

2014 FINANCIAL REPORT



CUSTOMER OWNED SINCE 1895

RiversidePublicUtilities.com

WATER | ENERGY | LIFE




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A close-up photograph of an orange tree branch. Several bright orange, ripe oranges are visible, surrounded by lush green leaves. The background is a clear blue sky with some blurred greenery and palm trees in the distance. The word "Administration" is written in a white, elegant serif font across the upper middle of the image.

Administration



Established in 1895, Riverside Public Utilities is a department of the City of Riverside and owned with pride, by the customers it serves. We provide high quality, reliable services to over 108,000 metered electric customers and almost 65,000 metered water customers throughout the City of Riverside.

The Utility is committed to increased use of renewable energy resources and sustainable living practices that help reduce environmental impacts within the City of Riverside and the State of California. In addition to maintaining some of the lowest water and electric rates in Southern California, Riverside Public Utilities is proud to offer its customers a variety of programs that provide valuable rebates and services. All are designed to serve the needs of our customers and help promote a thriving community in which to live and work.

Girish Balachandran

Utilities General Manager

Stephen H. Badgett

Deputy General Manager

Michael J. Bacich

Assistant General Manager

Customer Relations/Marketing

Laura M. Chavez-Nomura

Assistant General Manager

Finance/Administration

Pat Hohl

Assistant General Manager

Energy Delivery

Reiko Kerr

Assistant General Manager

Resources

Kevin S. Milligan

Assistant General Manager

Water

Board of Public Utilities



Board of Public Utilities (l-r) top row: Susan Cash, Nick Ferguson, Darrell Ament, David Austin, Ronald Cole, David Roberts, Andrew Walcker seated: Justin Scott-Coe, Ian Davidson.



The Board of Public Utilities is comprised of nine volunteers who live in all seven wards of the City of Riverside. They are appointed by the City Council to four-year terms without compensation. Board members oversee Riverside Public Utilities' policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources. The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination. The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3901 Orange Street, Riverside, CA 92501.

Board meetings are open to the public.

Justin Scott-Coe

Board Chair - Ward 1

Ian J. Davidson

Board Vice-Chair - Ward 1

Darrell Ament - Ward 3

David Austin - Ward 4

Susan Cash - Ward 2

Ronald Cole - Ward 7

Nick Ferguson - Ward 3

David E. Roberts - Ward 6

Andrew Walcker - Ward 5



Community Commitment



MISSION ~ The City of Riverside Public Utilities Department is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.

TEN-YEAR VISION ~ Our customers will recognize Riverside Public Utilities as a unique community asset with a global reputation for innovation, sustainability and enhanced quality of life.



CORE VALUES ~ Safety • Honesty and Integrity • Teamwork • Professionalism • Quality Service
 • Creativity and Innovation • Inclusiveness and Mutual Respect • Community Involvement
 • Environmental Stewardship

THREE-YEAR GOALS ~ Contribute to the City of Riverside’s economic development while preserving Riverside Public Utilities’ financial strength • Maximize the use of technology to improve utility operations • Impact positively legislation and regulations at all levels of government
 • Develop and implement electric and water resource plans • Create and implement a workforce development plan

TEN-YEAR GOALS ~ Employ state-of-the-art technology to maximize reliability and customer service
 • Foster economic development and job growth in the City of Riverside • Communicate effectively the accomplishments, challenges and opportunities for the full utilization of our electric and water resources
 • Develop fully our low-cost, sustainable, reliable electric and water resources • Enhance the effective and efficient operation of all areas of the utility





YOU CAN COUNT ON US

Providing safe, reliable electricity services to our customer-owners is one of our most important obligations as a public power utility. And as a team we strive to live up to that obligation. Over the past decade, Riverside Public Utilities (RPU) has undertaken a variety of projects to increase its energy delivery system capacity and reliability including: system-wide power line tree trimming, constructing and procuring local generation sources, and upgrading its sub transmission systems.

In April 2014, the American Public Power Association (APPA) honored RPU with its highest award designation: Diamond Level Reliable Public Power Provider or RP3. APPA's RP3 program recognizes the nation's top public power utilities in the Gold, Platinum, and Diamond categories that have demonstrated proficiency in four key disciplines: reliability, safety, workforce development, and system improvement. RPU is one of only 29 public power utilities among the 2,000 APPA members nationwide to ever receive the RP3 Diamond designation; one of only two California public utilities to reach the prestigious level; and the only large category utility in the state to receive the honor. Receiving this designation is a testament to the hard work and dedication that our city, our board of public utilities, executive management, and our entire energy delivery staff puts in each year for the benefit of our community.



YOU
CAN
COUNT
ON US



Riverside is home to one of the most reliable public utilities in the nation.

The American Public Power Association recently designated Riverside Public Utilities as a Diamond Reliable Public Power Provider, its top designation. This means, when it comes to reliability, safety, workforce development and system improvements, Riverside Public Utilities is one of the very best. It also means that you can count on Riverside Public Utilities.

To learn more about this rare distinction, go to publicpower.org.

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PUBLIC UTILITIES

RiversidePublicUtilities.com





A SECURE WATER FUTURE

Riverside Public Utilities has been proactively planning water resource management for decades. The latest Integrated Water Resource Plan will insure that Riverside has an adequate independent water supply through 2035. The Plan will synchronize and synthesize potable, non-potable and recycled water projects that capture water to fill a projected 33,000 annual acre-foot water deficit by 2035. It outlines a comprehensive study of supply, production and distribution projections for the next 20 years, as well as a ten-year capital requirements outlook and Environmental Impact Reports for proposed projects. Ten projects have been identified that will literally fill the gap in the water supply. Most notable among them include the Seven Oaks Dam Conservation Project yielding 4,000 acre-feet per year, Riverside North Aquifer Storage and Recovery yielding 3,250 acre-feet per year, and Arlington-Central Recycled Water Project yielding 3,600 acre-feet per year in addition to water conservation efforts that are projected to save 8,900 acre-feet per year. Since the drought was declared on January 17, 2014, Riverside Public Utilities has increased funding for water conservation rebates for outdoor watering measures. By taking part in voluntary conservation programs over the past year, customers were able to save more than 782.4 million gallons, enough water to meet the annual demands of about 4,800 households. They will now have increased incentives and more powerful tools to take additional steps to ensure Riverside can meet the state-mandated drought conservation goals.

I OWN IT

Riverside Public Utilities

Customer-owned since 1895

Duprice Tillman

is a major of meters,
a prince of pipes,
and a honcho of hoses.

He's a Water Meter Technician
with the City of Riverside,
and a customer-owner of
Riverside Public Utilities.



I OWN IT advertising campaign highlighting real customers who appreciate the value of a public utility to the Riverside community.



A vertical strip on the left side of the page shows a close-up, slightly blurred view of solar panels, highlighting the grid lines and the blue surface of the photovoltaic cells.

LEADING THE WAY WITH LOCAL SOLAR

Over the past decade, Riverside has taken strides in becoming a leader in urban sustainability, and as a result, our city has accomplished a long list of green goals. To uphold Riverside's long-term commitment to going green, the City's Clean & Green Task Force was assembled in 2005. Since then, Riverside was recognized with the Emerald City designation by the California Department of Conservation, and a Green Action Plan was developed with eight focus areas. The latest plan updated in 2012 is a working document that establishes a clear path to sustainability in Riverside and reflects the growth of the green movement, the progression of renewable energy, and the evolving ideas of what is now known as the Green Action Plan Committee.

Driven by the 2012 Green Action Plan goal of installing at least 20 megawatts of local solar projects by 2020, Riverside Public Utilities has worked hard to not only meet the goal, but surpass it. We have been investing in local solar since 2000 by funding projects at city parks, pool facilities, senior centers, low-income housing facilities, public transportation carports, and even on top of City Hall. Solar rebate incentives have been offered to residential electric customers since 2003, and have been available for commercial electric customers since 2008. Because of this investment in the community, the local solar distributed generation has surpassed 13 megawatts, enough to power close to 26,000 homes in Southern California. Rebates and incentives available from Riverside Public Utilities and the state, as well as the development of more cost-effective and efficient solar generation panels, encouraged the growth of privately-owned solar projects in Riverside. There are now more than 1,100 active solar projects and we will continue to invest in local solar by spending \$2.5 million each year to fund the rebate program. The residential program is so popular it is fully subscribed each year, with a waiting list. This funding will continue through June 2017, with 18.33 additional megawatts projected.

The latest public solar project investment from Riverside Public Utilities is a unique and innovative approach to building local solar. A seven megawatt solar farm is planned to be installed by late 2016, atop the capped Tequesquite landfill, which leverages local land resources into renewable power. The solar farm in the heart of an urban city will operate on brownfield property that upcycles useless land for the benefit of the community.

HELPING SMALL BUSINESSES SAVE ENERGY, WATER, AND MONEY

Economic factors over the past few years have made running a small business very challenging. That is precisely why Riverside Public Utilities has created energy and water conservation programs just for small business owners. This program, honored with an award of merit by the California Association for Local Economic Development in 2013, benefits small businesses with an average electric demand below 20 kilowatts. Many of these companies have unique challenges associated with energy and water costs savings. Most small businesses have long hours of operation and limited staff that may not have time to consider savings through conservation. The Small Business Direct Install Program makes it easier for these customers to participate in conservation programs with flexible guidelines targeted directly at each customer's needs. When qualified, they are provided with a conservation survey that provides a roadmap to ways they can save both energy and water. Each business then receives up to \$1,000 in energy upgrades and \$500 in water efficiency upgrades directly installed at their work site. Services have included lighting retrofits, HVAC system tune-ups, and high efficiency toilet replacements. Businesses that have been able to take advantage of free direct installation programs have been able to lower their utility bills and use less energy and water, which helps keep utility rates lower for everyone. In the past year, we helped more than 800 customers and have saved almost 3 million kilowatt hours. The programs are paid for by Public Benefits funds and also help the utility meet state-mandated goals for energy and water use efficiency and resource conservation.

I OWN IT

Riverside Public Utilities

Customer owned since 1895

Nolan Gouveia

is a titan of training,
a warden of weights,
and a fitness fiend.

