Financial Statements and Related Issues

The County's accounting policies used in preparation of its audited financial statements conform to generally accepted accounting principles applicable to counties. The County's governmental funds and fiduciary funds use the modified accrual basis of accounting. This system recognizes revenues in the accounting period in which they become available and measurable. Expenditures, with the exception of unmatured interest on general long-term debt, are recognized in the accounting period in which the fund liability is incurred. Proprietary funds use the accrual basis of accounting, and revenues are recognized in the accounting period in which they are earned and become measurable, while expenses are recognized in the period during which they are incurred.

The State Government Code requires every county to prepare an annual financial report. The County Auditor-Controller prepares the "Annual Financial Report of the County of Riverside." Under the U.S. Single Audit Act of 1984 and State law, independent audits are required on all operating funds under the control of the Board of Supervisors and must be conducted annually. The County's financial statements for Fiscal Year 2014-15 were audited by Brown Armstrong Accountancy Corporation. See APPENDIX B—"THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

The County adopted the provisions of GASB Statement No. 34 during fiscal year 2001-02. This statement affects the manner in which the County records transactions and presents financial information. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "management's discussion and analysis" (MD&A). In addition, the reporting model established by GASB Statement No. 34 includes financial statements prepared using full accrual accounting for all of the County's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. The reporting model features a statement of net assets and a statement of activities. The statement of net assets is designed to display the financial position of the government. The County reports all capital assets, including infrastructure assets, in the government-wide statement of net assets and reports depreciation expense in the statement of activities. The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the County's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the County has recorded other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. For further information on GASB Statement No. 34 and other changes in significant accounting policies, see Note 1 of the Notes to Basic Financial Statements, June 30, 2015, which are included in APPENDIX B—"THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

The following table sets forth the County's Statement of Revenues, Expenditures and Change in Unreserved Funds Balances-General Fund for Fiscal Year 2010-11 through 2014-15.

COUNTY OF RIVERSIDE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNRESERVED FUND BALANCES – GENERAL FUND
FISCAL YEARS 2010-11 THROUGH 2014-15
(In Thousands)

	2010-11	***2011-12***	***2012-13***	***2013-14***	***2014-15***
BEGINNING FUND BALANCE	$ 386,486	$ 343,562	$ 336,598	$ 357,249	$ 364,6761
REVENUES					
Taxes	221,807	216,746	246,144	256,746	267,708
Licenses, permits and franchises	18,187	17,648	16,442	16,588	17,829
Fines, forfeiture sand penalties	93,528	88,979	85,241	81,037	77,770
Use of money and property–Interest	8,196	4,740	1,676	4,629	4,372
Use of money and property–Rents and concessions	3,669	3,798	3,670	12,269	7,758
Government Aid–State	856,327	931,652	1,000,545	1,107,878	1,224,095
Government Aid–Federal	490,088	475,221	478,791	462,291	542,934
Governmental Aid-Other	82,147	80,332	81,169	83,169	94,217
Charges for current services	369,780	354,451	374,750	396,904	431,323
Other revenues	37,654	40,852	26,253	41,248	34,851
TOTAL REVENUES	$ 2,181,383	$ 2,214,419	$ 2,315,681	$ 2,462,759	$ 2,702,857
EXPENDITURES					
General government	$ 109,146	$ 127,195	$ 103,895	$ 106,045	$ 109,900
Public protection	1,025,584	1,010,999	1,043,017	1,116,621	1,189,466
Public ways and facilities	-	-	-	-	8
Health and sanitation	345,649	369,165	388,325	416,005	478,047
Public assistance	731,017	719,670	735,057	795,309	865,309
Education	548	579	564	586	590
Recreation and cultural	364	324	346	287	317
Capital Outlay	8,321	2,671	1,721	2,965	54,529
Debt service	24,829	21,426	19,576	15,475	12,877
TOTAL EXPENDITURES	$ 2,245,458	$ 2,252,029	$ 2,292,501	$ 2,453,293	$ 2,711,043
Excess (deficit) of revenues over (under) expenditures	(64,075)	(37,610)	23,180	9,466	(8,186)
OTHER FINANCING SOURCES (USES)					
Transfer from other reserves	$ 106,047	$ 123,587	$ 92,297	$ 95,017	$ 87,924
Transfer to other funds	(93,217)	(98,045)	(96,547)	(101,021)	(103,554)
Capital Leases	8,321	2,671	1,721	2,965	54,529
Total other Financing Sources (Uses)	$ 21,151	$ 28,213	$ (2,529)	$ (3,039)	$ 38,899
NET CHANGE IN FUND BALANCES(2)	$ (42,924)	$ (9,397)	$ 20,651	$ 6,427	$ 30,713
FUND BALANCE, END OF YEAR(1) (2)	$ 343,562	$ 336,598	$ 357,249	$ 363,676	$ 395,389

(1) Restated.
(2) As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Source: County Auditor-Controller.

The following table sets forth the County's General Fund balance sheets for Fiscal Years 2010-11 through 2014-15.

COUNTY OF RIVERSIDE
GENERAL FUND BALANCE SHEETS
AT JUNE 30, 2011 THROUGH JUNE 30, 2015
(In Thousands)

	2011	***2012***	***2013***	***2014***	***2015***
ASSETS:					
Cash & Marketable Securities	$ 160,887	$ 151,845	$ 128,655	$ 129,305	$ 133,487
Taxes Receivable	17,790	14,046	10,931	9,849	9,243
Accounts Receivable	12,771	9,196	9,167	11,281	10,846
Interest Receivable	1,119	643	687	650	785
Advances to Other Funds	3,692	3,342	3,342	5,842	7,442
Due from Other Funds	18,787	14,227	9,071	11,157	11,854
Due from Other Governments	276,656	328,817	308,532	333,728	317,901
Inventories	1,564	1,187	2,059	1,682	1,638
Prepaid items	277	298	818	--	--
Restricted Assets	283,095	299,673	307,452	350,158	358,985
Total Assets	$ 777,638	$ 823,274	$ 780,714	$ 853,652	$ 852,181
LIABILITIES:					
Accounts Payable	$ 84,116	$ 75,996	$ 24,234	$ 61,288	$ 24,756
Salaries & Benefits Payable	50,374	57,391	57,519	68,156	79,116
Due To Other Funds	2,639	1,466	9,190	248	2,172
Due to Other Governments	34,550	40,804	23,377	20,395	32,894
Deferred Revenue	260,343	311,003	66,855	65,929	48,535
Deposits Payable	2,054	16	19	61	43
Advances from other funds	--	--	--	5,000	--
Advances from grantors and third parties	--	--	242,271	268,899	269,276
Total Liabilities	$ 434,076	$ 486,676	$ 423,465	$ 489,976	$ 456,792
FUND BALANCE:(1)					
Nonspendable	$ 2,214	$ 1,834	$ 3,247	$ 2,045	$ 2,001
Restricted	98,552	101,651	101,440	117,595	122,967
Committed	50,097	52,439	42,183	32,820	39,422
Assigned	3,463	8,674	10,460	7,772	5,144
Unassigned	189,236	171,910(2)	199,919(2)	203,444	225,855
Fund Balance	$ 343,562	$ 336,598	$ 357,249	$ 363,676	$ 395,389
Total Liabilities and Fund Balance	$ 777,638	$ 823,274	$ 780,714	$ 853,652	$ 852,181

(1) As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

(2) Annual fluctuations are due mainly to fluctuation in tax revenue, general government expenditures, interest earnings and State allocations.

