governmental Activities ** | 294 |
| | | 10,436 |
| Liability Insurance Trust Fund * | General Fund | 5,000 |
| | Total | $ 118,210 |

* Internal service fund
** Transfer of assets, net ($41,639) and liabilities ($41,345) from Governmental Activities rela establishment of the Civic Entertainment Fund

## 12. Deficit Net Position

Deficit net position exists in the Self-Insurance Internal Service Fund ($30,624). This City adopted a Self-Insurance Reserve Policy that will address the on-going deficit in fund balance. In the past, the City began funding a portion of the deficit in the internal service fund via self-insurance rate increases phased in over several 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. However, the Self-Insurance Reserve Policy specifically address minimum cash balance requirements in the Self-Insurance Trust Fund in-line with best practices. In conjunction with the new reserve policy, City Council has approved a funding plan to increase the cash reserve balances over the next two fiscal years. The plan calls for cash contributions of $2,500 for the next fiscal year. Implementation of the reserve policy, the cash funding approved by City Council and the increased rates should provide the fund greater financial stability for future needs.

Deficit net position exists in the Successor Agency Private-Purpose Trust Fund ($149,658). 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.

## 13. 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.

## 14. 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 Management) - The retirement formula is 3% at age 50 for employees hired on or before February 16, 2012 (RPOA, RPAA Management) or June 8, 2012 (RPOA Supervisory). Effective January 1, 2018, employees were required to pay 1.5% of their pensionable income, with the City contributing the other 7.5%. Only in the event that annual wages increase in excess of 2%, will the following apply: Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 1.5% (2019), 1.5% (2020) and 1.5% (2021). By 2021, employees will be contributing 6% of their pensionable income, with the City contributing the other 3%.

- 2nd Tier (RPOA, RPOA Supervisory & RPAA Management) - The retirement formula is 3% at age 50 for RPOA and RPAA Management employees hired on or after February 17, 2012 and RPOA Supervisory employees hired on or after June 8, 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 normal cost to CalPERS which is currently at 11.50%. 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. Effective January 1, 2019, employees will be required to pay a portion of their pensionable income. This portion is a three year increase of 2.5% (2019), 2.5% (2020) and 3% (2021). By 2021, employees will be contributing 8% of their pensionable income.
- 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. A new member, as defined by the Public Employees' Pension Reform Act (PEPRA), hired on or after January 1, 2013 pay 50% of the normal cost to CalPERS which is currently 11.50% of compensation.

Miscellaneous:

- 1st Tier –
  - The retirement formula is 2.7% at age 55 for employees hired on or before October 18, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units, excluding the Chief of Police and the Fire Chief), the employees were required to pay 2% of their pensionable income, with the City contributing the other 6%. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2% (2019), 2% (2020) and 2% (2021). By 2021, employees will be contributing the entire 8% of their pensionable income.

  - The retirement formula is 2.7% at age 55 for SEIU and SEIU Refuse employees hired before June 7, 2011. Currently, employees are required to pay 6% of their pensionable income with the City contributing the other 2%. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a two year increase of 1% (2019) and 1% (2020). By 2020, employees will be contributing the entire 8% of their pensionable income.

  - The retirement formula is 2.7% at age 55 for IBEW and IBEW Supervisory employees hired on or before October 18, 2011. Effective November 1, 2017 employees were required to pay 2% of their total pensionable income with the City paying the remaining 6%. Effective each November 1st, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2% (2018), 2% (2019) and 2% (2020). By November 2020, employees will be contributing the entire 8% of their pensionable income.

- 2nd Tier - The retirement formula is 2.7% at age 55, and:
  - Miscellaneous employees, IBEW, and IBEW Supervisory hired on or after October 19, 2011 pay their share (8%) of contributions.
  - SEIU and SEIU Refuse employees hired on or after June 7, 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 normal cost to CalPERS which is currently at 7%. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