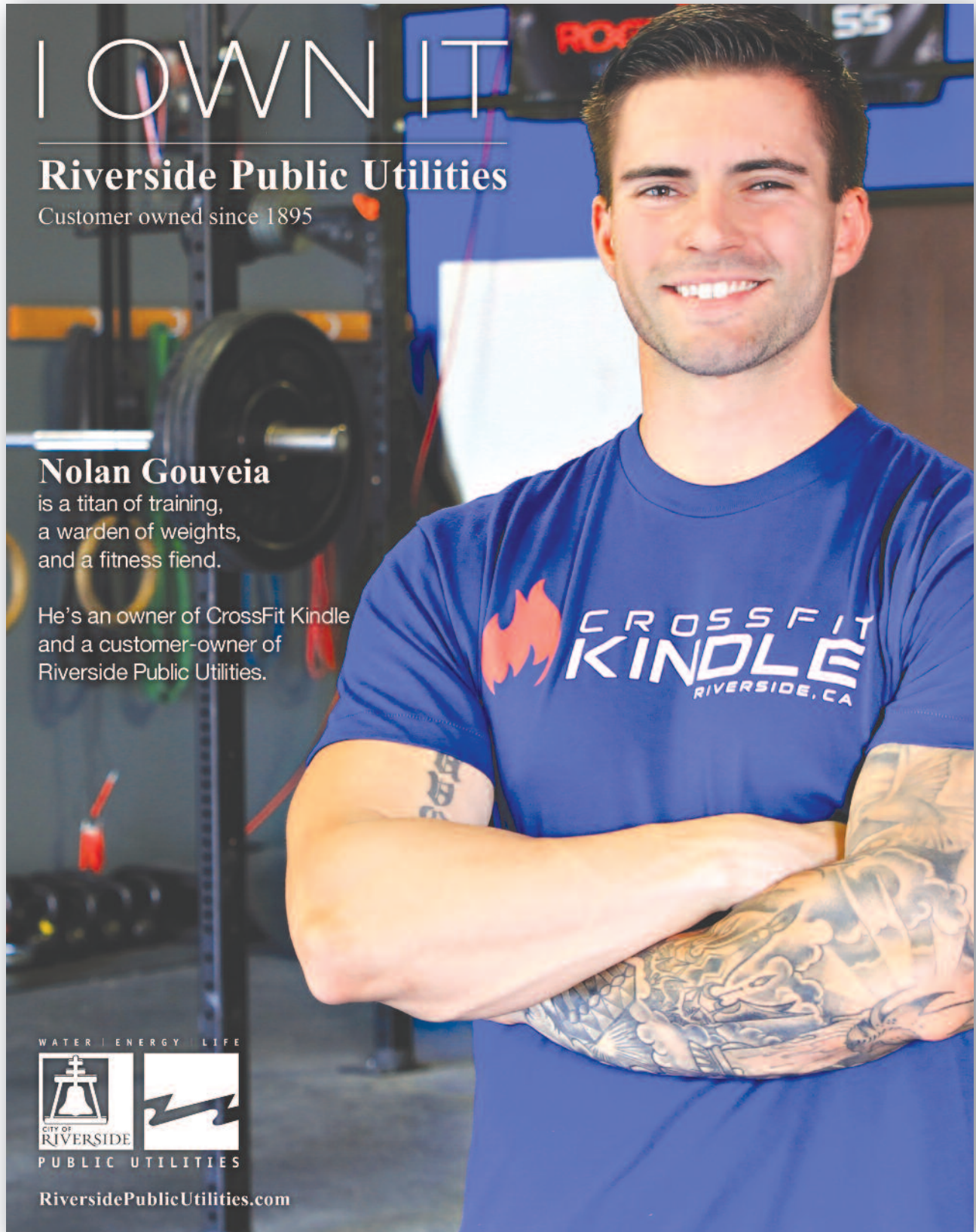
He's an owner of CrossFit Kindle
and a customer-owner of
Riverside Public Utilities.

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PUBLIC UTILITIES

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Fiscal Message



I OWN IT

Riverside Public Utilities

Customer owned since 1895

Riverside Public Utilities is owned by the customers we serve. Because of this, we are obligated to provide the highest quality water and electric services, at the lowest rates to benefit the community. As our city has grown into the 12th largest in the State of California, our utilities, our infrastructures, and our abilities to provide services have also grown.


An important key to our past growth, and our future, is the local control we have as a public utility. Local control also allows our city to benefit from a general fund transfer that helps offset budgets for fire, police, parks and libraries. Essential decisions regarding rapid changes in our industry receive broad support from our Board of Public Utilities and City Council, and approvals for vital projects do not have to wait for corporate or shareholder approvals.

When faced with energy shortages at the start of the new millennium, our local leaders recognized the importance of building power plants. These power plants meet our demand for energy when our customers need it the most. Today, we maintain several state-of-the-art power generation facilities, which help us to meet peak energy demand without interruption or the need to buy additional power on the hottest days of the year.

As regulations for using renewable energy have increased, we have moved quickly to strategically acquire additional sustainable generation resources that will place us well ahead of state mandated requirements.

While California's worst drought on record lingers, we have continued to provide funding for water conservation programs, maintained our water independence, and moved forward with integrated water resource planning that will ensure our customer-owners will have a clean, safe and reliable water supply for the next 100 years.

Because we have maintained the highest possible bond ratings for both utilities, Riverside Public Utilities maintains its strong fiscal foundation, which provides us the level of investment required to move forward with projects that will allow us to use emerging technologies to assist in meeting our future customer-owners' expectations. RPU is proud to be customer owned and recognized as a unique community asset.




Laura M. Chavez-Nomura
Assistant General Manager - Finance/Administration



Riverside Public Utilities • Administration

3750 University Avenue, 3rd Floor • Riverside, CA 92501 • 951.826.2135 • RiversidePublicUtilities.com



Electric

Sam Davis
Substation Electrician
for Riverside Public Utilities.



INDEPENDENT AUDITORS' REPORT



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4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor's Report

To the Honorable City Council and Board of Public Utilities
City of Riverside, California

Report on Financial Statements

We have audited the accompanying financial statements of the Electric Utility Enterprise Fund (Electric Utility) of the City of Riverside, California, (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility of the City, as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of the Electric Utility as of June 30, 2013, were audited by other auditors whose report dated October 25, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information, such as the mission statement, fiscal message, and supplementary Electric Utility information are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014



Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2013-14 financial report for the period ended June 30, 2014 and 2013 for Riverside's Electric Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 35 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery were \$295,214 and \$300,238 for years ended June 30, 2014 and 2013, respectively. The decrease in sales was primarily due to cooler than normal temperature patterns during the summer and fall seasons as compared to prior year.
- The net position for fiscal years 2014 and 2013 was \$483,975 and \$469,272, respectively. Of this amount, \$258,514 and \$241,696 represents unrestricted net position, which if necessary, would cover 94% and 92% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Utility's financial statements. The Utility is a department of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City's "Comprehensive Annual Financial Report."

The Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Utility, including historical sales, operating activities, and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Utility's financial health.

The **Statements of Net Position** present information on all of the Utility's assets, liabilities, deferred inflows and outflows of resources and net position. The Statements of Net Position provide information about the nature and amount of the Utility's resources and obligations at a specific point in time.

The **Statements of Revenues, Expenses and Changes in Net Position** report all of the Utility's revenues and expenses for the periods shown.

The **Statements of Cash Flows** report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 41 to 66 of this report.

UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

| | 2014 | 2013 | 2012 |
|--|-------------------|-------------------|-------------------|
| Current and other assets | \$ 517,061 | \$ 537,570 | \$ 536,109 |
| Capital assets | 691,416 | 679,047 | 703,435 |
| Deferred outflows of resources | 29,288 | 29,288 | 43,757 |
| Total assets and deferred outflows of resources | 1,237,765 | 1,245,905 | 1,283,301 |
| Long-term debt outstanding | 593,108 | 563,203 | 585,263 |
| Other liabilities | 160,682 | 213,430 | 218,223 |
| Total liabilities | 753,790 | 776,633 | 803,486 |
| Net investment in capital assets | 196,771 | 201,765 | 236,789 |
| Restricted | 28,690 | 25,811 | 23,828 |
| Unrestricted | 258,514 | 241,696 | 219,198 |
| Total net position | \$ 483,975 | \$ 469,272 | \$ 479,815 |

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2014 compared to 2013 The Utility's total assets and deferred outflows of resources were \$1,237,765 reflecting a decrease of \$8,140 (0.7%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net decrease of \$20,509.
 - Unrestricted assets increased by \$11,910 primarily due to increases of \$13,106 in cash and cash equivalents due to positive operating results and \$3,515 in unamortized purchased power which is the prepayment of power supply costs related to the Salton Sea power purchase agreement and Hoover Upgrading Project. These increases were offset by a decrease of \$3,317 in accounts receivable and prepaid expenses.
 - Restricted assets decreased by \$32,419 primarily due to the use of bond proceeds to fund capital projects such as substation upgrades, transmission system improvements and technology upgrades to improve service to the Utility's customers.
- Capital assets increased by \$12,369, primarily due to technology upgrades used to improve service to the Utility's customers, additions and improvements to the Electric system to serve customers, and continued improvements to the Utility's distribution system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

2013 compared to 2012 Total assets and deferred outflows of resources were \$1,245,905, a net decrease of \$37,396 (2.9%). Capital assets decreased by \$24,388 due to the retirement of San Onofre Nuclear Generating Station (SONGS) offset by technology upgrades and additions and improvements to Electric facilities and distribution system. Deferred outflows of resources decreased by \$14,469 primarily due to a decrease in deferred changes in derivative values. Current and other assets increased by \$1,461 mainly due to a \$11,844 increase in cash and cash equivalents due to positive operating results, an \$11,779 increase in regulatory assets due to replacement power costs related to the SONGS retirement, and a \$7,414 increase in accounts receivable and prepaid expenses related to power supply transactions, offset by decreases of \$1,992 in nuclear materials due to the retirement of SONGS and \$27,182 in cash and investments at fiscal agent due to the use of bonds proceeds to fund capital projects. See Notes 7 and 10 in the accompanying financial statements for additional information on SONGS.

LIABILITIES

2014 compared to 2013 The Utility's total liabilities were \$753,790, a decrease of \$22,843 (2.9%), due to the following:

- Long-term debt outstanding increased by \$29,905 primarily due to the issuance of the 2013 Electric Revenue Refunding Bonds (2013 Bonds), offset by related partial refunding of variable rate bonds and principal payments of revenue bonds, as well as the amortization of bond premiums. Additional debt information can be found in the "Capital Assets and Debt Administration" section.
- Other liabilities decreased by \$52,748 primarily due to the prepayment of the \$42,661 loan payable for the acquisition of Clearwater power plant from proceeds of the 2013 Bonds, a reduction of \$1,621 in negative fair value of the Utility's derivative instruments, a decrease of \$5,765 in current portion of long-term obligations, and a decrease of \$1,662 in accounts payable and other accruals.

2013 compared to 2012 Total liabilities were \$776,633, a decrease of \$26,853 (3.3%). Long term debt outstanding decreased by \$22,060, primarily due to revenue bond principal payments and the amortization of bond premiums. Other liabilities decreased by \$4,793 mainly due to a reduction of \$14,394 in fair value of the Utility's derivative instruments and principal payments of \$1,480 on the loan payable, offset by an \$11,584 increase in nuclear decommissioning liability, current portion of long-term obligations, accounts payable and other accruals, and other non-current liabilities.

NET POSITION

2014 compared to 2013 The Utility's net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$483,975, an increase of \$14,703 (3.1%) primarily due to the following:

- A portion of the Utility's total net position, \$196,771 (40.7%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion decreased by \$4,994 primarily due to depreciation expense for the fiscal year offset by an increase in capital assets constructed or purchased during the year, net of related debt. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$28,690 (5.9%), an increase of \$2,879, and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion of net position equals \$258,514 (53.4%), an increase of \$16,818, and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing operational needs and obligations to creditors and customers.