Source: County Auditor-Controller.

COUNTY OF RIVERSIDE
GENERAL FUND BALANCES
AT JUNE 30, 2008 THROUGH JUNE 30, 2015
(In Thousands)

	Reserved	***Unreserved***				***Total***
2008	$84,466	394,302				$478,768
2009	91,196	280,925				372,121
2010	90,374	296,112				386,486

	Nonspendable	***Restricted***	***Committed***	***Assigned***	***Unassigned***	***Total***
2011[(1)]	$2,214	$ 98,552	$50,097	$ 3,463	$189,236	$343,562
2012	1,834	101,651	52,439	8,764	171,910	336,598
2013	3,247	101,440	42,183	10,460	199,919	357,249
2014	2,045	117,595	32,820	7,772	203,444	363,676
2015	2,001	122,967	39,422	5,144	225,855	395,389

(1) As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.
Source: County Auditor-Controller.

Short-Term Obligations of County

On July 1, 2016, the County issued its 2016-17 Tax and Revenue Anticipation Note (the "2016-17 TRAN") in the principal amount of $340,000,000 to provide funds to meet the County's Fiscal Year 2016-17 General Fund expenditures, including current expenses, capital expenditures and prepayment of pension plan contributions. The 2016-17 TRAN is due on June 30, 2017. The 2016-17 TRAN is payable from taxes, income, revenues, cash receipts and other moneys of the County attributable to the County's 2016-17 Fiscal Year which are legally available for the payment thereof. The County has issued tax and revenue anticipation notes annually for over twenty consecutive years with timely repayment.

Long-Term Obligations of County

Since its formation in 1893, to the best knowledge of County officials, the County has never failed to pay the principal of or interest on any of its bonded indebtedness. As of August 15, 2016, the County had $889,831,745 in direct general fund obligations and $304,520,000 in pension obligation bond indebtedness, as reflected in the following table, and has no authorized but unissued general obligation debt. Set forth below is an estimated direct and overlapping debt report as of August 15, 2016.

COUNTY OF RIVERSIDE
ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS
(AS OF AUGUST 15, 2016)

2016-17 Assessed Valuation: $ 255,866,488,676 (includes unitary utility valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 8/15/16
Metropolitan Water District	6.315%	$ 5,864,425
Community College Districts	1.188-100.	617,624,025
Unified School Districts	1.280-100.	2,503,704,146
Perris Union High School District	100.	114,315,877
Elementary School Districts	100.	74,556,391
City of Riverside	100.	11,390,000
Eastern Municipal Water District Improvement Districts	100.	34,540,000
Riverside County Flood Control, Zone 3-B and 4 Benefit Assessment District	100.	21,565,000
San Gorgonio Memorial Hospital District	100.	112,220,000
Community Facilities Districts	50.225-100.	2,863,774,575
Riverside County 1915 Act Bonds	100.	1,610,000
City and Special District 1915 Act Bonds (Estimated)	100.	204,894,050
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$ 6,566,058,489
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	**100.%**	**$ 889,831,745**[1]
Riverside County Pension Obligations	**100.**	**304,520,000**
Riverside County Board of Education Obligations	100.	935,000
School Districts General Fund and Lease Tax Obligations	1.280-100.	449,939,460
City of Corona General Fund Obligations	100.	44,030,186
City of Moreno Valley General Fund Obligations	100.	70,978,000
City of Indio General Fund Obligations	100.	19,730,000
City of Palm Springs Certificates of Participation and Pension Obligation Bonds	100.	138,085,352
City of Riverside Certificates of Participation	100.	227,416,284
City of Riverside Pension Obligation Bonds	100.	101,000,000
Other City General Fund Obligations	100.	67,361,843
Other Special District Certificates of Participation	100.	1,803,228
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 2,315,631,098
Less: **Riverside District Court Financing Corporation (100% supported from U.S. General Services Administration)**		**6,236,938**
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 2,309,394,160
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$ 2,485,524,218
GROSS COMBINED TOTAL DEBT		$ 11,367,213,805[2]
NET COMBINED TOTAL DEBT		$ 11,360,976,867

Ratios to 2016-17 Assessed Valuation:

Overlapping Tax and Assessment Debt	2.57%
Combined Gross Direct Debt ($1,194,351,745)	**0.47%**
Combined Net Direct Debt ($1,188,114,807)	**0.46%**
Gross Combined Total Debt	4.44%
Net Combined Total Debt	4.44%

Ratios to Successor Agency Redevelopment Incremental Valuation ($69,550,413,908):

Total Overlapping Tax Increment Debt	3.57%

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(1) Excludes the County's 2016-17 Tax and Revenue Anticipation Notes and the Riverside County Infrastructure Financing Authority Lease Revenue Refunding Bonds, 2016 Series.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Lease Obligations

The County has used nonprofit corporations and joint powers authorities to finance certain public facilities through the issuance of lease obligations. Pursuant to these arrangements, a nonprofit corporation or joint powers authority constructs or acquires facilities with the proceeds of lease revenue obligations, which are then leased to the County. Upon expiration of the lease, title to the facilities vests in the County.

As of August 1, 2016, the County's current outstanding lease obligations total $888,742,745. The County's annual lease obligation is approximately $86,975,766 and the maximum annual lease payment is $133,544,059.

The table on the following page sets forth the County's outstanding lease obligations and the respective annual lease requirements as of August 1, 2016.

COUNTY OF RIVERSIDE
SUMMARY OF LEASE RENTAL OBLIGATIONS
(PAYABLE FROM THE COUNTY'S GENERAL FUND)
(AS OF AUGUST 1, 2016)