**For the year ended June 30, 2018** (amounts expressed in thousands)

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, 2017, the following employees were covered by the benefit terms of each Plan: Inactive employees or beneficiaries currently receiving benefits are 2,114 and 766 for the Miscellaneous and Safety Plans, respectively. Inactive employees entitled to but not yet receiving benefits are 1,325 and 165 for Miscellaneous and Safety Plans, respectively. Active employees were 1,599 and 556 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 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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2016 actuarial valuations were determined using the following actuarial assumptions:

| | Miscellaneous | Safety |
|---|---|---|
| Valuation Date | June 30, 2016 | June 30, 2016 |
| Measurement Date | June 30, 2017 | June 30, 2017 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | |
| Actuarial Assumptions | | |
| Discount Rate | 7.15% | 7.15% |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.0% | 3.0% |
| Projected Salary Increase | Depending on age, service, and type of employment. | |
| Investment Rate of Return | 7.50% (1) | 7.50% (1) |
| Mortality | The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. | |

(1) 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, 2017 was 7.15% a reduction from the previous discount rate of 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.

(amounts expressed in thousands)

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.

| Asset Class | Current Target Allocation | Real Return Years 1 - 10 (1) | Real Return Years 11+ (2) |
|---|---|---|---|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Global Fixed Income | 19.00% | 0.80% | 2.27% |
| Inflation Sensitive | 6.00% | 0.60% | 1.39% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | -0.40% | -0.90% |

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

(G) Changes in the Net Pension Liability

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

*Miscellaneous*

| | Increase (Decrease) Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
|---|---|---|---|
| Balance at June 30, 2017 | $ 1,261,562 | $ 952,062 | $ 309,500 |
| Changes in the year: | | | |
| Service Cost | 24,766 | - | 24,766 |
| Interest on Total Pension Liability | 92,725 | - | 92,725 |
| Changes of Assumptions | 79,037 | - | 79,037 |
| Differences between Expected and Actual Experience | (26,068) | - | (26,068) |
| Net Plan to Plan Resource Movement | | 116 | (116) |
| Contribution - employer | - | 30,477 | (30,477) |
| Contribution - employee | - | 6,115 | (6,115) |
| Net Investment Income | - | 104,771 | (104,771) |
| Benefit Payments, including Refunds of Employee Contributions | (60,108) | (60,108) | - |
| Administrative Expenses | - | (1,406) | 1,406 |
| Net Changes | 110,352 | 79,965 | 30,387 |
| Balance at June 30, 2018 | $ 1,371,914 | $ 1,032,027 | $ 339,887 |

*Safety*

| | Increase (Decrease) Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
|---|---|---|---|
| Balance at June 30, 2017 | $ 936,802 | $ 695,450 | $ 241,352 |
| Changes in the year: | | | |
| Service Cost | 21,373 | - | 21,373 |
| Interest on Total Pension Liability | 70,337 | - | 70,337 |
| Changes of Assumptions | 59,768 | - | 59,768 |
| Differences between Expected and Actual Experience | (18) | - | (18) |
| Net Plan to Plan Resource Movement | - | (119) | 119 |
| Contribution - employer | - | 26,775 | (26,775) |
| Contribution - employee | - | 2,449 | (2,449) |
| Net Investment Income | - | 76,844 | (76,844) |
| Benefit Payments, including Refunds of Employee Contributions | (47,009) | (47,009) | - |
| Administrative Expenses | - | (1,027) | 1,027 |
| Net Changes | 104,451 | 57,913 | 46,538 |
| Balance at June 30, 2018 | $ 1,041,253 | $ 753,363 | $ 287,890 |

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:

(amounts expressed in thousands)

*Miscellaneous*

| | Discount Rate -1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate +1% (8.15%) |
|---|---|---|---|
| Plan's Net Pension Liability/(Asset) | $ 531,959 | $ 339,887 | $ 182,557 |

*Safety*

| | Discount Rate -1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate +1% (8.15%) |
|---|---|---|---|
| Plan's Net Pension Liability/(Asset) | $ 433,466 | $ 287,890 | $ 168,802 |

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

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

For the year ended June 30, 2018, the City recognized pension expense of $54,879. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| *Miscellaneous* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date, net | $ 29,948 | $ - |
| Changes of assumptions | 56,380 | |
| Differences between expected and actual experience | - | (22,573) |
| Net differences between projected and actual earnings on plan investments | 14,658 | - |
| Total | $ 100,986 | $ (22,573) |

| *Safety* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date, net | $ 25,286 | $ - |
| Differences between actual and actuarial determined contributions | - | - |
| Changes of assumptions | 40,812 | |
| Differences between expected and actual experience | - | (4,721) |
| Net differences between projected and actual earnings on plan investments | 10,715 | - |
| Total | $ 76,813 | $ (4,721) |

$55,233 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, 2018.