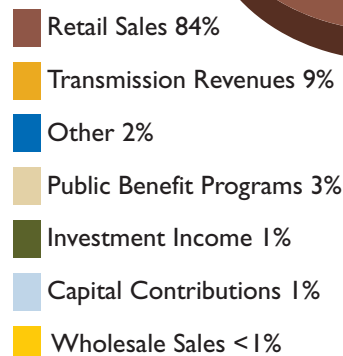
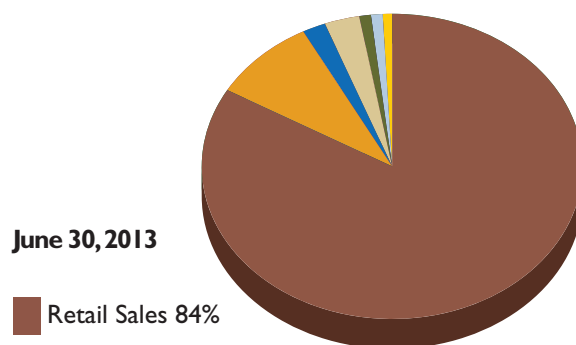
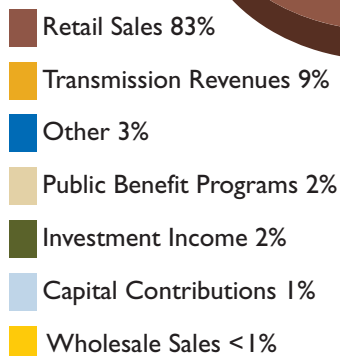
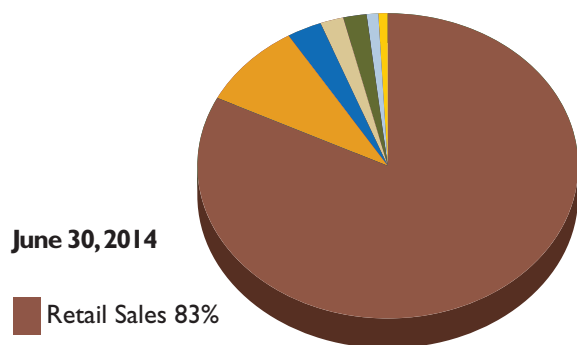
2013 compared to 2012 The Utility's net position decreased by \$10,543 (2.2%), to a total of \$469,272. Net investment in capital assets decreased by \$35,024 primarily due to the retirement of SONGS, offset by an increase in capital assets constructed or purchased during the fiscal year, net of related debt. Restricted net position decreased by \$1,983 and the unrestricted portion increased by \$22,498 primarily attributable to positive operating results.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF CHANGES IN NET POSITIONS

| | 2014 | 2013 | 2012 |
|--------------------------------------|----------------|-----------------|----------------|
| Revenues: | | | |
| Retail sales, net | \$ 295,214 | \$ 300,238 | \$ 288,616 |
| Wholesale sales | 115 | 638 | 50 |
| Transmission revenues | 32,630 | 32,688 | 30,735 |
| Investment income | 6,041 | 3,060 | 6,196 |
| Other revenues | 10,649 | 8,590 | 7,563 |
| Public Benefit Programs | 8,577 | 8,924 | 8,639 |
| Capital contributions | 4,008 | 4,980 | 9,257 |
| Total revenues | 357,234 | 359,118 | 351,056 |
| Expenses: | | | |
| Production and purchased power | 138,822 | 131,461 | 129,215 |
| Transmission | 51,939 | 45,957 | 45,447 |
| Distribution | 50,374 | 49,579 | 48,167 |
| Public Benefit Programs | 7,933 | 7,868 | 8,390 |
| Depreciation | 27,260 | 28,728 | 27,482 |
| Interest expenses and fiscal charges | 27,499 | 27,623 | 29,127 |
| Total expenses | 303,827 | 291,216 | 287,828 |
| Transfers to the City's general fund | (38,704) | (37,186) | (33,533) |
| Extraordinary item | - | (41,259) | - |
| Changes in net position | 14,703 | (10,543) | 29,695 |
| Net position, July 1 | 469,272 | 479,815 | 450,120 |
| Net position, June 30 | \$ 483,975 | \$ 469,272 | \$ 479,815 |

REVENUES BY SOURCES



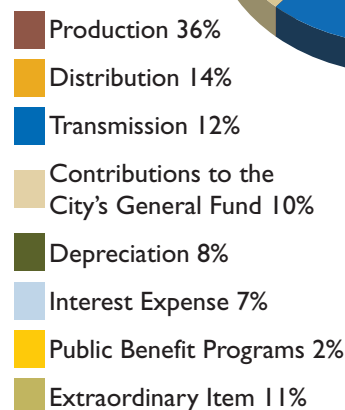
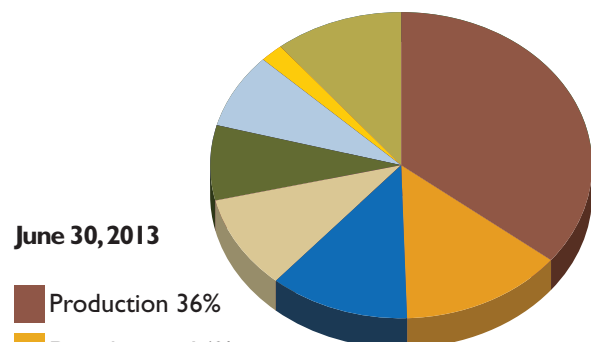
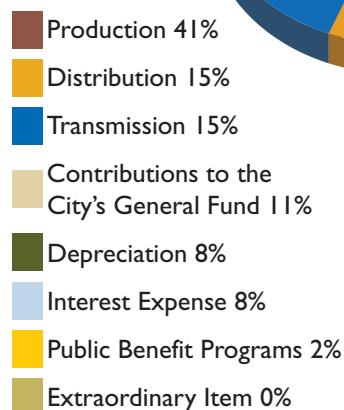
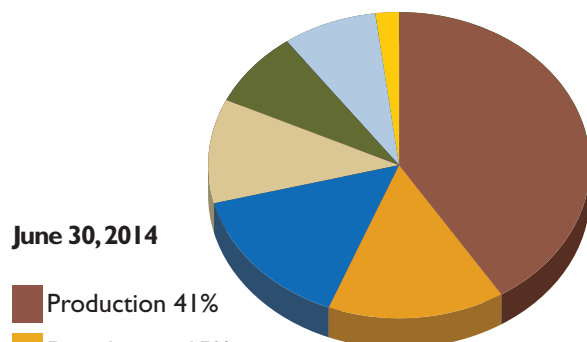
2014 compared to 2013 Total revenues of \$357,234 decreased by \$1,884 (0.5%), with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$295,214, a \$5,024 (1.7%) decrease. Retail sales continue to be the primary revenue source for the Utility, accounting for 82.6% of total revenues. The decrease was due to a 1.4% decrease in retail load as a result of cooler than normal temperature.
- Investment income of \$6,041 reflects an increase of \$2,981 (97.4%), due to an increase in the market value of investments in the current fiscal year.
- Other revenues of \$10,649 increased by \$2,059 (24.0%), primarily due to the receipt of \$2,769 related to regulatory transactions.
- Capital contributions of \$4,008 decreased by \$972 (19.5%), primarily as a result of completed phases in the relocation of Electric facilities related to the construction of the high occupancy vehicle (HOV) lanes project funded by Riverside County Transportation Commission (RCTC).

2013 compared to 2012 Total revenues were \$359,118, an increase of \$8,062 (2.3%), with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$300,238, an \$11,622 (4.0%) increase. Retail sales represented 83.6% of total revenues. The increase was due to a 3.7% increase in retail consumption and an expanded customer base.
- Transmission revenues of \$32,688 increased by \$1,953 (6.4%), primarily due to higher transmission revenues authorized by the Federal Energy Regulatory Commission (FERC) as of August 1, 2011.
- Investment income of \$3,060 reflects a decrease of \$3,136 (50.6%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates in the fiscal year.
- Other revenues of \$8,590 increased by \$1,027 (13.6%), primarily due to the receipt of \$381 related to regulatory transactions, \$343 reimbursement from Long Island Power for the Utility's assistance with Hurricane Sandy relief efforts, and an increase of \$336 in rental income.
- Capital contributions of \$4,980 decreased by \$4,277 (46.2%), primarily as a result of completed phases in the relocation of Electric facilities related to the construction of HOV lanes project funded by RCTC.

EXPENSES BY SOURCES



UTILITY FINANCIAL ANALYSIS (CONTINUED)

2014 compared to 2013 Total expenses, excluding general fund transfer, were \$303,827, an increase of \$12,611 (4.3%). The increase was primarily due to the following:

- Production and purchased power expenses of \$138,822 increased by \$7,361 (5.6%) due to increased energy prices.
- Transmission expenses of \$51,939 increased by \$5,982 (13.0%), mainly due to one-time credits in the prior year from Southern California Public Power Agency transmission projects.
- Distribution expenses of \$50,374 increased by \$795 (1.6%), primarily due to an incentive payment of \$1,000 to the University of California, Riverside to aid in the construction of its thermal energy storage facility.
- Depreciation expense of \$27,260 decreased by \$1,468 (5.1%), reflecting the write-off of SONGS' plant assets in the prior fiscal year.

2013 compared to 2012 Total expenses, excluding general fund transfer and extraordinary item, were \$291,216, an increase of \$3,388 (1.2%), primarily due to the following items:

- Production and purchased power expenses of \$131,461 increased by \$2,246 (1.7%), primarily due to increased generation costs as a result of higher than normal temperature patterns resulting in increased load requirements.
- Distribution expenses of \$49,579 increased by \$1,412 (2.9%), primarily due to increases in facility related operating costs.
- Depreciation expense of \$28,728 increased by \$1,246 (4.5%), reflecting an increase in depreciable capital assets from additions and improvements to the Electric system.
- Interest expense and fiscal charges of \$27,623 decreased by \$1,504 (5.2%), primarily due to lower overall interest payments on outstanding bonds.

TRANSFERS

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Utility transferred \$38,704 and \$37,186 for 2014 and 2013, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Utility's investment in capital assets includes investments in production, transmission, and distribution related facilities, land, intangibles, construction in progress, nuclear fuel, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of accumulated depreciation, at June 30:

| | 2014 | | 2013 | | 2012 |
|----------------------------------|-------------------|----|----------------|----|----------------|
| Production | \$ 214,211 | \$ | 222,757 | \$ | 260,954 |
| Transmission | 27,919 | | 20,950 | | 18,562 |
| Distribution | 346,030 | | 329,634 | | 322,635 |
| General | 32,583 | | 33,641 | | 31,485 |
| Intangibles | 200 | | 229 | | 287 |
| Land | 8,717 | | 7,683 | | 7,654 |
| Intangibles, non-amortizable | 10,651 | | 10,651 | | 9,821 |
| Construction in progress | 51,105 | | 53,502 | | 43,205 |
| Nuclear fuel, at amortized costs | - | | - | | 8,832 |
| Total capital assets | <u>\$ 691,416</u> | \$ | <u>679,047</u> | \$ | <u>703,435</u> |

2014 compared to 2013 The Utility's investment in capital assets, net of accumulated depreciation, was \$691,416, an increase of \$12,369 (1.8%). The change resulted primarily from the following significant capital projects plus current year depreciation:

- \$21,809 in additions and improvements to the Electric system, such as substations, underground conduit and conductors, neighborhood streetlights, and distribution line extensions to serve customers.
- \$6,710 in technology upgrades to improve service to the Utility's customers.
- \$8,260 for the Riverside Transmission Reliability Project (RTRP) and related reliability improvements on the Utility's Sub-Transmission Project (STP) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.