	Final Maturity Year	*Original Lease Amount*	*Obligations Outstanding*	*Annual Base Rental*
Riverside County Hospital Project, Leasehold Revenue Bonds:				
1997 Series A	2026	$ 41,170,073	$ 32,580,807	
1997 Series C	2019	3,265,000	3,265,000	
2012 Series A and B[(1)]	2019	90,530,000	66,880,000	$ 19,524,497[(1)]
County of Riverside 1990 Taxable Variable Rate Certificates of Participation (Monterey Avenue)	2020	8,800,000	3,400,000	879,000[(2)]
Riverside County Palm Desert Financing Authority Lease Revenue Bonds 2008 Series A	2022	72,445,000	40,680,000	8,257,000
County of Riverside Certificates of Participation (2009 Larson Justice Center Refunding)[(3)]	2021	36,100,000	15,230,000	2,562,375
Riverside District Court Financing Corporation (United States District Court Project):				
Series 1999	2020	24,835,000	5,936,938	
Series 2002	2020	925,000	300,000	1,829,006[(4)]
County of Riverside Leasehold Revenue Bonds (Southwest Justice Center Project) 2008 Series A[(5)]	2032	78,895,000	73,830,000	6,426,602
County of Riverside Certificates of Participation (2007A Public Safety Commission Project)	2022	111,125,000	21,185,000	8,626,500
County of Riverside Southwest Communities Financing Authority Lease Revenue Bonds, Series 2008 A	2038	15,105,000	13,480,000	1,156,456
County of Riverside Certificates of Participation (2009 Public Safety Communication and Woodcrest Library Refunding Projects)[(6)]	2040	45,685,000	45,140,000	1,918,300
County of Riverside Monroe Park Building 2011 Lease Financing	2020	5,535,000	2,790,000	678,722
County of Riverside Certificates of Participation (2012 County Administrative Center Refunding Project)[(7)]	2031	33,360,000	28,330,000	2,509,388
County of Riverside Public Financing Authority (2012 Lease Revenue Refunding Bonds)[(8)]	2033	17,640,000	14,780,000	1,385,025
County of Riverside Leasehold Revenue Bonds (2013 Series A Public Defender/Probation Bldg and Riverside County Technology Solution Center Projects)	2043	66,015,000	63,920,000	4,278,588
Riverside Community Properties Development, Inc. Lease Revenue Bonds (2013 Riverside County Law Building Project)	2044	44,380,000	44,380,000	3,110,250
County of Riverside Lease Revenue Bonds (Courts Facilities Project), Series 2014 A &2014 B (Taxable)[(9)]	2033	18,495,000	14,810,000	2,348,126
County of Riverside Public Financing Authority (2015 A Lease Revenue Bonds)	2046	325,000,000	325,000,000	15,596,900
County of Riverside Infrastructure Financing Authority (2015 A Lease Revenue Refunding Bonds))[(10)]	2037	72,825,000	72,825,000	5,889,031
TOTAL		$ 1,112,130,073	$ 888,742,745	$ 86,975,766

(1) Total annual base rental for Riverside County Hospital Project, Leasehold Revenue Bonds. The 2012 Series A and B Bonds refunded the 1997 B Bonds. A portion of the proceeds of the 2012 Bonds was used to redeem the 1997 B Bonds and the remaining proceeds will be used to pay for improvements of the Medical Center Campus.

(2) Annual base rental estimated at assumed interest rate of 9%. The average interest rate for the twelve-month period ending May 31, 2016 was approximately 0.26%.

(3) The 2009 Larson Justice Center Refunding Project Refunded the 1998 Larson Center Refunding Project.

(4) Total annual base rental for Riverside District Court Financing Corporation (United States District Court Project).

(5) The 2008 Series A refunded the 2000 Series B SWJC Project.

(6) The 2009 Public Safety Communication and Woodcrest Library Refunding Project refunded the 2007B Public Safety Communication Refunding Project and the 2006 Capital Appreciation Notes.

(7) The 2012 County Administrative Refunding Project refunded the 2001 County Administrative Annex Project.

(8) The 2012 Public Financing Authority Lease Revenue Refunding Bonds refunded the 2003A Palm Desert Financing Authority Lease Revenue Bonds.

(9) The 2014 Series A & B (Taxable) County of Riverside Lease Revenue Bonds refunded the County of Riverside Certificates of Participation (Capital Facilities Project) 2003 Series B, County of Riverside Certificates of Participation (Historic Courthouse Project) 2003 Series A and the County of Riverside Court Financing Corporation Certificates of Participation (Bankruptcy Courthouse Acquisition Property).

(10) The 2015 Series A Infrastructure Financing Authority Lease Revenue Refunding Bonds refunded the County of Riverside Certificates of Participation (Capital Facilities Project) 2005 Series A, County of Riverside Certificates of Participation (Historic Courthouse Refunding Project) 2005 Series B and the County of Riverside Certificates of Participation (Capital Facilities Projects) 2006 A.

Source: County Executive Office.

Lease Lines of Credits

On February 4, 2013, the County entered into a $40 million multi-year lease line of credit with Banc of America Public Capital Corp. to finance various capital equipment needs of County departments. An additional $20 million extension of this lease line of credit was executed July 21, 2015, which was exhausted April 14, 2016. An additional lease line of credit with Banc of America Public Capital Corp. was approved by the County December 15, 2015 for $20 million with an option for an additional $20 million after the initial funds are exhausted. The County started using the additional lease line of credit April 14, 2016 and had an available balance of approximately $9.8 million of unused credit remaining as of August 2, 2016.

Capital Lease Repurchase Agreements

On January 29, 2013, the County entered into a Master Equipment Lease Purchase Agreement with Banc of America Capital Corp. in the amount of $15,000,000 to finance the purchase and installation of Cisco voice, video, wireless and data converged network equipment to replace all of the County's phones, auto attendants, Interactive Voice Response System, call centers, voicemail and wireless networks. On June 25, 2013, the County entered into an amendment to the Master Equipment Lease Purchase Agreement to provide for an additional $3,250,000 in lease financing for additional equipment. As of August 1, 2016, approximately $8,000,000 principal amount remained outstanding under the original lease and $2,000,000 principal amount remained outstanding under the first amendment to the lease, which are scheduled to be repaid in full by 2019 and 2020, respectively. On September 22, 2015, the County entered into a subsequent Master Equipment Lease Purchase Agreement to finance the last of the required equipment in an additional amount of $6,380,000, of which approximately $4,600,000 remained outstanding as of August 1, 2016 and which is scheduled to be repaid in full by 2022.

On October 30, 2014, the County entered into a Lease Purchase Agreement with Banc of America Public Capital Corp. in the amount of $54,573,300 to finance the purchase and installation of certain solar equipment for the purpose of reducing County energy costs. As of August 1, 2016, the entire principal owed under the Lease Purchase Agreement remained outstanding and is scheduled to be repaid in full by 2035. Lease payments are scheduled to begin September 30, 2016.

Interest Rate Swap Agreements

The County adopted a written interest rate swap policy (the "Swap Policy") establishing the guidelines for the use of management of interest rate swaps as a method of lowering financing costs and reducing the risks associated with fluctuations in interest rates. The Swap Policy is reviewed annually to provide the appropriate internal framework to ensure that consistent objectives, practices, controls and authorizations are maintained to minimize the County's risk related to its debt portfolio.

Simultaneously with the issuance of the County's Leasehold Obligation Bonds (Southwest Justice Center Refunding) 2008 Series A, the County entered into an amended and restated interest rate swap agreement with a notional amount of $76,300,000. The interest rate swap agreement was novated in January 2012 to substitute Wells Fargo Bank, N.A. as the new counterparty (the "Counterparty"). Under the swap agreement the County has an obligation to pay the Counterparty a fixed rate of 5.155 percent and the County receives 64 percent of one month LIBOR from the Counterparty. The bonds and the related swap agreement mature on November 1, 2032. The Counterparty was rated "Aa2" by Moody's, "AA-" by Standard & Poor's and "AA" by Fitch as of April 2016. Downgrade provisions specify that if the long-term senior unsecured debt rating of the Counterparty is withdrawn, suspended or falls below "BBB" (in the case of S&P) or "Baa2" (in the case of Moody's), the County or the party so downgraded is required to post collateral in the amount of its exposure. If the swap agreement is terminated and, at the time of such termination, the fair market value of the swap agreement was negative, the County would be liable to the Counterparty for a termination payment equal to the swap's fair market value. As of July 29, 2016, the swap agreement had a negative fair market value of approximately $29.2 million (based on the quoted market price from the Counterparty at such date).

