



November 17, 2017

To the Honorable Mayor and Members of the City Council
City of Riverside, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison statement of the General Fund, which collectively comprise the basic financial statements of the City of Riverside, California (the City), for the year ended June 30, 2017. In addition, we also audited the financial statements of the Riverside Public Utilities, comprised of the Electric and Water Utility enterprise funds, which are major funds of the City; the financial statements of the Riverside Public Financing Authority, a blended component unit of the City; and the financial statements of the Successor Agency of the Redevelopment Agency of the City, a fiduciary component unit of the City. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The application of existing policies was not changed during 2017. The City implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73* as described in Note 1 to the financial statements. As a result of the implementation of GASB Statement No. 77, Note 17 was added to disclose a tax sharing agreement with a local business that was entered into by the City and the resulting impact the abatement will have on the City's financial and economic condition. As a result of the implementation of GASB No. 82, required supplementary information related to pension was slightly revised to include covered payroll (which is payroll on which contributions to a pension plan are based) and ratios that use covered payroll instead of covered-employee payroll.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Fair values of investments are based on quoted market prices or significant other observable inputs from independent published sources and fair values of derivative instruments are based on swap valuations performed by independent valuation specialists.
- Depreciation estimates of depreciation are based on estimated useful-lives of the capital assets. We evaluated the key factors and assumptions used to develop the useful-lives of the capital assets and determined that it is reasonable in relation to the financial statements taken as a whole.
- Actuarial valuations of annual required contributions and the funded status of the other postemployment benefits (OPEB) plan is based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the City Council. We evaluated the key factors and assumptions used to develop the OPEB estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net pension liability for the City's miscellaneous and safety pension plans are based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the City Council. We evaluated the key factors and assumptions used to develop the estimated pension amounts including the net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimates of workers' compensation and general liability is based on actuarial valuations prepared by third party actuaries. We evaluated the key factors and assumptions used to develop the estimated liability in determining that they are reasonable in relation to the financial statements taken as a whole.
- Allowances for uncollectible accounts. Management determines the allowances for uncollectible accounts receivable by evaluating individual customer accounts receivable and considering the customer's financial condition, credit history and current economic conditions. We evaluated the key factors and assumptions used to develop the allowances and determined that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures and corrected by management which were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, and information related to the pension and other postemployment benefit plans which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements, budgetary comparison schedules and schedules of expenditures, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,

Macias Gini & O'Connell LLP

Newport Beach, California