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:

| | Deferred Outflows/(Inflows) of Resources | |
|---|---|---|
| Fiscal Year | Miscellaneous | Safety |
| 2018 | $ 10,283 | $ 7,312 |
| 2019 | 30,838 | 22,099 |
| 2020 | 14,902 | 17,531 |
| 2021 | (7,558) | (137) |

## 15. Other Post-Employment Benefits (OPEB)

*Plan description* - The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*Benefits provided* - Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. 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 benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retirees becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility ago, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

**For the year ended June 30, 2018** (amounts expressed in thousands)

Employees covered by benefit terms – At June 30, 2017, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive plan members or beneficiaries currently receiving benefits | 304 |
| Active plan members | 2,121 |
| Total | 2,425 |

Significant Actuarial Assumptions Used in Calculating the Total OPEB Liability

The total OPEB liability was determined by actuarial valuation as of June 30, 2017 using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date: | June 30, 2017 |
| Measurement Date: | June 30, 2017 |
| Funding Policy: | Pay-as-you-go for implicit rate subsidy |
| Discount Rate: | 3.40% per annum. This discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index. |
| Inflation Rate: | 2.75% per annum |
| Salary Inflation: | 3.0% per annum |
| Salary Increases | The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used |
| Mortality | CalPERS 2014 Experience Study |

Sensitivity analysis of total OPEB liability for healthcare cost trend rates

The following presents the total OPEB liability, calculating using the healthcare cost trend rate of 6.00%/HMO and 6.50%/PPO, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

| | 1% Decrease | Current healthcare cost trend rates | 1% Increase |
|---|---|---|---|
| Total OPEB liability | $ 33,065 | $ 36,786 | $ 41,136 |

Sensitivity analysis of total OPEB liability for discount rates

The following presents the total OPEB liability, calculating using the discount rate of 3.40%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percenrtage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current rate:

| | 1% Decrease | Current discount rate | 1% Increase |
|---|---|---|---|
| Total OPEB liability | $ 39,886 | $ 36,786 | $ 33,967 |

Change in total OPEB liability

For fiscal year 2018, the City recognized total OPEB expense of $3,436. The following table shows the change in the total OPEB liability for the year ended June 30, 2018:

| | 2017 |
|---|---|
| Beginning total OPEB liability | $ 36,542 |
| Service cost | 2,554 |
| Interest | 1,090 |
| Changes of assumptions | (1,668) |
| Benefit of implied subsidy payments | (1,732) |
| Net changes | 244 |
| Ending total OPEB liability | $ 36,786 |

Deferred outflows/inflows of Resources

At June 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred inflows of resources |
|---|---|
| Changes of assumptions | $ 1,459 |
| Total | $ 1,459 |

**For the year ended June 30, 2018** (amounts expressed in thousands)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending June 30, | Deferred inflows of resources |
|---|---|
| 2018 | $ (209) |
| 2019 | (209) |
| 2020 | (209) |
| 2021 | (209) |
| 2022 | (209) |
| Thereafter | (414) |
| | $ (1,459) |

16. Commitments and Contingencies

Intermountain Power Agency

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's 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, known as Intermountain Power Project (IPP), 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 and other fixed costs. Such payments are considered a cost of production.