The County's regularly scheduled swap payments are insured by Assured Guaranty Corp. The swap agreement provides that if an "Insurer Event" occurs, whereby the insurer fails at any time to have one out of two of the following ratings: (i) a claims-paying ability rating of "A-" or higher from S&P, or (ii) a financial strength rating of "A3" or higher from Moody's, and only in the event that the County's ratings have also been downgraded to below the threshold level of "Baa2" from Moody's and "BBB" from S&P, the County would be required, within one business day of receiving a notice from the Counterparty, to either (A) provide an alternate credit support document acceptable to the Counterparty from a credit support provider with a claims paying ability rating of at least "AA-" from S&P and a financial strength rating of at least "Aa3" from Moody's or an unenhanced rating on its unsecured unsubordinated long-term debt of at least "AA-" from S&P and at least "Aa3" from Moody's, or (B) give notice to the Counterparty that it will thereafter be subject to the ISDA Credit Support Annex as both a Secured Party and a pledgor in accordance with the terms of such ISDA Credit Support Annex. As of April 2016, Assured Guaranty Corp. had a rating of "AA" by S&P and "A2" from Moody's. An explanation of the significance of the above ratings may be obtained from the applicable rating agency.

Employees

The following tables set forth the number of County employees for Fiscal Years 2006 through 2016.

COUNTY OF RIVERSIDE
REGULAR EMPLOYEES
2006 THROUGH 2016

Year	*Regular Employees*(1)
2006	15,832
2007	17,584
2008	18,912
2009	18,013
2010	17,671
2011	17,764
2012	17,815
2013	18,728
2014	18,620
2015	19,244
2016(2)	19,404

(1) As of December 31st of each year. Excludes temporary and per diem employees.
(2) As of May 2, 2016.
Source: County Human Resources Department.

County employees comprise 13 bargaining units, plus another 7 unrepresented employee groups. The bargaining units are represented by six labor organizations. The two largest of these organizations are Service Employees International Union, Local 721 ("SEIU") and the Laborers International Union of North America ("LIUNA"), which represent approximately 72% of all County employees in a variety of job classifications. Salary, benefits and personnel items for management, confidential and other unrepresented employees which are exempt from collective bargaining, are governed by a County Resolution and Ordinance which contain provisions for these personnel related matters.

The County's non-management law enforcement employees (non-management), are represented by the Riverside Sheriffs' Association ("RSA"). Management employees of the law enforcement group are represented by the Riverside County Law Enforcement Management Unit ("LEMU"). The Public Defenders, County Counsel and Prosecuting Attorneys of the District Attorney's Office are represented by the Riverside County Deputy District Attorneys Association ("RCDDAA").

In Fiscal Year 2011-12, the County entered into collective bargaining agreements with all of its bargaining units. Most of the agreements cover a four to five year period, with the longest agreement extending to June 2017. As part of these agreements, the parties agreed to a phase out of the County's obligation to pay the employee's required member contributions towards retirement ("EPMC"). The elimination of the County's retirement obligation to pay employee's required member contributions produced significant annual savings. Member retirement contributions and County offsets of employee contributions are not included in the required employer contribution rates prepared by PERS.

The County's collective bargaining agreements with RSA and LIUNA expired on June 30, 2016. RSA has submitted to the County a request to bargain. The County does not expect bargaining to commence prior to June 24, 2016. Currently, RSA and LIUNA are in negotiations with the County. During the last 20 years, there has been no major County employee work stoppage.

COUNTY OF RIVERSIDE
LABOR ORGANIZATIONS[1]

Bargaining Units or Employee Group	***Number of Employees***	***Expiration Date of Contract***
Management, Confidential, and Other Unrepresented	1,413	N/A
Law Enforcement Management Unit (LEMU)	478	June 30, 2017
Riverside County Deputy District Attorneys' Association (RCDDAA)	383	June 30, 2017
Riverside Sheriffs' Association (RSA)	3,284	June 30, 2016
Service Employees International Union (SEIU)	7,150	November 30, 2016
Laborers' International Union of North America (LIUNA)	7,575	June 30, 2016
Total	20,283	

(1) Includes all County districts.
Source: County Human Resources Department.

Retirement Program

General. The County provides retirement benefits to all regular County employees through its contract with California Public Employees' Retirement System ("PERS"), a multiple-employer public sector employee defined benefit pension plan. The retirement plan, as amended, provides pension benefits for eligible employees in the Miscellaneous and Safety Plans (herein defined), with PERS. PERS provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. The retirement benefits are based on years of service, benefit factor (determined by age at retirement), and final compensation which is the highest average pay rate and special compensation during any consecutive one-year period of employment (for Tier 1 employees) or three-year period of employment (for Tier 2 and Tier 3 employees). The benefit calculation for members is the product of the benefit factor (based on age), years of service, and final compensation. Due to recent pension reform, the County's retirement plan currently includes three tier levels of benefits.

COUNTY OF RIVERSIDE
EMPLOYEES PER RETIREMENT TIER[(1)]
(As of May 2, 2016)

Tier Level	*Number of Employees in Tier Level*
Tier 1	13,927
Tier 2	698
Tier 3	4,779
Total	19,404

(1) Excludes Temporary, Per Diem, and Seasonal Employees.
Source: County Human Resources Department.

Miscellaneous members, who qualify for retirement benefits based on their date of hire, are enrolled in one of three tiers of benefits Tier I (3% at 60), Tier II (2% at 60), or Tier III (2% at 62). Safety members, who qualify for retirement benefits based on their date of hire, are enrolled in one of three tiers of benefits Tier I (3% at 50), Tier II (2% at 50), or Tier III (2.7% at 57). The three tiers of retirement benefits all provide for cost-of-living adjustments of up to 2% per year after retirement. For further information on the County's pension obligations, see Note 20 of the Notes to Basic Financial Statements, June 30, 2015, which are included in APPENDIX B – "THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

In September 2003, the County established the Pension Advisory Review Committee ("PARC"). The purpose of PARC is to develop a better institutional understanding of the County's pension plan (the "Plan"), currently managed by PERS and to advise the Board of Supervisors on important matters concerning the Plan. PARC reports annually to the Board of Supervisors on the performance of the Plan and evaluates strategies to address appropriate funding of the Plan.

The Board of Supervisors approved a second tier ("Tier II") level of retirement benefits for new Miscellaneous and Safety employees. On August 23, 2012, the County implemented a Tier II retirement benefit applicable to employees first employed by the County after August 23, 2012. The Tier II retirement benefit calculation is based on year of service, age, and the average monthly eligible wages earned during the highest three consecutive years of employment. The Tier II retirement benefit for Miscellaneous Plan members ranges from 1.092% at age 50 to 2.418% at age 63 and beyond. For Safety Plan members, the Tier II benefits range from 2% at age 50 to 2.7% at 55 and beyond. The plans also provide for cost-of-living adjustments of up to 2% per year after retirement.