2013 compared to 2012 The Utility's investment in capital assets, net of accumulated depreciation, was \$679,047, a decrease of \$24,388 (3.5%). The decrease resulted primarily from a reduction of \$39,224 in production plant and nuclear fuel inventory resulting from the retirement of SONGS, offset by \$21,512 in additions and improvements to the Electric system, \$6,933 in technology upgrades, and \$5,444 for RTRP and STP.

Additional information regarding capital assets can be found in Note 3 of the accompanying financial statements.

DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

| | 2014 | | 2013 | | 2012 |
|-----------------------|-------------------|----|----------------|----|----------------|
| Revenue bonds | \$ 597,580 | \$ | 576,430 | \$ | 594,480 |
| Unamortized premium | 10,434 | | 7,189 | | 8,643 |
| Arbitrage liability | 14 | | 269 | | 190 |
| Less: Current portion | (14,920) | | (20,685) | | (18,050) |
| Total | <u>\$ 593,108</u> | \$ | <u>563,203</u> | \$ | <u>585,263</u> |

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Utility's debt service coverage ratio was 2.16, 2.73, and 2.21 at June 30, 2014, 2013 and 2012, respectively. This debt is backed by the revenues of the Utility.

2014 compared to 2013 The Utility's long-term debt increased by \$29,905 (5.3%) to \$593,108 due to the issuance of \$79,860 in 2013 Electric Revenue Refunding Bonds and related premium, to refund \$37,575 in variable rate bonds and prepay the outstanding loan payable of \$42,661 for the acquisition of Clearwater power plant. This increase was offset by principal payments and amortization of bond premiums.

2013 compared to 2012 The Utility's long-term debt decreased by \$22,060 (3.8%) to \$563,203 primarily due to principal payments and amortization of bond premiums.

Additional information on the Utility's long-term debt can be found in Note 4 of the accompanying financial statements.

CREDIT RATINGS

In June 2013, Standard & Poor's (S&P) and Fitch Ratings (Fitch) assigned an "AA-" long-term rating to the 2013 Refunding Electric Revenue Bonds and affirmed the "AA-" underlying rating on the Utility's outstanding debt. These ratings reflect the Utility's traditionally strong debt service coverage levels, strong liquidity position, stable financial performance and the Utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources.

I OWN IT

Riverside Public Utilities

Customer-owned since 1895

Debbi Guthrie

is captain of the convention center,
a bastion of ballrooms,
and chief of floor plans.

She's the Senior Vice President
of Raincross Hospitality
and a customer-owner of
Riverside Public Utilities.



WATER | ENERGY | LIFE



PUBLIC UTILITIES

RiversidePublicUtilities.com

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

In April 2014, S&P affirmed its “A/A-1” rating on the Utility’s variable rate 2008 Electric Refunding/Revenue Series A and C Bonds, reflecting S&P’s rating of the bonds’ letter of credit provider, Bank of America. The underlying S&P credit rating of the Utility remains “AA-”.

In May 2014, S&P and Fitch affirmed their “A/A-1” and “AA+/F1” ratings, respectively, on the Utility’s variable rate 2008 Electric Refunding/Revenue Series A Bonds, reflecting S&P and Fitch’s ratings of the bonds’ new letter of credit provider, Barclays Bank PLC, substituting the ratings of the prior letter of credit provider, Bank of America. The underlying S&P and Fitch credit ratings of the Utility remain “AA-”.

REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

SENATE BILL (SB) X1-2 – CALIFORNIA RENEWABLE ENERGY RESOURCES ACT

Enacted in 2011, SBX1-2 requires utilities, including publicly-owned utilities (POUs), to achieve a 33% Renewable Portfolio Standard (RPS) by 2020, with interim targets of an average of 20% for the period 2011 to 2013, 25% by 2016, and 33% by 2020 and subsequent years. Additionally, SBX1-2 requires POUs to adopt and implement a Renewable Energy Resource Procurement Plan (Plan). The Plan must require the utility to procure a minimum quantity of electricity products from eligible renewable energy resources.

Oversight of compliance with SBX1-2 by POUs is provided in part by their respective local governing bodies and in part by the California Energy Commission (CEC). Oversight of compliance by investor-owned utilities (IOUs) is provided by the California Public Utilities Commission (CPUC).

The Utility has completed a conceptual RPS Procurement Plan and has received approval from City Council to implement the Plan. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources. To date, the Utility has completed the procurement of eligible renewable resources to meet the target for the period of 2011-13 and has substantially completed the procurement of eligible renewable resources to meet the stated targets through 2020.

ASSEMBLY BILL (AB) 32 – GLOBAL WARMING SOLUTIONS ACT OF 2006

AB 32 requires that utilities in California reduce their greenhouse gas (GHG) emissions to 1990 levels by the year 2020.

AB 32 tasked the California Air Resources Board (CARB) to develop regulations for GHG which became effective January 1, 2012. Emission compliance obligations under the cap-and-trade regulation began on January 1, 2013. The Cap-and-Trade Program (Program) is implemented in phases with the first phase beginning January 1, 2013 to December 31, 2014. This phase will place an emission cap on electricity generators, importers and large industrial sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases per year. In 2015, the program will expand to cover emissions from transportation fuels, natural gas, propane and other fossil fuels. Since the enactment of AB 32, the Utility has actively participated with major IOUs and other POUs to affect the final rules and regulations with respect to AB 32 implementation.

The Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowances to each electric utility to mitigate retail rate impacts. Thereafter, the utilities are likely to be required to purchase allowances through the auction or on the secondary market to offset its associated GHG emissions. Each allowance can be used for compliance purposes in the current year or carried over for use in future year compliance. The Utility’s free allocation of GHG allowances is expected to be sufficient to meet the Utility’s direct GHG compliance obligations.

REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

Any allowance not used for current year compliance or carried over for future use in compliance must be sold into the quarterly allowance auctions administered by CARB. Proceeds from the auctions must be used for the intended purposes as specified in AB 32 which include but are not limited to procurement of renewable resources, energy efficiency and conservation programs and measures that provide clear GHG reduction benefits. The Utility is segregating the proceeds from the sales of allowances in the auctions as a restricted asset.

SENATE BILL (SB) 1 – CALIFORNIA SOLAR INITIATIVE

SB 1, enacted in 2006, requires municipal utilities to establish a program supporting the stated goal of the legislation to install 3,000 megawatts (MW) of photovoltaic (PV) resources in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the CEC for funding solar energy systems receiving ratepayer funded incentives and meet reporting requirements regarding the installed capacity, number of installed systems, number of applicants, and awarded incentives.

The City has demonstrated leadership through its commitment to solar generations, with the construction of its first PV project in 2002, having a capacity of 150 kilowatts. To date, the City has increased its efforts and now has more than 10 MW of PV within the City.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD-FRANK ACT)

In July 2010, the Dodd-Frank Act (Act) was enacted to provide regulatory oversight and transparency of financial institutions primarily as a result of the economic meltdown. A portion of the Act provides a framework for the regulation of swap markets which is expected to have the largest impact on the functions of the utility industry. Swaps were previously exempt from regulatory oversight and considered a normal activity in the utility industry to reduce business risk and price volatility. The Act mandates that the Commodity Futures Trading Commission (CFTC) govern the rulemaking process of swaps.

The requirements under the Act include, but are not limited to, mandatory clearing and trade execution requirements, reporting and recordkeeping obligations, registration of large financial participants in the swap markets, and most likely position limits on energy and other contracts.

Overall, the impact of the Act to the Utility is on reporting and recordkeeping of transactions and it is expected to be manageable due to the fact that the Utility is a Special Entity as well as an end-user. Therefore, most of the reporting obligations fall under the Utility's transaction counterparties.

On September 17, 2014, the CFTC issued a final rule that provides permanent relief from swap dealer regulation for utility operations-related swaps by utility special entities. This rule will help ensure that public power utilities have access to the counterparties needed to hedge fuel and electric power price risks.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

Since Riverside's 2010 designation as a Silver Certified City in the California Green Communities Challenge, a competition between local governments for community collaboration and conservation, the City has remained committed to environmental issues and serving as a regional leader in sustainability for the State of California. The City has continued its commitment to sustainability with the adoption of its third Green Action Plan in 2012 spearheaded by the Utility.

The Utility has played a key role in revitalizing the local economy. The Utility has bolstered Riverside's economic development by stabilizing utility rates through the City Council adopted rate freeze. Originally adopted in 2010 and extended through January 2014, this rate freeze has provided business customers with stable and predictable rates during this economic recovery. The Utility also offers attractive economic development and business retention electric rates to qualified new and existing customers. These rate programs have resulted in the creation and retention of over 2,600 jobs within the City since 2010.


The Utility encourages energy efficient load growth by expanding the use of renewable energy technologies through its solar rebate programs, and continuing to offer aggressive business incentives through a wide variety of cost effective energy efficiency rebate

programs. Since 2012, the Utility has increased its focus on stimulating growth and expansion of small businesses, which comprise over 95% of Riverside's commercial electric customers. Programs providing the direct installation of energy and water efficiency measures have benefitted over 3,000 small businesses in Riverside. These energy and water efficiency measures have helped small businesses save nearly a million dollars in utility costs and saved the Utility over 6 million kilowatt-hours (kWh).

Economic development and sustainability projects have placed the Utility on the cutting edge of job creation and resource efficiency. Through assisting small and medium size businesses Riverside has strengthened the backbone of the local economy, and created a more desirable business environment to continually attract other revenue generating corporations. For more information on these economic development and green initiatives, go to GreenRiverside.com.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.RiversidePublicUtilities.com.



*Natural gas turbine generator at
Riverside Energy Resource Center.*

Electric

FINANCIAL STATEMENTS





Riverside Energy Resource Center — used to generate energy during emergencies or when energy use has hit its peak on hot days.