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource. On June 16, 2015, the City Council approved the Intermountain Power Project renewal agreements, including the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract, and authorized participation in the IPP renewal subscription process. The Second Amendatory Power Sales Contract became effective March 16, 2016. The generation component of IPP under the Renewal Power Sales Contract (Repower Project) is envisioned to be a natural gas fueled combined cycle plant with total capacity of 1,200 MW. The Renewal Power Sales Contract contemplates a term of fifty years, through June 2077 for the Repower Project. The Electric Utility is authorized to participate in the subscription process for up to 5 percent of the Repower Project or approximately 60 MW. On January 5, 2017, the Electric Utility executed the Renewal Power Sales Contract and all other necessary documents for the first two rounds of the subscription process. The Electric Utility accepted an offer of 4.167 percent entitlement or 50 MW generation capacity in the IPP Repower Project based on the 1,200 MW designed capacity, which is within the maximum participation level approved by the City Council. The Electric Utility's corresponding Southern Transmission System allocation is 5.278 percent or approximately 127 MW. The IPP Repower Project renewal subscription process was completed after two rounds on January 17, 2017 and all entitlements in the project were fully subscribed. The Electric Utility's reduced power would allow it to diversify its energy portfolio in the future. Further, under the Renewal Power Sales Contract, the Electric Utility has the right to exit from the Repower Project by no later than November 1, 2019, if it is determined that the Repower Project is not cost beneficial to its customers.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

| Project | Percent Share | Entitlement | Final Maturity | Contract Expiration |
|---|---|---|---|---|
| Palo Verde Nuclear Generating Station | 5.40% | 12.3 MW | 2017 | 2030 |
| Southern Transmission System | 10.20% | 244.0 MW | 2027 | 2027 |
| Mead-Phoenix Transmission | 4.00% | 18.0 MW | 2020 | 2030 |
| Mead-Adelanto Transmission | 13.50% | 118.0 MW | 2020 | 2030 |

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.

The outstanding debts associated with the take-or-pay obligations have fixed interest rates which range from 1.43 percent to 5.75 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.

| | IPA | SCPPA | | | TOTAL |
|---|---|---|---|---|---|
| Debt Service Payment (in thousands) Year Ending June 30, | Intermountain Power Project | Southern Transmission System | Mead-Phoenix Transmission | Mead-Adelanto Transmission | All Projects |
| 2019 | 17,345 | 7,893 | 257 | 2,881 | 28,376 |
| 2020 | 17,232 | 6,913 | 254 | 2,859 | 27,258 |
| 2021 | 15,829 | 7,926 | 189 | 2,136 | 26,080 |
| 2022 | 10,834 | 9,448 | - | - | 20,282 |
| 2023 | 8,059 | 7,258 | - | - | 15,317 |
| 2024-2028 | 840 | 20,175 | - | - | 21,015 |
| Total | $ 70,139 | $ 59,613 | $ 700 | $ 7,876 | $ 138,328 |

In addition to debt service, the Electric Utility'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, 2018 is as follows (in thousands):

| FISCAL YEAR | Intermountain Power Project | Palo Verde Nuclear Generating Station | Southern Transmission System | Hoover Dam Uprating | Mead-Phoenix Transmission | Mead-Adelanto Transmission | All Projects |
|---|---|---|---|---|---|---|---|
| 2018 | $ 20,755 | $ 3,653 | $ 3,529 | $ 14 | $ 58 | $ 302 | $28,311 |
| 2017 | $ 23,000 | $ 3,285 | $ 2,712 | $ 58 | $ 64 | $ 254 | $29,373 |

These costs are included in production and purchased power or transmission expense on the Statements of Revenues, Expenses and Changes in Net Position.

The Electric Utility has become a Participating Transmission Owner with the California Independent System Operator (CAISO) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return, users of the California's high voltage transmission grid are charged for, and the Electric Utility receives reimbursement for, transmission revenue requirements, including the costs associated with these three transmission projects.

Hoover Uprating Project

The Electric Utility's entitlement in the Hoover project through SCPPA will terminate on September 30, 2017. In March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project Visitors Center and Air Slots. The payment of principal and interest on the debt is a component of the cost of power and energy payable by Hoover contractors, which includes SCPPA participants that receive power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt bears interest at rates that are substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the debt is recorded on the statements of net position as unamortized purchased power to be amortized over the remaining term of the project through 2017. As of June 30, 2018, the balance was fully amortized.

On August 23, 2016, the City Council approved a 50-year Electric Service Contract (ESC) and an Amended and Restated Implementation Agreement (IA) with the Western Area Power Administration (Western), Bureau of Reclamation for 30 MW of hydroelectric power. The contract with Western will be effective October 1, 2017. The ESC extends the Electric Utility's 30 MW entitlement in the Hoover project an additional 50 years. The IA is a supplemental agreement to the ESC that establishes administrative, budgetary and project oversight by creating project committees and process for decision making plant operations.