On September 12, 2012, Governor Brown signed Assembly Bill 340, creating the Public Employees' Pension Reform Act ("PEPRA") and amending certain sections of the County Employees Retirement Law of 1937 (the "1937 Act"). The majority of the PEPRA changes first impacted the rates and benefit provisions on the June 30, 2013 valuation for Fiscal Year 2015-16 rates. Among other things, PEPRA created a new retirement benefit tier ("Tier III") for new employees/members entering public agency employment and public retirement system membership for the first time on or after January 1, 2013.

The new Tier III formulas for both Miscellaneous and Safety provide for a reduced benefit and was required to be implemented by all public agency employers unless the retirement formula in existence on December 31, 2012 had both a lower normal cost and lower benefit factor at normal retirement age. PEPRA requires that all new employees hired on or after January 1, 2013, pay at least 50% of the normal cost contribution. Tier III benefits are set 2% at 62 for Miscellaneous members and 2.7% at 57 for Safety members. PEPRA mandated all new members be subject to a pensionable compensation cap, which limits the annual salary that can be used to calculate final compensation for all new members. Adjustments to the limits are permitted annually based on changes to the Consumer Price Index (CPI) for all urban consumers. The normal cost contribution is the contribution set by the retirement system's actuary to cover the cost of current year of service. The County projects that the implementation of the Tier II and Tier III formulas will reverse the trend of increasing CalPERS contributions beginning in Fiscal Year 2022-23.

The County's PERS Contract. The following information concerning PERS is excerpted from publicly available sources that the County believes to be reliable; however, the County takes no responsibility as to the accuracy of such information and has not independently verified such information. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee and employer contributions and earnings from investments. PERS maintains two pension plans for the County, a Miscellaneous Plan (the "Miscellaneous Plan") and a Safety Plan (the "Safety Plan" and, together with the Miscellaneous Plan, the "PERS Plans"). The County contributes to PERS based on the annual actuarial valuation rates recommended by PERS.

The staff actuaries at PERS prepare an annual actuarial valuation which covers a fiscal year ending approximately 15 months before the actuarial valuation is prepared. The actuarial valuation expresses the County's required contribution rates in percentages of payroll, which is the percentage the County must contribute in the fiscal year immediately following the fiscal year in which the actuarial valuation is prepared (e.g., the County's contribution rates derived from the actuarial valuation as of June 30, 2014, which was prepared in October 2015, is effective for the County's Fiscal Year 2016-17). PERS rules require the County to implement the actuary's recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions regarding the actuarial present value of the benefits that PERS will pay under the PERS Plans, which includes two components, the Normal Cost and the Unfunded Accrued Actuarial Liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, the rate of investment return, average life expectancy, average age at retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that PERS will distribute under the PERS Plans to retirees and active employees upon their retirement. It is not a fixed or hard expression of the liability the County owes to PERS under the PERS Plans. The County's actual liability under the PERS Plans could be materially higher or lower.

In March 2012, the PERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3% to 2.75%. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows: (i) the annual assumed investment return has decreased from 7.75% to 7.50%; and (ii) reducing payroll growth from 3.25% to 3%. The change to the inflation assumption also impacted the cost of living adjustments and purchasing power protection allowances assumed in the actuarial valuations. The PERS Board also approved the amortization of gains and losses from Fiscal Years 2008-09 through 2010-11 over a fixed and declining 30-year period (rather than a rolling 30-year amortization).

In June 2012, the GASB issued Statement No. 68, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. Prior to implementing GASB 68, employers participating in a cost-sharing multiple-employer defined benefit pension plan (cost-sharing plan) administered by CalPERS did not need any additional information beyond what was included in CalPERS' audited financial statements. Similarly, employers participating in an agent multiple-employer defined benefit pension plan (agent plan) administered by CalPERS used information from the CalPERS funding actuarial valuation reports for accounting and financial reporting purposes. With the implementation of GASB 68, employers will be required to recognize a liability as employees accrue pension benefits. For the first time, employers will recognize their net pension liability, and pension expenses.

On April 17, 2013, the PERS Board approved a recommendation to change the PERS amortization and rate smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, PERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 set employer contribution rates for Fiscal Year 2015-16. The Fiscal Year 2015-16 rate for Miscellaneous was 15.429% and Safety was 23.585%. For complete updated inflation and actuarial assumptions, please contact PERS at California Public Employees Retirement System, Lincoln Plaza, 400 Q Street, Sacramento, CA 95811, Telephone: (888) 225-7377.

On February 19, 2014, the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have long-term blended returns that continue to support a discount rate assumption of 7.5%. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these changes is the change in mortality improvement to acknowledge the greater life expectancies CalPERS is experiencing within its membership. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up and a 5-year ramp-down, resulting in a total 30-year amortization period.

In addition to required County contributions, members are also obligated to make certain payments. The Tier I members' contribution rates are fixed at 8% of salaries for the Miscellaneous Plan and 9% of salaries for the Safety Plan. Tier II and Tier III contribution rates vary based on the terms of the collective bargaining agreements in effect and PEPRA. In addition to making annual contributions to PERS in accordance with the applicable actuarial valuation, the County has historically been obligated pursuant to collective bargaining arrangements to pay a portion of the employees' required contribution to PERS (these payments by the County are referred to herein as the "County Offsets of Employee Contributions").

Funding Status. The actuarial value of assets, the actuarial accrued liability and the funding status with respect to the Safety Plan and the Miscellaneous Plan are set forth under "— Historical Funding Status." In the actuarial valuation for the Miscellaneous Plan as of June 30, 2014, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 16.476% be implemented as the required rate for Fiscal Year 2016-17, which the County anticipates will result in a contribution to PERS of approximately $161.6 million for that fiscal year. In addition, the County will pay PERS for the Miscellaneous Plan approximately $293,000 in County Offsets of Employee Contributions for Fiscal Year 2016-17, which will result in a total contribution by the County to PERS for the Miscellaneous Plan for Fiscal Year 2016-17 of approximately $161.6 million. In the actuarial valuation for the Safety Plan as of June 30, 2014, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 26.57% be implemented as the required rate for Fiscal Year 2016-17, which the County anticipates will result in a contribution to PERS of approximately $85.7 million for that fiscal year. As of Fiscal Year 2016-17, the County no longer pays County Offsets of Employee Contributions to PERS for the Safety Plan.

Absent reforms, some of which have already been initiated by the County, contribution rates under the PERS Plans are expected to increase substantially over the next few years due to the significant investment losses during Fiscal Year 2008-09. While investment gains experienced in Fiscal Years 2009-10 through 2012-13 will offset some of the previous losses, recent investment returns have been substandard and an actuarial loss remains, requiring the County to pay the entire normal cost payment plus a portion of the UAAL that has resulted. It is also anticipated that employer contribution rates will increase as a result of the PERS Board approval of a lower discount rate of 7.5% down from 7.75%, with the stated intention of lowering the discount rate to 6.5% by 2035.