STATEMENTS OF NET POSITION

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | June 30, 2014 | June 30, 2013 |
|---|--------------------------|--------------------------|
| | (in thousands) | |
| UTILITY PLANT: | | |
| Utility plant, net of accumulated depreciation (Notes 3 and 10) | \$ 691,416 | \$ 679,047 |
| RESTRICTED ASSETS: | | |
| Cash and investments at fiscal agent (Note 2) | 176,349 | 211,072 |
| OTHER NON-CURRENT ASSETS: | | |
| Advances to other funds | 5,800 | 5,742 |
| Net pension asset | 11,450 | 11,954 |
| Unamortized purchased power (Note 8) | 3,143 | - |
| Regulatory assets | 17,451 | 18,281 |
| Total other non-current assets | 37,844 | 35,977 |
| Total non-current assets | 905,609 | 926,096 |
| CURRENT ASSETS: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents (Note 2) | 210,929 | 197,823 |
| Accounts receivable, less allowance for doubtful accounts 2014 \$647; 2013 \$774 | 36,680 | 40,955 |
| Advances to other funds | 914 | 1,765 |
| Accrued interest receivable | 1,127 | 1,089 |
| Inventory | 1,202 | 507 |
| Prepaid expenses | 22,827 | 21,869 |
| Unamortized purchased power (Note 8) | 372 | - |
| Total unrestricted current assets | 274,051 | 264,008 |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 18,958 | 16,735 |
| Public Benefit Programs - cash and cash equivalents (Note 2) | 8,920 | 8,856 |
| Public Benefit Programs receivable | 939 | 922 |
| Total restricted current assets | 28,817 | 26,513 |
| Total current assets | 302,868 | 290,521 |
| Total assets | 1,208,477 | 1,216,617 |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred changes in derivative values | 16,336 | 17,371 |
| Deferred loss on refunding | 12,952 | 11,917 |
| Total deferred outflows of resources | 29,288 | 29,288 |
| Total assets and deferred outflows of resources | \$ 1,237,765 | \$ 1,245,905 |

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

| NET POSITION AND LIABILITIES | June 30, 2014 | June 30, 2013 |
|--|---------------------|---------------------|
| | (in thousands) | |
| NET POSITION: | | |
| Net investment in capital assets | \$ 196,771 | \$ 201,765 |
| Restricted for: | | |
| Regulatory requirements (Note 5) | 3,150 | 381 |
| Debt service (Note 5) | 15,808 | 16,354 |
| Public Benefit Programs | 9,732 | 9,076 |
| Unrestricted | 258,514 | 241,696 |
| Total net position | <u>483,975</u> | <u>469,272</u> |
| LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4) | <u>593,108</u> | <u>563,203</u> |
| OTHER NON-CURRENT LIABILITIES: | | |
| Compensated absences (Note 4) | 830 | 762 |
| Advances from other funds - pension obligation (Note 4) | 11,284 | 11,781 |
| Nuclear decommissioning liability (Note 4) | 75,299 | 76,167 |
| Postemployment benefits payable (Note 4) | 5,749 | 4,928 |
| Derivative instruments (Note 4) | 22,108 | 23,729 |
| Loan payable (Note 4) | - | 7,413 |
| Capital leases payable (Note 4) | 1,566 | 1,913 |
| Total non-current liabilities | <u>116,836</u> | <u>126,693</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Accounts payable and other accruals | 1,869 | 718 |
| Accrued interest payable | 5,770 | 5,970 |
| Public Benefit Programs payable | 154 | 643 |
| Current portion of long-term obligations (Note 4) | 14,920 | 20,685 |
| Total current liabilities payable from restricted assets | <u>22,713</u> | <u>28,016</u> |
| CURRENT LIABILITIES: | | |
| Accounts payable and other accruals | 17,289 | 20,102 |
| Customer deposits | 3,844 | 3,371 |
| Loan payable (Note 4) | - | 35,248 |
| Total current liabilities | <u>21,133</u> | <u>58,721</u> |
| Total liabilities | <u>753,790</u> | <u>776,633</u> |
| Total net position and liabilities | <u>\$ 1,237,765</u> | <u>\$ 1,245,905</u> |

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | For the Fiscal Years Ended June 30, | |
|--|--|----------------|
| | 2014 | 2013 |
| | (in thousands) | |
| OPERATING REVENUES: | | |
| Residential sales | \$ 111,880 | \$ 118,173 |
| Commercial sales | 67,063 | 66,632 |
| Industrial sales | 111,260 | 110,680 |
| Other sales | 5,600 | 5,712 |
| Wholesale sales | 115 | 638 |
| Transmission revenue | 32,630 | 32,688 |
| Other operating revenue | 6,912 | 4,486 |
| Public Benefit Programs | 8,577 | 8,924 |
| Total operating revenues before uncollectibles | 344,037 | 347,933 |
| Estimated uncollectibles, net of bad debt recovery | (589) | (959) |
| Total operating revenues, net of uncollectibles | 343,448 | 346,974 |
| OPERATING EXPENSES: | | |
| Production and purchased power | 138,822 | 131,461 |
| Transmission | 51,939 | 45,957 |
| Distribution | 50,374 | 49,579 |
| Public Benefit Programs | 7,933 | 7,868 |
| Depreciation | 27,260 | 28,728 |
| Total operating expenses | 276,328 | 263,593 |
| Operating income | 67,120 | 83,381 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Investment income | 6,041 | 3,060 |
| Interest expense and fiscal charges | (27,499) | (27,623) |
| Gain on sale of assets | 293 | 584 |
| Other | 3,444 | 3,520 |
| Total non-operating revenues (expenses) | (17,721) | (20,459) |
| Income before capital contributions and transfers out | 49,399 | 62,922 |
| Capital contributions | 4,008 | 4,980 |
| Transfers out - contributions to the City's general fund | (38,704) | (37,186) |
| Total capital contributions and transfers out | (34,696) | (32,206) |
| Income before extraordinary item | 14,703 | 30,716 |
| EXTRAORDINARY ITEM: | | |
| Power plant closure | - | (41,259) |
| Increase (decrease) in net position | 14,703 | (10,543) |
| NET POSITION, BEGINNING OF YEAR | 469,272 | 479,815 |
| NET POSITION, END OF YEAR | \$ 483,975 | \$ 469,272 |

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

| | For the Fiscal Years Ended June 30, | |
|---|--|-------------------|
| | 2014 | 2013 |
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and users | \$ 348,296 | \$ 341,417 |
| Cash paid to suppliers and employees | (255,926) | (242,735) |
| Other receipts | 3,444 | 3,520 |
| Payments related to extraordinary item | - | (3,707) |
| Net cash provided by operating activities | <u>95,814</u> | <u>98,495</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Transfers out - contributions to the City's general fund | (38,704) | (37,186) |
| Payment on advances to other funds - pension obligation | (497) | (437) |
| Cash received on advances to other funds | 793 | 512 |
| Net cash used by non-capital financing activities | <u>(38,408)</u> | <u>(37,111)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of utility plant | (36,349) | (35,498) |
| Proceeds from the sale of utility plant | 457 | 646 |
| Proceeds from revenue bonds, for payment of interest | 2,315 | - |
| Principal paid on long-term obligations | (21,827) | (19,942) |
| Interest paid on long-term obligations | (29,400) | (28,772) |
| Capital contributions | 2,774 | 4,193 |
| Bond issuance costs | (454) | (40) |
| Net cash used by capital and related financing activities | <u>(82,484)</u> | <u>(79,413)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from (purchase of) investment securities | 5,301 | (1,549) |
| Income from investments | 5,748 | 2,691 |
| Net cash provided by investing activities | <u>11,049</u> | <u>1,142</u> |
| Net decrease in cash and cash equivalents | (14,029) | (16,887) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$137,262 and \$164,431 at June 30, 2013 and June 30, 2012, respectively, reported in restricted accounts) | <u>335,085</u> | <u>351,972</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR (including \$110,127 and \$137,262 at June 30, 2014 and June 30, 2013, respectively, reported in restricted accounts) | <u>\$ 321,056</u> | <u>\$ 335,085</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 67,120 | \$ 83,381 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 27,260 | 28,728 |
| Amortization of net pension asset | 504 | 426 |
| Other regulatory assets | - | (1,487) |
| Decrease in allowance for uncollectible accounts | (127) | (380) |
| Decrease (increase) in accounts receivable | 4,501 | (5,400) |
| Increase in inventory | (695) | (507) |
| Increase in prepaid expenses | (958) | (1,851) |
| Unamortized purchased power | (3,515) | - |
| Increase in regulatory assets | - | (11,779) |
| (Decrease) increase in accounts payable and other accruals | (1,725) | 2,184 |
| Increase (decrease) in compensated absences | 68 | (41) |
| Increase in postemployment benefits payable | 821 | 1,119 |
| Decrease in Public Benefit Programs | (489) | (392) |
| Increase in customer deposits | 473 | 223 |
| (Decrease) increase in decommissioning liability | (868) | 4,458 |
| Other receipts | 3,444 | 3,520 |
| Payments related to extraordinary item | - | (3,707) |
| Net cash provided by operating activities | <u>\$ 95,814</u> | <u>\$ 98,495</u> |
| SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | |
| Capital contributions - capital assets | 1,118 | 1,423 |
| Borrowing under capital lease | 408 | 1,659 |
| Decrease in fair value of investments | (80) | (2,947) |
| Loss on power plant closure | - | (37,552) |
| Proceeds of refunding debt placed into an irrevocable trust: | | |
| Defeasance of bonds | 37,575 | - |
| Payment of loan payable | 42,661 | - |

See accompanying notes to the financial statements

Electric

NOTES TO THE FINANCIAL STATEMENTS



*Installing turbine generator at
Riverside Energy Resource Center.*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility (the Utility) exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Utility is responsible for the generation, transmission and distribution of electric power for sale in the City. The accompanying financial statements present only the financial position and the results of operations of the Utility, which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. Effective July 1, 2012, the Utility adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments issued on or before November 30, 1989 so that they derive from a single source. The accounting records of the Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Utility is not subject to the regulations of the FERC.

The Utility distinguishes 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for electric sales and services. Operating expenses for the Utility include the cost of electric 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.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Utility customers are billed monthly. Unbilled electric service charges, including Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled \$15,128 at June 30, 2014, and \$15,324 at June 30, 2013.

An allowance for doubtful accounts is maintained for the Utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

UTILITY PLANT AND DEPRECIATION

The Utility 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. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

| | |
|--|-------------|
| Production plant..... | 10-40 years |
| Transmission and distribution plant..... | 20-50 years |
| General plant and equipment | 5-50 years |
| Intangibles..... | 3-5 years |

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets in the Statements of Net Position because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning and regulatory requirements relating to greenhouse gas allowances are also classified as restricted assets because their use is legally restricted to a specific purpose.

In January 1998, the Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

CASH AND INVESTMENTS

In accordance with the Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The Utility values its cash and investments in accordance with the provisions of the GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings.

City-wide information concerning cash and investments as of June 30, 2014, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are used to fund construction of capital assets. A portion is pledged as collateral for payment of principal and interest on outstanding bonds and certain funds are set aside to decommission the Utility's proportionate share of Units 2 and 3 at San Onofre Generating Station (SONGS).

INTERNALLY RESTRICTED CASH RESERVES

The Utility has several cash reserves established for strategic purposes, all of which are considered internally restricted assets. The balances as of June 30, 2014 and 2013 respectively are as follows: Regulatory Risk Reserve \$15,000 and \$15,000, Energy Risk Management Reserve \$30,000 and \$30,000, Operating Reserve \$131,031 and \$116,031, and Decommissioning Reserve \$1,725 and \$132, for a combined total of \$177,756 and \$161,163 and are included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS

Advances to other funds have been recorded as a result of agreements between the Utility and the City. The balances as of June 30, 2014 and 2013 are \$6,714 and \$7,507, respectively.