Nuclear Insurance

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective April 7, 2018, the Act limits liability from third-party claims to approximately $13.1 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Electric Utility would be responsible for a maximum assessment of $5.8 million, limited to payments of $0.9 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

Renewable Portfolio Standards (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislative and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33 percent by December 31, 2020 in three stages: average of 20 percent of retail sales during 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility met the 20 percent mandates from 2011-2013 and the 25 percent mandate by December 31, 2016. The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan. For calendar year 2017, renewable resources provided 36 percent of retail sales requirements.

On September 11, 2015, California legislature passed Senate Bill 350 (SB 350) increasing the RPS mandate beyond December 31, 2020 above 33 percent to 50 percent by December 31, 2030. SB 350 was signed into law by the Governor on October 7, 2015. The Electric Utility expects to be able to substantially meet the increased RPS mandates imposed by SB 350 with the portfolio of renewable resources outlined below.

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

On September 10, 2018, the 100 Percent Clean Energy Act of 2018 (SB 100) was signed. This bill further increases the RPS goals of SBX1-2 and SB 350 by maintaining the 33 percent RPS target by December 31, 2020, while modifying the RPS percentages to be 44 percent by December 31, 2024, 52 percent by December 31, 2027, 60 percent by December 31, 2030, with an end goal of 100 percent of total retail sales of electricity in California generated from eligible renewable energy resources and zero-carbon resources by December 31, 2045. It is expected that the CEC will have further guidance and enforcement procedures for POUs. RPU will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

Long-term renewable PPAs and PSAs in operation (dollars in thousands):

| Supplier | Type | Maximum Contract [1] | Contract Expiration | Estimated Annual Cost For 2019 |
|---|---|---|---|---|
| Salton Sea Power LLC | Geothermal | 46.0 MW | 5/31/2020 | $ 29,165 |
| Wintec Energy, Ltd. | Wind | 1.3 MW | 12/30/2018 | 124 |
| WKN Wagner | Wind | 6.0 MW | 12/22/2032 | 1,318 |
| SunEdison - AP North Lake | Photovoltaic | 20.0 MW | 8/11/2040 | 4,623 |
| Dominion - Columbia II | Photovoltaic | 11.1 MW | 12/22/2034 | 2,314 |
| GlidePath Power Solutions - GPS Cabazon Wind LLC | Wind | 39.0 MW | 1/1/2025 | 4,299 |
| Capital Dynamics - Kingbird Solar B, LLC | Photovoltaic | 14.0 MW | 12/31/2036 | 2,867 |
| FTP Solar | | | | |
| sPower - Summer Solar | Photovoltaic | 10.0 MW | 12/31/2041 | 1,748 |
| sPower - Antelope Big Sky Ranch | Photovoltaic | 10.0 MW | 12/31/2041 | 1,748 |
| sPower - Antelope DSR 1 Solar | Photovoltaic | 25.0 MW | 12/19/2036 | 3,826 |
| Capital Dynamics - Tequesquite Landfill Solar | Photovoltaic | 7.3 MW | 12/31/2040 | 1,341 |
| American Renewable Power-Loyalton | Biomass | 0.8 MW | 4/19/2023 | 615 |
| CalEnergy - Salton Sea Portfolio Phase 1 | Geothermal | 20.0 MW | 12/31/2039 | 12,187 |
| Total | | 210.5 MW | | $ 66,175 |

[1] All contracts are contingent on energy delivery from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

Long-term renewable PPAs with expected delivery:

| Supplier | Type | Maximum Contract [1] | Expected Delivery | Energy Delivery No Later Than | Contract Term In Years |
|---|---|---|---|---|---|
| CalEnergy - Salton Sea Portfolio Phase 2 | Geothermal | 20.0 MW | 1/1/2019 | 1/1/2019 | 21 |
| CalEnergy - Salton Sea Portfolio Phase 3 | Geothermal | 46.0 MW | 6/1/2020 | 6/1/2020 | 20 |
| Total | | 66.0 MW | | | |