On February 17, 2005, the County issued its Taxable Pension Obligation Bonds, Series 2005A (the "2005 Pension Obligation Bonds") in the original principal amount of $400,000,000, the proceeds of which were used to fund approximately 90% of the County's estimated actuarial accrued liability as of February 17, 2005. The 2005 Pension Obligations Bonds remain outstanding in the principal amount of $304,520,000, with annual debt service payments of approximately $31,639,000. The payment to PERS resulted in a net pension asset of $396.9 million, $311.2 million of which was applied to the County's UAAL for the Miscellaneous Plan and $85.7 million of which was applied to the County's UAAL for the Safety Plan. According to Bartel, the 2005 Pension Obligation Bonds have resulted in a net gain to the County of approximately $72 million as of February 15, 2016. A liability management fund was established in connection with the 2005 Pension Obligation Bonds. By Board policy, each year in its annual report, PARC recommends to the Board whether the funds in the liability management fund should be applied to purchase 2005 Pension Obligations Bonds or to transfer the funds to PERS to reduce the County's PERS liability. In 2015, PARC recommended a transfer of the liability management fund balance of $3.3 million to PERS. The effect of such prepayments on the County's UAAL, if any, will depend on a variety of factors, including but not limited to future investment performance.

Historical Funding Status. The following two tables, for the Safety Plan and the Miscellaneous Plan, respectively, set forth the UAAL and funded status as of the valuation dates from June 30, 2009 through June 30, 2014 and the total employer contributions made by the County for Fiscal Year 2011-12 through Fiscal Year 2015-16. The two tables are based on PERS Actuarial Reports for those years:

HISTORICAL FUNDING STATUS
(Safety Plan)

Valuation Date June 30	***Unfunded Accrued Actuarial Liability***	***Funded Status (Actuarial Value)***	***Affects County Contribution for Fiscal Year***	***County Contribution Amount[(1)]***	***County Offsets of Employee Contributions[(2)]***
2009	$131,506,806	92.0%	2011-12	$60,667,388	$13,460,331
2010	184,737,814	89.8	2012-13	63,652,359	11,594,226
2011	286,064,497	85.9	2013-14	71,724,520	2,843,364
2012	225,792,281	89.2	2014-15	70,139,838	605,908
2013[(4)]	509,464,128	77.7	2015-16	73,878,291[(3)]	638,203[(3)]
2014	517,389,969	80.2	2016-17	85,699,103[(3)]	680,948[(3)]

(1) Figures listed are amounts paid by the County to PERS in the specific years and do not reflect all amounts paid by the County under the Safety Plan, as debt service with respect to the County's outstanding pension obligation bonds, or otherwise.

(2) Reductions from prior years due to staggered implementation of employee-paid retirement contributions beginning in Fiscal Year 2011-12. The County continues to offset 1.75% of contributions for Safety Plan members under Tier III (the employee contribution rate is 10.75%). The projected increase in Fiscal Year 2015-16 is due to increased payroll of that membership.

(3) Estimated amount; reflects Safety Plan membership, cost of living adjustment and contribution rates as of Fiscal Years 2015-16 and 2016-17.

(4) Beginning with the June 30, 2013, valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

Source: PERS Actuarial Reports for June 30, 2009 through June 30, 2014 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

HISTORICAL FUNDING STATUS
(Miscellaneous Plan)

Valuation Date June 30	*Unfunded Accrued Actuarial Liability*	*Funded Status (Actuarial Value)*	*Affects County Contribution for Fiscal Year*	*County Contribution Amount*[(1)]	*County Offsets of Employee Contributions*[(2)]
2009	$ 389,195,847	89.7%	2011-12	$103,892,326	$36,974,032
2010	444,330,905	89.2	2012-13	106,685,618	17,525,337
2011	538,055,042	87.9	2013-14	125,248,122	7,319,320
2012	536,480,531	88.6	2014-15	127,786,977	292,784
2013[(4)]	1,034,364,773	79.3	2015-16	136,169,803[(3)]	307,423[(3)]
2014	973,226,141	82.8	2016-17	161,587,239[(3)]	293,000[(3)]

(1) Figures listed are amounts paid by the County to PERS in the specific years and do not reflect all amounts paid by the County under the Miscellaneous Plan, as debt service with respect to the County's outstanding pension obligation bonds, or otherwise.

(2) Reductions from prior years due to staggered implementation of employee-paid retirement contributions beginning in Fiscal Year 2011-12. The County continues to pay 8% of the 8% required contributions for Miscellaneous Plan members who are covered by Riverside County Deputy District Attorney Association bargaining unit.

(3) Estimated amount; reflects Miscellaneous Plan membership, cost of living adjustment and contribution rates as of Fiscal Years 2015-16 and 2016-17.

(4) Beginning with the June 30, 2013 valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

Source: PERS Actuarial Reports for June 30, 2009 through June 30, 2014 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

A five-year schedule of the funding progress of the Safety Plan and the Miscellaneous Plan are presented in the following two tables:

SCHEDULE OF FUNDING PROGRESS
(Safety Plan)

Valuation Date June 30	*Accrued Liability (a)*	*Actuarial Value of Assets (b)*	*Unfunded Liability (a-b)*	*Funded Status (Actuarial Value) (b/a)*	*Annual Covered Payroll (c)*	*UAAL as a Percentage of Payroll ((a-b)/c)*	*Market Value of Assets (MVA)*	*Funded Ratio MVA*
2010	$1,809,467,588	$1,624,729,774	$184,737,814	89.8%	$265,165,399	69.7%	$1,279,783,747	70.7
2011	2,032,001,280	1,745,936,783	286,064,497	85.9	273,169,605	104.7	1,565,799,198	77.1
2012	2,086,406,405	1,860,614,124	225,792,281	89.2	261,703,717	86.3	1,567,404,726	75.1
2013	2,285,586,497	1,776,122,369(1)	509,464,128	77.7	271,367,032	187.7	1,776,122,369	77.7
2014	2,615,686,777	2,098,296,808	517,389,969	80.2	295,171,068	175.2	2,098,296,808	80.2

(1) Beginning with the June 30, 2013 valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.
Source: PERS Actuarial Reports for June 30, 2010 through June 30, 2014.

SCHEDULE OF FUNDING PROGRESS
(Miscellaneous Plan)

Valuation Date June 30	*Accrued Liability (a)*	*Actuarial Value of Assets (b)*	*Unfunded Liability (a-b)*	*Funded Status (Actuarial Value) (b/a)*	*Annual Covered Payroll (c)*	*UAAL as a Percentage of Payroll ((a-b)/c)*	*Market Value of Assets (MVA)*	*Funded Ratio MVA*
2010	$4,097,191,707	$3,652,860,802	$444,330,905	89.2%	$854,932,117	52.0%	$2,882,444,152	70.4%
2011	4,461,553,672	3,923,498,630	538,055,042	87.9	812,362,628	66.2	3,525,640,733	79.0
2012	4,708,881,750	4,172,401,219	536,480,531	88.6	836,418,298	64.1	3,520,189,846	74.8
2013	5,008,806,968	3,974,442,195(1)	1,034,364,773	79.3	856,593,282	120.8	3,974,442,195	79.3
2014	5,656,121,103	4,682,894,962	973,226,141	82.8	897,506,714	108.4	4,682,894,962	82.8

(1) Beginning with the June 30, 2013 valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.
Source: PERS Actuarial Reports for June 30, 2010 through June 30, 2014.