DERIVATIVES

The Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred inflows and outflows of resources on the Statements of Net Position. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the non-operating revenues section of the Statements of Revenues, Expenses and Changes in Net Position.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility'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 (CRR). GASB 53 allows an exception for the Statements of Net Position deferral hedges that meet the normal purchases and normal sales exception. The Utility has determined that all of its contracts including CRRs fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

BOND PREMIUMS AND GAINS/LOSSES ON REFUNDING

Bond premiums and gains/losses on refunding (including gains/losses related to interest rate swap transactions) are deferred and amortized over the term of the new bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums. Gains/losses on refunding are reported as deferred inflows or outflows of resources.

NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The 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 July 2013, prepared by ABZ Incorporated, the Utility has fully funded the SONGS nuclear decommissioning liability. 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 Utility has conservatively decided to continue to set aside \$1,581 per year in an internally restricted cash reserve for unexpected costs not contemplated in the current estimates.

Increases to the funds held for decommissioning liability are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These earnings, as well as amounts set aside, are reflected as decommissioning expense which is considered part of production and purchased power. The Utility has set aside \$77,897 and \$76,035 in cash investments with the trustee and \$1,725 and \$132 in an internally restricted decommissioning reserve as the Utility's estimated share of the decommissioning cost of San Onofre as of June 30, 2014 and 2013, respectively, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of Net Position. The Utility's decommissioning liability is equivalent to the total funds accumulated less \$4,323 and \$0, paid as decommissioning costs for the fiscal years ended June 30, 2014 and 2013, respectively, and is reflected as an other non-current liability. 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. See Note 7 for further discussion of SONGS decommissioning.

CAPITAL LEASES

The Utility has entered into fourteen capital lease agreements as a lessee for financing fourteen compressed natural gas heavy duty service trucks. In fiscal year ended June 30, 2014, the Utility entered into one additional capital lease agreement for financing an additional service truck. All leases have seven year terms of monthly payments with interest rates ranging from 2.50% to 5.87%. The total gross value of all leases is \$4,811 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2014 and 2013, the total liability was \$2,266 and \$2,550, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases are \$751 in fiscal year ended June 30, 2015, \$387 in fiscal year ended June 30, 2016, \$322 annually through fiscal year ended June 30, 2019, and \$309 in the fiscal year ended June 30, 2020. Total outstanding lease payments are \$2,413, with \$2,266 representing the present value of the net minimum lease payments and \$147 representing interest.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Utility's portion of these deposits as of June 30, 2014 and 2013 was \$3,844 and \$3,371, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2014 and 2013. The Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$4,442 at June 30, 2014 and \$4,359 at June 30, 2013.

Employees receive 10 to 25 vacation days per 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.

Employees primarily 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.

INSURANCE PROGRAMS

The Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2014, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2014 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Utility including the Public Benefit Programs, were \$786 and \$818 for the years ended June 30, 2014 and 2013, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. The City has the following multiple tier retirement plan with benefits varying by plan for non-safety employees:

1st Tier – The retirement formula is 2.7% at age 55. The Utility pays the employee share (8%) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 2% in fiscal year 2014, with the City paying the remaining 6% of the employee share.

2nd Tier – The retirement formula is 2.7% at age 55. Employees hired on or after October 19, 2011 pay their share (8%) of contributions.

3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013. Employees must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (PERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Utility's total contribution to PERS for the years ended June 30, 2014 and 2013 was \$8,542 and \$8,633 respectively. The employer portion of the PERS funding for the years ended June 30, 2014 and 2013 was 18.31 percent and 18.28 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2014 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report."

PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Utility's proportional share of the outstanding principal amount of the bonds was \$11,284 and \$11,781 as of June 30, 2014 and 2013, respectively, and is shown on the Statements of Net Position as Advances from other funds – pension obligation. The bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The balance in the net pension asset as of June 30, 2014 and 2013 was \$11,450 and \$11,954, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2014.

OTHER POSTEMPLOYMENT BENEFITS

The City provides healthcare benefits to retirees in the form of an implied rate subsidy. Retirees and active employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees receive the benefit of a lower rate. The difference between these amounts is the implied rate subsidy, which is considered an other postemployment benefit (OPEB) under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45).

Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under

another employer health plan, attains Medicare eligibility age, or dies. However, the retiree benefit continues to the surviving spouse if the retiree elects the PERS survivor annuity.

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

The Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period not to exceed thirty years. The Utility's OPEB liability as of June 30, 2014 and 2013 was \$5,749 and \$4,928, respectively.

City-wide information concerning the description of the plan, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2014 can be found in the notes to the City's "Comprehensive Annual Financial Report."

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position 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.

When applicable, the Statements of Net Position will report a separate section for deferred inflows of resources. 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.

REGULATORY ASSETS

In accordance with GASB 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 relating to debt issuance costs and replacement power costs have been recorded by the Utility.

NET POSITION

The Utility's net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, which is classified into the following three components:

Net investment in capital assets – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

Restricted – this component represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of its prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2014 and 2013, \$38,704 and \$37,186, respectively was transferred representing 11.5 percent.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

BUDGET AND BUDGETARY ACCOUNTING

The Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Utility's budget in June each year via resolution.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform to the current year's presentation.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 and 2013, consist of the following (in thousands):

| | June 30, 2014 | June 30, 2013 |
|---|----------------------|----------------------|
| | Fair Value | |
| Equity interest in City Treasurer's investment pool | \$ 238,807 | \$ 223,414 |
| Cash and investments at fiscal agent | 176,349 | 211,072 |
| Total cash and investments | \$ 415,156 | \$ 434,486 |

The amounts above are reflected in the accompanying financial statements as:

| | June 30, 2014 | June 30, 2013 |
|---|----------------------|----------------------|
| Unrestricted cash and cash equivalents | \$ 210,929 | \$ 197,823 |
| Restricted cash and cash equivalents | 27,878 | 25,591 |
| Restricted cash and investments at fiscal agent | 176,349 | 211,072 |
| Total cash and investments | \$ 415,156 | \$ 434,486 |

The investment types in the tables below related to the Utility's investments in the City Treasurer's investment pool represent the Utility's prorated share of the investment types in the investment pool and do not represent ownership interests in the individual investments.

Cash and investments distribution by maturities as of June 30, 2014 and 2013, are as follows:

| Investment Type | June 30, 2014 Fair Value | Remaining Maturity (In Months) | | | |
|---|-----------------------------|--------------------------------|--------------------|--------------------|------------------------|
| | | 12 Months or less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
| Held by fiscal agent | | | | | |
| Money market funds | \$ 5,462 | \$ 5,462 | \$ - | \$ - | \$ - |
| Federal agency securities | 53,165 | - | 9,113 | 44,052 | - |
| Investment contracts ¹ | 97,040 | 4,030 | - | 82,249 | 10,761 |
| Corp medium term notes | 20,682 | - | 2,057 | 18,625 | - |
| City Treasurer's investment pool ² | | | | | |
| Money market funds | 4,512 | 4,512 | - | - | - |
| Federal agency securities | 48,608 | - | 32,590 | 16,018 | - |
| US Treasury notes/bonds | 84,377 | - | 14,211 | 70,166 | - |
| Corp medium term notes | 33,275 | 7,511 | 12,488 | 13,276 | - |
| State investment pool | 60,633 | 60,633 | - | - | - |
| Negotiable certificate of deposit | 7,402 | 2,419 | 3,315 | 1,668 | - |
| Total | \$ 415,156 | \$ 84,567 | \$ 73,774 | \$ 246,054 | \$ 10,761 |

| Investment Type | June 30, 2013 Fair Value | Remaining Maturity (In Months) | | | |
|---|-----------------------------|--------------------------------|--------------------|--------------------|------------------------|
| | | 12 Months or less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
| Held by fiscal agent | | | | | |
| Money market funds | \$ 3,142 | \$ 3,142 | \$ - | \$ - | \$ - |
| Federal agency securities | 53,344 | - | - | 53,344 | - |
| Investment contracts ¹ | 134,003 | 119,211 | 4,031 | - | 10,761 |
| Corp medium term notes | 20,583 | - | - | 20,583 | - |
| City Treasurer's investment pool ² | | | | | |
| Money market funds | 31,975 | 31,975 | - | - | - |
| Federal agency securities | 101,606 | 17,490 | 9,648 | 74,468 | - |
| Corp medium term notes | 31,718 | 5,448 | 9,442 | 16,828 | - |
| State investment pool | 52,048 | 52,048 | - | - | - |
| Negotiable certificate of deposit | 6,067 | 2,701 | 1,953 | 1,413 | - |
| Total | \$ 434,486 | \$ 232,015 | \$ 25,074 | \$ 166,636 | \$ 10,761 |

Presented below is the actual rating as of June 30, 2014 and 2013 for each investment type:

| Investment Type | June 30, 2014 Fair Value | Rating as of Year End | | | | | |
|---|-----------------------------|-----------------------|-----------------|------------------|-----------------|------------------|-------------------|
| | | AAA | AA+ | AA | A+ | A | Unrated |
| Held by fiscal agent | | | | | | | |
| Money market funds | \$ 5,462 | \$ 5,420 | \$ - | \$ - | \$ - | \$ - | \$ 42 |
| Federal agency securities | 53,165 | 53,165 | - | - | - | - | - |
| Investment contracts ¹ | 97,040 | - | - | - | - | - | 97,040 |
| Corp medium term notes | 20,682 | - | 2,057 | 8,281 | 6,017 | 4,327 | - |
| City Treasurer's investment pool ² | | | | | | | |
| Money market funds | 4,512 | 648 | - | 787 | - | 3,077 | - |
| Federal agency securities | 48,608 | 48,608 | - | - | - | - | - |
| US Treasury notes/bonds | 84,377 | 84,377 | - | - | - | - | - |
| Corp medium term notes | 33,275 | - | - | 27,014 | - | 6,261 | - |
| State investment pool | 60,633 | - | - | - | - | - | 60,633 |
| Neg certificate of deposit | 7,402 | - | - | - | - | - | 7,402 |
| Total | \$ 415,156 | \$ 192,218 | \$ 2,057 | \$ 36,082 | \$ 6,017 | \$ 13,665 | \$ 165,117 |