**For the year ended June 30, 2018** (amounts expressed in thousands)

[1] All contracts are contingent on energy delivered from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

Cap-and-Trade Program

Assembly Bill (AB) 32, enacted in 2006, mandated that the California Air Resources Board (CARB) develop regulations for the reduction of greenhouse gas (GHG) emissions to the 1990 levels by the year 2020. In January 2013, emission compliance obligations developed by CARB began under the Cap-and-Trade Program (Program). This Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. To ease the transition and mitigate the rate impacts to retail customers, CARB will allocate certain amounts of GHG allowances at no cost to electrical distribution utilities. The Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal year ended June 30, 2018, the Electric Utility received $8,131 in proceeds related to the sale of the GHG allowances which are included on the Statements of Revenues, Expenses and Changes in Net Position as operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was $16,093 as of June 30, 2018.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was $1,097 as of June 30, 2018 and is recorded as inventory in the statement of net position.

17. Tax Abatements

In November 2012, the City entered into a tax sharing agreement with a local business to incentivize an expansion of their facility. Assistance is provided in the form of a rebate of sales and property taxes over fifteen years in an amount not to exceed $4,500. The agreement expires on the earlier of: 1) total cumulative tax rebate of $4,500; or 2) fifteen years in fiscal 2027-28.

Incremental Sales Tax Revenue can be generated from sales, over the fiscal 2011-12 base period, reported to the State Board of Equalization at the business site and from third party vendor transactions occurring using the business site as the point of sale. Incremental Property Tax Revenue is generated from the increase in County assessed valuation over the 2012-13 base period values, for the parcels designated in the agreement. For parcels acquired after 2012-13 in the project area, the acquisition price will become its base year valuation. The initial 2012-13 base year assessed valuation is $114,293 and has been adjusted to $125,043 for the parcels acquired in 2014-15. The business is due 100% of the incremental Property tax revenue due to the City from the project area tax rate. It is calculated as 11% of the value determined from taking 1% of the difference of current net assessed valuation over the adjusted base valuation. The cumulative rebate payment as of June 30, 2018 is $327.

18. Prior Period Adjustments

A prior period adjustment of $23,096 was made to decrease the General Fund's fund balance related to the elimination of advances related to the Pension Obligation Bonds. The 2005 and 2017 Taxable Pension Obligation Bonds were distributed between Governmental Activities, Business-Type Activities, and the Successor Agency to properly reflect their proportional share.

The restatement of beginning fund balance of the General Fund is summarized as follows:

| | General Fund |
|---|---|
| Net position at July 1, 2017, as previously stated | $ 83,070 |
| Elimination of Advances related to POBs | (23,096) |
| Net position at July 1, 2017, as restated | $ 59,974 |

Prior period adjustments of $1,001 and $617 were made to decrease the governmental activities' and the business-type activities' net position, respectively. The adjustment were made to reflect the prior period costs related to the net OPEB liability.

The restatement of beginning net position of the governmental activities and business-type activities are summarized as follows:

**For the year ended June 30, 2018** (amounts expressed in thousands)

Governmental Activities

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | 845,116 |
| Net OPEB liability | | (1,001) |
| Net position at July 1, 2017, as restated | $ | 844,115 |

Internal Service Funds

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | (81,914) |
| Net OPEB liability | | (37) |
| Net position at July 1, 2017, as restated | $ | (81,951) |

Business-Type Activities

Electric Fund

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | 484,201 |
| Net OPEB liability | | (328) |
| Net position at July 1, 2017, as restated | $ | 483,873 |

Water Fund

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | 305,418 |
| Net OPEB liability | | (125) |
| Net position at July 1, 2017, as restated | $ | 305,293 |

Sewer Fund

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | 205,531 |
| Net OPEB liability | | (85) |
| Net position at July 1, 2017, as restated | $ | 205,446 |

Non-Major Business-Type activities

| | | |
|---|---|---|
| Net position at July 1, 2017, as previously stated | $ | 46,380 |
| Net OPEB liability | | (79) |
| Net position at July 1, 2017, as restated | $ | 46,301 |