The following table shows the percentage of salary which the County was responsible for contributing to PERS from Fiscal Year 2011-12 through Fiscal Year 2016-17 to satisfy its retirement funding obligations.

SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Valuation Date June 30,	***Affects Contribution Rate for Fiscal Year:***	***Safety Plan***	***Miscellaneous Plan***
2009	2011-12	21.286%	13.112%
2010	2012-13	22.459	13.494
2011	2013-14	23.368	15.001
2012	2014-15	21.899	14.527
2013	2015-16	23.585	15.429
2014	2016-17	26.570	16.476

Source: PERS Actuarial Reports for June 30, 2009 through June 30, 2014.

Projected County Contributions. The County's projections with respect to the County contributions below reflect certain significant assumptions concerning future events and circumstances. The information and the related assumptions are future projections and are not to be construed as representations of fact or representation that in fact the information shown will be the correct amounts for the years indicated. Rather, these amounts reflect good faith estimates by the County taking into account a variety of assumptions. Variations in the assumptions may produce substantially different results. Actual results during the projection period may vary from those presented in the forecast, and such variations may be material. Accordingly, prospective investors are cautioned to view these estimates as general indications of trends and orders of magnitude and not as precise amounts.

During the 2013-14 Fiscal Year, based on PERS' experience in recent years, PERS adopted several changes to the PERS Plans, including the elimination of asset smoothing methodologies, a 25-year amortization period for future gains and losses, elimination of annual caps on increases, and other changes based on a new experience study, including mortality improvements and other demographic assumptions. The changes will impact the County's contribution rates beginning in Fiscal Year 2015-16 and will be fully implemented by Fiscal Year 2020-21. Based on its current analysis of the data, the County projects that its contribution rates will increase significantly during such period, to a contribution rate of approximately 24.2% of payroll for the Miscellaneous Plan and approximately 34.0% of payroll for the Safety Plan. A description of these projections and their underlying assumptions are included in the PARC report which is available on the County's website or upon request.

The County's projected contribution rates are affected by the market rate of return in the PERS Plans. There currently exists a difference between the actuarial value and the market value of the assets in the PERS Plans. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments, which spread the impact of gains and losses over multiple years. When the market asset return in the PERS Plans differs from the actuarial assumed rate of 7.50% in any fiscal year, the actuarial practice of smoothing losses over several years impacts the contribution rate until such differences are fully realized by the actuarial valuation. For example, when the market rate of return is below the assumed rate, the PERS Plans will realize a loss for actuarial purposes. Any such actuarial loss will be smoothed in a manner that the PERS Plans will only be impacted by a pre-determined portion of that loss in one fiscal year, which will act to gradually increase contribution rates in succeeding fiscal years. For further details on the smoothing policy of PERS, see "—The County's PERS Contract" above.

Other Retirement Plans. The County also provides a Defined Benefit Pension Plan (the "Plan") to employees who are not eligible for Social Security or PERS retirement benefits through the County. This plan is subject to Internal Revenue Code Section 401(a), and is self-funded and self-administered. Participants in the Plan are required to contribute 3.75% of their eligible compensation to the Plan in lieu of Social Security tax. Based on the actuarial valuation of June 30, 2015, the County's current required contribution level is 3.08% to maintain a funded ratio of over 80%. As of June 30, 2015, the plan was funded at 80%. The County's contribution to the Plan was $606,694 for Fiscal Year 2014-15 and is estimated to be approximately $540,800 for Fiscal Year 2015-16. The Plan's unfunded liabilities as of June 30, 2015 were approximately $3.5 million. Overall, the plan's unfunded actuarial accrued liability (UAAL) increased from the prior valuation due to the net result of the following: 1) demographic experience was different than expected, which resulted in a liability loss; 2) funding interest rate assumption changed from 6.5 percent to 6.0 percent; 3) lump sum interest changed from 6.0 percent to 5 percent, which resulted in higher liabilities; 4) assets were lower than expected due to unfavorable investment return on plan assets (0.41 percent compared to 6.5 percent assumed).

Other Post-Employment Benefits. The County provides certain post-retirement health insurance benefits to qualifying retired employees and their eligible dependents or survivors. Regular employees with a minimum service of five years and who are at least age 50 at retirement qualify to receive the post-retirement benefits.

The County obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB Statement 45 as of July 1, 2015 (the "Health Benefits Valuation"), prepared by Aon Hewitt. Based on the combination of plans and contribution levels that the County offers, assuming an investment rate of 7.28%, the present value of benefits was estimated to be $46.2 million, the accrued actuarial liability was estimated to be $41.2 million and the annual normal cost was $0.65 million. If the accrued actuarial liability of $41.2 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would have been $1.07 million.

The Board of Supervisors took action on October 25, 2006 to set aside $10 million as a contribution to the California Employers' Retiree Benefit Trust (the "OPEB Trust"). On November 7, 2007 the irrevocable OPEB Trust was established with PERS and a payment of $10.4 million was made to the OPEB Trust. On June 26, 2009, the County contributed an additional $2.2 million to the OPEB Trust. The pre-funding of OPEB through the use of the OPEB Trust allows the County to use different actuarial assumptions to determine the actuarial value of assets and liabilities, including assuming a higher rate of return on assets held in the OPEB Trust. According to the Health Benefits Valuation, the overall actions of the Board have reduced the County's OPEB present value of benefits from $237 million in 2006 to $47 million most recently.

In May 2014, GASB issued an exposure draft of a statement that will change employer accounting and financial reporting for post-employment benefits other than pensions (OPEB). The impact is expected to be similar to that of GASB 67/68 for pension plans, which must be adopted for the Fiscal Year ending June 30, 2015. It is anticipated this new statement for OPEB would be effective for fiscal years beginning after December 15, 2016. The changes include moving unfunded liabilities from footnotes to the balance sheet creates the potential for more volatile periodic expense and a change in the discount rate basis.

Riverside University Health System - Medical Center ("RUHS")

RUHS – Medical Center ("RUHS") is a 520,000 square foot tertiary care and Level II trauma facility, licensed for 439 beds. There are 362 licensed beds in the main acute-care hospital and 77 licensed beds in a separate psychiatric facility. RUHS has 12 operating rooms including one with a da Vinci Xi surgical robot, a helipad located directly adjacent to the trauma center, and digital radiology services, including magnetic resonance imaging (MRI) and computerized tomography (CT), and all single-bed rooms. There are also adult, pediatric and neonatal intensive care units, a birthing center and complete pulmonary services, including hyperbaric oxygen treatments. The RUHS provides services to patients covered by various reimbursement programs, principally Medi-Cal and Medicare, and some commercial insurance, while providing services to the uninsured.