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

| Investment Type | Rating as of Year End | | | | | | |
|---|-----------------------------|-------------------|-----------------|------------------|-----------------|------------------|-------------------|
| | June 30, 2013 Fair Value | AAA | AA+ | AA | A+ | A | Unrated |
| Held by fiscal agent | | | | | | | |
| Money market funds | \$ 3,142 | \$ 3,104 | \$ - | \$ - | \$ - | \$ - | \$ 38 |
| Federal agency securities | 53,344 | 53,344 | - | - | - | - | - |
| Investment contracts ¹ | 134,003 | - | - | - | - | - | 134,003 |
| Corp medium term notes | 20,583 | - | 2,080 | 8,364 | 5,871 | 4,268 | - |
| City Treasurer's investment pool ² | | | | | | | |
| Money market funds | 31,975 | 1,357 | - | 673 | - | 29,945 | - |
| Federal agency securities | 101,606 | 101,606 | - | - | - | - | - |
| Corp medium term notes | 31,718 | - | - | 26,184 | - | 5,534 | - |
| State investment pool | 52,048 | - | - | - | - | - | 52,048 |
| Neg certificate of deposit | 6,067 | - | - | - | - | - | 6,067 |
| Total | \$ 434,486 | \$ 159,411 | \$ 2,080 | \$ 35,221 | \$ 5,871 | \$ 39,747 | \$ 192,156 |

¹ Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

² Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2014 and 2013 (in thousands):

| | Balance | | | Balance | | | Balance | | |
|--|--------------------|------------------|---------------------------|--------------------|------------------|---------------------------|--------------------|--|--|
| | As of 6/30/2012 | Additions | Retirements/ Transfers | As of 6/30/2013 | Additions | Retirements/ Transfers | As of 6/30/2014 | | |
| Production ^{1,2} | \$ 349,264 | \$ - | \$ (82,473) | \$ 266,791 | \$ 361 | \$ - | \$ 267,152 | | |
| Transmission | 32,054 | 3,122 | - | 35,176 | 7,787 | - | 42,963 | | |
| Distribution | 494,918 | 20,496 | (1,078) | 514,336 | 30,469 | (3,424) | 541,381 | | |
| General | 53,793 | 5,188 | (154) | 58,827 | 2,363 | (590) | 60,600 | | |
| Intangibles | 292 | - | - | 292 | 33 | - | 325 | | |
| Depreciable utility plant | 930,321 | 28,806 | (83,705) | 875,422 | 41,013 | (4,014) | 912,421 | | |
| Less accumulated depreciation: | | | | | | | | | |
| Production ^{1,2} | (102,951) | (10,191) | 69,108 | (44,034) | (8,907) | - | (52,941) | | |
| Transmission | (13,492) | (734) | - | (14,226) | (818) | - | (15,044) | | |
| Distribution | (172,283) | (13,480) | 1,061 | (184,702) | (14,073) | 3,424 | (195,351) | | |
| General | (22,308) | (2,987) | 109 | (25,186) | (3,400) | 569 | (28,017) | | |
| Intangibles | (5) | (58) | - | (63) | (62) | - | (125) | | |
| Accumulated depreciation | (311,039) | (27,450) | 70,278 | (268,211) | (27,260) | 3,993 | (291,478) | | |
| Net depreciable utility plant | 619,282 | 1,356 | (13,427) | 607,211 | 13,753 | (21) | 620,943 | | |
| Nuclear fuel, at amortized cost ² | 8,832 | 1,317 | (10,149) | - | - | - | - | | |
| Production ^{1,2} | 14,641 | - | (14,641) | - | - | - | - | | |
| Land | 7,654 | 29 | - | 7,683 | 1,034 | - | 8,717 | | |
| Intangibles, non-amortizable | 9,821 | 830 | - | 10,651 | - | - | 10,651 | | |
| Construction in progress | 43,205 | 37,970 | (27,673) | 53,502 | 37,778 | (40,175) | 51,105 | | |
| Nondepreciable utility plant | 75,321 | 38,829 | (42,314) | 71,836 | 38,812 | (40,175) | 70,473 | | |
| Total utility plant | \$ 703,435 | \$ 41,502 | \$ (65,890) | \$ 679,047 | \$ 52,565 | \$ (40,196) | \$ 691,416 | | |

¹ SONGS Units 2 and 3 were taken offline in January 2012 and remained offline for extensive inspections, testing and analysis resulting from excessive wear of tubes in the steam generators. It was anticipated that Unit 2 would restart months in advance of Unit 3. Due to the uncertainty of Unit 3 restart date, the capital assets of Unit 3 were reclassified from a depreciable to a non-depreciable utility plant asset for fiscal year ended June 30, 2012.

² On June 7, 2013, Southern California Edison (SCE) announced its decision to permanently shut down both SONGS Units 2 and 3. As a result, both Units 2 and 3 and related nuclear fuel were written off from utility plant assets as an extraordinary item (Note 7 and 10).

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2014 and 2013 (in thousands):

| | Balance As of 6/30/2012 | | | Balance As of 6/30/2013 | | | Balance As of 6/30/2014 | | Due Within One Year |
|--|-------------------------|------------------|--------------------|-------------------------|------------------|---------------------|-------------------------|------------------|---------------------|
| | Balance As of 6/30/2012 | Additions | Reductions | Balance As of 6/30/2013 | Additions | Reductions | Balance As of 6/30/2014 | | |
| Revenue bonds | \$ 603,123 | \$ - | \$ (19,504) | \$ 583,619 | \$ 84,841 | \$ (60,446) | \$ 608,014 | \$ 14,920 | |
| Arbitrage liability | 190 | 79 | - | 269 | - | (255) | 14 | - | |
| Advances from other funds - pension obligation | 12,003 | 214 | (436) | 11,781 | - | (497) | 11,284 | - | |
| Postemployment benefits payable | 3,809 | 1,119 | - | 4,928 | 821 | - | 5,749 | - | |
| Nuclear decommissioning liability | 71,709 | 4,458 | - | 76,167 | 3,455 | (4,323) | 75,299 | - | |
| Capital leases | 1,303 | 1,659 | (412) | 2,550 | 408 | (692) | 2,266 | 700 | |
| Loan payable | 44,141 | - | (1,480) | 42,661 | - | (42,661) | - | - | |
| Compensated absences | 4,294 | 3,609 | (3,544) | 4,359 | 3,629 | (3,545) | 4,443 | 3,613 | |
| Total long-term obligations | \$ 740,572 | \$ 11,138 | \$ (25,376) | \$ 726,334 | \$ 93,154 | \$ (112,419) | \$ 707,069 | \$ 19,233 | |

LOAN PAYABLE

The Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 megawatts (MW). Following a "transition period" during which the Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the Southern California Edison's (SCE) electrical distribution system to California's high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater was \$45,569, and the related outstanding obligation of \$42,661 was prepaid with a portion of the proceeds of the 2013 Electric Revenue Refunding Bonds issued on July 25, 2013.



NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Long-term debt consists of the following (in thousands):

REVENUE BONDS PAYABLE

| | June 30, 2014 | June 30, 2013 |
|--|---------------|---------------|
| \$75,405 2003 Electric Refunding/Revenue Bonds: serial bonds due in a final principal installment of \$6,880 on October 1, 2013, interest of 4.6 percent | \$ - | \$ 6,880 |
| \$27,500 2004 Electric Revenue Series A Bonds: serial bonds due in a final principal installment of \$2,645 on October 1, 2014, interest of 5.0 percent | 2,645 | 6,340 |
| \$141,840 2008 Electric Refunding/Revenue Bonds: | | |
| A - \$84,515 2008 Series A Bonds - variable rate bonds due in annual principal installments from \$4,575 to \$7,835 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2014 was 3.0 percent). Partially refunded \$13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds | 70,540 | 84,515 |
| C - \$57,325 2008 Series C Bonds - variable rate bonds due in annual principal installments from \$700 to \$5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2014 was 3.1 percent). Partially refunded \$11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds | 41,975 | 53,750 |
| \$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual principal installments from \$3,460 to \$25,345, from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent | 209,740 | 209,740 |
| \$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from \$1,150 to \$7,035 through October 1, 2018, interest from 4.0 to 5.0 percent | 13,815 | 21,075 |
| \$140,380 2010 Electric Revenue Bonds: | | |
| A - \$133,290 2010 Electric Revenue Series A Bonds: fixed rate, federally taxable Build America Bonds due in annual principal installments from \$2,300 to \$33,725, from October 1, 2020 through October 1, 2040, interest from 3.9 to 4.9 percent | 133,290 | 133,290 |
| B - \$7,090 2010 Electric Revenue Series B Bonds: fixed rate bonds due in annual principal installments from \$95 to \$2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 to 5.0 percent | 7,090 | 7,090 |
| \$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from \$725 to \$5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2014 was 3.1 percent). Partially refunded \$11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds | 41,925 | 53,750 |
| \$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from \$795 to \$12,685 through October 1, 2043, interest from 3.0 to 5.25 percent | 76,560 | - |
| Total electric revenue bonds payable | 597,580 | 576,430 |
| Unamortized bond premium | 10,434 | 7,189 |
| Total electric revenue bonds payable, including bond premium | 608,014 | 583,619 |
| Less current portion of revenue bonds payable | (14,920) | (20,685) |
| Total long-term electric revenue bonds payable | \$ 593,094 | \$ 562,934 |

Revenue bonds annual debt service requirements to maturity as of June 30, 2014 are as follows (in thousands):

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020-2024 | 2025-2029 | 2030-2034 | 2035-2039 | 2040-2044 | Total |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| Principal | \$ 14,920 | \$ 15,825 | \$ 13,320 | \$ 13,795 | \$ 14,445 | \$ 80,575 | \$ 97,715 | \$120,155 | \$149,040 | \$ 77,790 | \$ 597,580 |
| Interest | \$ 26,445 | \$ 25,770 | \$ 25,114 | \$ 24,530 | \$ 23,887 | \$110,688 | \$ 91,628 | \$ 68,298 | \$ 38,047 | \$ 4,844 | 439,251 |
| Total | \$ 41,365 | \$ 41,595 | \$ 38,434 | \$ 38,325 | \$ 38,332 | \$191,263 | \$189,343 | \$188,453 | \$187,087 | \$ 82,634 | \$1,036,831 |

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.10. The Utility's debt service coverage ratio was 2.16 and 2.73 at June 30, 2014 and 2013, respectively. This debt (revenue bonds) is backed by the revenues of the Utility.

2013 ELECTRIC REVENUE REFUNDING BONDS

On July 25, 2013, \$79,080, including premium, of 2013 Electric Revenue Refunding Series A Bonds and \$780 of Taxable Electric Revenue Series B Bonds were sold with an all-in true interest cost of 4.50%. The bond proceeds were deposited in escrow accounts to: prepay the outstanding obligation of \$42,661 to the City of Corona related to the Clearwater Power Plant; refund \$13,975 of the 2008 Electric Refunding/Revenue Series A Bonds, \$11,775 of the 2008 Electric Refunding/Revenue Series C Bonds, and \$11,825 of the 2011 Electric Revenue Series A Bonds; and to pay a portion of the termination cost associated with the interest rate swaps allocated or related to the refunded portions of the applicable bonds. This cost has been recorded on the Statements of Net Position as a deferred outflow of resources and will be amortized over the term of the new bonds. This refunding resulted in an increase in debt service payments of \$10,962 over the next 30 years and an economic gain of \$2,961. Interest on the 2013 Series A bonds is payable semi-annually on April 1 and October 1, commencing October 1, 2013. Principal is due in annual installments from \$795 to \$12,685 through October 1, 2043. The rate of interest varies from 3% to 5.25% per annum. 2013 Series B bonds, with an interest rate of 0.5%, were due and paid in one installment of \$780 on October 1, 2013.