The County has the responsibility for providing health care to all individuals, regardless of their ability to pay or insurance status. Declining and inadequate federal and State health care reimbursement, non-payment by uninsured population and the costs of an older and sicker population, have placed significant demands on the County's health care system. These factors have negatively affected RUHS's financial performance over the past several years.

In 2013, the County retained Huron Consulting Group ("Huron") to provide consulting services designed to improve efficiencies and increase revenue at RUHS. The initial engagement is complete and Huron continues to monitor many of the initiatives to ensure they are sustained.

On November 26, 2013, the Board of Supervisors approved a temporary transfer of approximately $26 million to RUHS from the County's Waste Management Enterprise Fund to pay for the Huron engagement. RUHS is required to repay this loan, with interest calculated at the County's pool investment fund rate, beginning in 2016 through 2022. If RUHS is unable to timely repay this loan in full, any unpaid amounts will be transferred to the County's Waste Management Enterprise Fund from unencumbered amounts in the County's General Fund.

Based on its audited financial statements for the Fiscal Year ended June 30, 2015, RUHS reported a net income surplus of $57 million. This is a significant improvement over Fiscal Year 2013-14, when RUHS experienced a change in net position of negative $62 million, and over Fiscal Year 2012-13, when RUHS experienced a change in net position of negative $18.3 million. Much of the improvement was the result of significantly better operating performance resulting from 1) the impact of the Affordable Care Act (ACA) resulting in less charity care provided and 100% reimbursement of cost for the newly eligible population, 2) the favorable impact of the Huron engagement on labor and non-labor which management built upon during the fiscal year, and 3) the collection of receivables in excess of determined values at June 30, 2014 as a result of working with the managed care plans and payers.

In December 2015, California's Section 1115 Medicaid Demonstration Waiver, which funds hospitals and indigent care, was renewed for 5 years by the Centers for Medicare and Medicaid Services. The new waiver – entitled Public hospital Reform and Incentives in Medi-Cal ("PRIME") -- will provide funding to shift the focus of care away from hospital-based and inpatient care and instead towards outpatient, primary, and preventive care. RUHS is organizing to ensure a pay-for-performance transformation that accomplishes the goal of continuing support, maximizing federal funds and improving the system of care for Riverside County. However, it is unknown at this time precisely how funding changes will affect RUHS's revenues, as the FY16 represents the first year of PRIME's new funding mechanisms.

For Fiscal Year 2015-16, consistent with its past practice, the County contributed approximately $10 million to RUHS from its tobacco settlement revenue receipts and $5 million in redevelopment pass through funds to pay for operating expenses and debt service on the main RUHS facility. The County has budgeted to make the same contributions in Fiscal Year 2016-17. Additionally, the County committed $10 million in Fiscal Year 2015-16 toward RUHS's new electronic records system. In Fiscal Year 2016-17, the County has budgeted to make general fund contributions to RUHS in the amount of $11 million, for a total of $26 million from tobacco settlement revenue receipts, redevelopment pass through funds and County General Fund funds.

Insurance

The County is self-insured for short-term disability, unemployment insurance, general liability, medical malpractice and workers' compensation claims. General liability claims are self-insured to $2 million for each occurrence and the balance (to $25 million for each occurrence) is insured through CSAC Excess

Insurance Authority. Medical malpractice is self-insured for the first $1.1 million for each claim with a $1.5 million limit on a claims made basis excess of the County's self-insured retention followed by a $20 million limits on an occurrence basis through CSAC Excess Insurance Authority. For a total limit of $21.5 million excess of the County's self-insured retention. Workers' compensation claims are self-insured to $2 million for each occurrence and the balance of statutory limits (unlimited) is insured through CSAC Excess Insurance Authority. Long-term disability income claims are fully insured by an independent carrier.

The property insurance program provides insurance coverage for all risks subject to a $50,000 per occurrence deductible; flood coverage is $100,000 per occurrence deductible within a 100-year flood zone and a $50,000 deductible outside of a 100-year flood zone. There is also a $190 million excess all risk and flood rooftop layer sitting excess above the towers for a total of $600 million in all risk limits for all towers. Earthquake coverage (covering scheduled locations and buildings equal to or greater than $1 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each tower of $100 million with an additional $390 million excess rooftop limit combined for towers I through V. Earthquake is subject to a deductible equal to 5% of total value per building subject to a $100,000 minimum. Boiler and Machinery provides up to $100 million in limits, with a $5,000 deductible per event. The limits in each tower are shared with other counties on a per event basis. If a catastrophic event occurs and losses exceed the limits, the County would be responsible for such amounts.

The activities related to such programs are accounted for in internal service funds. Accordingly, estimated liabilities for claims filed or to be filed for incidents which have occurred through June 30, 2015 are reported in these funds. Where these funds have an unfunded liability, or insufficient reserves to cover all incurred but not reported claims, the County has developed a policy to manage the accumulated deficits at a reasonable level. Revenues of the internal service funds are primarily provided by other County funds and are intended to cover self-insured claim liabilities, insurance premiums and operating expenses. The combined cash balance in these funds as of June 30, 2015 was approximately $163.369 million.

Litigation

There is no action, suit or proceeding known to the County be pending or threatened, restraining or enjoining the execution or delivery of the Note or in any way contesting or affecting the validity of the foregoing or any proceedings of the County taken with respect to any of the foregoing. Although the County may, from time to time, be involved in legal or administrative proceedings arising in the ordinary course of its affairs, it is the opinion of the County that any currently-pending or known threatened proceedings will not materially affect the County's finances or impair its ability to meet its obligations.

The County is currently involved in litigation brought by the Agua Caliente Band of Cahuilla Indians ("Agua Caliente") in federal court requesting a declaration that the County's assessment, levy, and collection of a possessory interest tax on non-tribal members on tribal and U.S. trust lands violates federal law. For Fiscal Year 2015-16, the total possessory interest tax for Agua Caliente's non-tribal member leases is estimated to be approximately $29,000,000, of which $3,500,000 is allocable to the County. Should Agua Caliente be successful, the County would be prohibited from assessing, levying, and collecting the possessory interest tax in the future. In addition, taxpayers could have the right to seek a refund of possessory interest taxes paid for the previous four years with interest. The County estimates that its total liability for such refunds would be approximately $14 million, plus accrued interest. The County denies the allegations of the complaint and is actively defending the action.

Approximately 240 taxpayers have filed two different lawsuits in Superior Court seeking refunds for such possessory interest taxes paid. The total amount of the claims is approximately $8,700,000, of which the County's share is approximately $1,132,000 plus interest. It is likely that if the taxpayers' suits are successful, others will also litigate similar claims. However, the County is defending the actions and expects to prevail.

In December 2014, a putative class action complaint was filed in federal court against the County. The complaint alleges that the County Department of Public Social Services violated the civil rights of the plaintiff and a class of similarly situated individuals by removing minor children from parental custody without a warrant and in the absence of exigent circumstances. The County has filed an answer denying all allegations and is defending the litigation. A class-certification motion is set for a hearing on February 8, 2017, at which time the County's exposure will be more certain. If a class is certified and the suit succeeds on the merits, the County's exposure could be substantial.