LETTERS OF CREDIT

The Utility's 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the Utility and the purchaser of the bonds. The Utility 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 Electric Refunding/Revenue Bonds Series A | Barclays Bank, PLC | 2017 | 0.275% |
| 2008 Electric Refunding/Revenue Bonds Series C | Bank of America, N.A. | 2017 | 0.390% |

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

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan over a 5-year period. The Utility would be required to pay \$31,213 a year for 5 years (assuming a 12 percent interest rate) if \$112,515 of 2008 Electric Revenue Bonds (Series A and C) were "put" and not resold. No amounts have ever been drawn against the two LOCs due to a failed remarketing.

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

INTEREST RATE SWAPS ON REVENUE BONDS

The Utility has three 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. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred loss on refunding associated with the new

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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 Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2014 is as follows:

| | Notional Amount | Fair Value as of 6/30/2014 | Change in Fair Value for Fiscal Year |
|--|--------------------|----------------------------------|--|
| 2008 Electric Refunding/Revenue Bonds Series A | \$ 68,525 | \$ (8,845) | \$ 800 |
| 2008 Electric Refunding/Revenue Bonds Series C | \$ 41,975 | \$ (6,646) | \$ 410 |
| 2011 Electric Refunding/Revenue Bonds Series A | \$ 41,925 | \$ (6,617) | \$ 411 |

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

Terms: Per the existing swap agreements, the Utility pays the 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. 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 \$4,575 to \$7,835 (2008 Series A), \$700 to \$5,200 (2008 Series C) and \$725 to \$5,175 (2011 Series A) until the debt is completely retired in fiscal years 2030 (2008 Series A) and 2036 (2008 Series C and 2011 Series A).

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2014, rates were as follows:

| | Terms | 2008 Electric Refunding/Revenue Series A Bonds | 2008 Electric Refunding/Revenue Series C Bonds | 2011 Electric Refunding/Revenue Series A Bonds |
|------------------------------------|---------------------|--|--|--|
| | | Rates | Rates | Rates |
| Interest rate swap: | | | | |
| Fixed payment to counterparty | Fixed | 3.11100% | 3.20400% | 3.20100% |
| Variable payment from counterparty | 62.68 LIBOR + 12bps | (0.42414%) | (0.42543%) | (0.24925%) |
| Net interest rate swap payments | | 2.68686% | 2.77857% | 2.95175% |
| Variable-rate bond coupon payments | | 0.35041% | 0.34837% | 0.14338% |
| Synthetic interest on bonds | | 3.03727% | 3.12694% | 3.09513% |

Fair value: As of June 30, 2014, in connection with all swap agreements, the transactions had a total negative fair value of (\$22,108). Because the coupons on the Utility'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 swaps, 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: As of June 30, 2014, the Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co. and Bank of America Corp., were rated A and A- respectively by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps 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, 2014, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: As noted above, the swaps expose the Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. 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 Utility if either counterparty’s credit quality falls below “BBB-” as issued by S&P. The Utility 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 Utility 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, 2014, 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 table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| Fiscal Year Ending June 30, | Variable-Rate Bonds | | | |
|-----------------------------------|---------------------|----------|-----------------------------|------------|
| | Principal | Interest | Interest Rate Swaps, Net | Total |
| 2015 | \$ - | \$ 453 | \$ 4,299 | \$ 4,752 |
| 2016 | - | 453 | 4,299 | 4,752 |
| 2017 | - | 453 | 4,299 | 4,752 |
| 2018 | - | 453 | 4,299 | 4,752 |
| 2019 | 6,375 | 433 | 4,125 | 10,933 |
| 2020-2024 | 42,075 | 1,771 | 17,085 | 60,931 |
| 2025-2029 | 39,630 | 1,134 | 11,699 | 52,463 |
| 2030-2034 | 45,985 | 481 | 5,593 | 52,059 |
| 2035-2037 | 20,375 | 26 | 297 | 20,698 |
| Total | \$ 154,440 | \$ 5,657 | \$ 55,995 | \$ 216,092 |

NOTE 5. RESTRICTED NET POSITION

The California Code of Regulations establishes a restriction on the use of proceeds obtained from the sale of greenhouse gas allowances at auctions held pursuant to California’s Cap-and-Trade Program. The proceeds are to be used exclusively for the benefit of retail ratepayers of each electrical distribution utility, and may not be used for the benefit of entities or persons other than such ratepayers. Accordingly, a reserve for regulatory requirements has been established by restricting assets and reserving a portion of net position. See Note 8 for additional information regarding the Cap-and-Trade Program.

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Utility’s electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 2004A and 2008A & C. Certain revenue/refunding bond issues are covered by a Surety Bond (2008D) and certain issues have no debt service reserve requirements (2009A, 2010A & B, 2011A and 2013A).

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as an additional member of SCPPA. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During the 2013-14 and 2012-13 fiscal years, the Utility paid



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NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS (CONTINUED)

approximately \$17,440 and \$16,171, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.

POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consist of one representative from each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS

The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County; however, on June 7, 2013, SCE announced, in a press release, its plan to retire Units 2 and 3 of SONGS permanently. Consequently, the units are no longer a source of supply for the Utility, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning (see Note 1 for nuclear decommissioning liability).

Units 2 and 3 of SONGS became operational on October 9, 1983 and April 1, 1984, respectively. The Utility's share of the original construction costs plus subsequent ongoing betterments was approximately \$165 million, which was financed mainly through revenue bonds.

The capacity previously available to the City from SONGS Units 2 and 3 was 19.2 MW and 19.3 MW, respectively. SONGS has a nominal net generating capability of 2,150 MW. The other owners are SCE, with a 78.21% interest (including the 3.16% interest it acquired from the City of Anaheim in 2006), and San Diego Gas & Electric Company (SDG&E), with a 20.00% interest.

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

In 2005, the California Public Utilities Commission (CPUC) authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. The Utility's share of the cost to replace the steam generators was approximately \$13.4 million. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the Nuclear Regulatory Commission (NRC).

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At that time, Unit 2 was off-line for a planned outage when unexpected wear in areas of tube-to-support structure were found.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS (CONTINUED)

Units 2 and 3 remained off-line for extensive inspections, testing and analysis of their steam generators. On June 7, 2013, SCE unilaterally announced its plan to retire Units 2 and 3 permanently.

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

NRC Proceedings. As part of the NRC's review of the SONGS outage and proceedings related to the possible restart of Unit 2, the NRC appointed an Augmented Inspection Team to review SCE's performance. In December 2013, SCE received a final NRC Inspection Report that identified a violation for the failure to verify the adequacy of the thermal-hydraulic and flow-induced vibration design of the Unit 3 replacement steam generators. In January 2014, SCE provided a response to the NRC Inspection Report stating that Mitsubishi Heavy Industries (MHI), as contracted by SCE to prepare the SONGS replacement steam generator design, was the party responsible for performing the verification and checking of the design of the steam generators. On September 13, 2013, the NRC issued a Notice of Nonconformance for MHI's flawed computer modeling in the design of the replacement steam generators. On October 17, 2013, MHI submitted a reply to the Notice of Non-Conformance, indicating that MHI did not contest the asserted noncompliance and that corrective action had been taken.

Because SONGS has ceased operation, NRC inspection oversight of SONGS will now be continued through the NRC's Decommissioning Power Reactor Inspection Program to verify that decommissioning activities are being conducted safely, that spent fuel is safely stored onsite or transferred to another licensed location, and that the site operations and licensee termination activities conform to applicable regulatory requirements, licensee commitments and management controls.

Nuclear Decommissioning. As a result of SCE's decision to permanently retire SONGS Units 2 and 3, SCE has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations. The regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by SCE to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the announcement of retirement, SCE, as the operating licensee must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate. SCE currently estimates that it will provide the other initial activity phase plans and cost estimates to the NRC by the end of 2014.

SCE has prepared a draft decommissioning plan, an environmental evaluation and an updated cost estimate to decommission the San Onofre nuclear plant. The draft plan, called a Post-Shutdown Decommissioning Activities Report (PSDAR), spells out the timetable for major decommissioning work expected to begin in early 2016 and indicates adequate funds exist to pay for the work. SCE estimates that it will cost \$4.4 billion to safely complete the 20-year decommissioning of San Onofre.

Replacement Power Costs. During the outage, the Utility had procured replacement power to serve its customers' requirements. These costs were in addition to the usual approximate \$11.5 million in operating and maintenance expenses paid annually during normal operations. Replacement power costs incurred by the Utility as a result of the outage (commencing on January 31, 2012 for Unit 3 and March 5, 2012 for Unit 2) through June 30, 2013 were approximately \$13.2 million and are reflected as regulatory assets on the Statements of Net Position. During fiscal year 2014, the Utility paid for its share of ongoing operating costs and replacement power related to SONGS from current rate revenue.

Contractual Matters. The replacement steam generators for Units 2 and 3 were designed and manufactured by MHI and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. MHI's liability under the purchase agreement is limited to \$138 million and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions.

There are insurance policies for both property damage and accidental outage issued by Nuclear Electric Insurance Limited (NEIL), and SCE has notified NEIL of claims under the two policies. The City is a named insured on the SCE insurance policies covering SONGS

and will assist SCE in pursuing claims recoveries from NEIL, but there is no assurance that the Utility will recover all or any of its applicable costs under these arrangements. To the extent that any third-party recoveries are made, they will reduce cost to the Utility.

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and initiated a 90-day dispute resolution process under the purchase agreement. Such arbitration will be conducted before the International Court of Arbitration (the ICC). On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court. On July 24, 2013, MHI moved the lawsuit to the United States District Court for the Southern District of California, and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and SCE arising from the contract for the purchase and sale of the steam generators. In October 2013, after a prescribed 90-day waiting period from the service of an earlier notice of dispute, SCE initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against SCE. On March 14, 2014, the Federal District court granted MHI's motion to stay the City's proceeding, but ordered that the City participate in the SCE/MHI arbitration. SCE, SDGE, the City and MHI have all stipulated that the City and SDGE shall participate in the SCE/MHI arbitration before the ICC. No arbitration date has been set.

As a result of the decision by SCE to permanently retire Units 2 and 3 of SONGS prior to the expiration of the NRC licenses, the Utility expects to incur certain costs resulting from the early termination of long-term uranium fuel supply contracts. On November 12, 2013, Uranium One Inc. served a Demand for Arbitration on SCE, SDG&E and the City, seeking an award of damages in the approximate amount of \$12.5 million. Uranium One, Inc. asserts damages from a purchase agreement to deliver certain amounts of uranium concentrates in 2011, 2012 and 2013. On April 25, 2014, Energy Resources of Australia, Ltd. and Rossing Uranium Ltd. served a Demand for Arbitration on SCE, asserting similar claims as Uranium One Inc. and seeking an award of damages in the approximate amount of \$19.5 million. No arbitration dates have been set and the Utility cannot estimate the outcomes of these pending claims at this time.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

The Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The 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 located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Utility to make payments solely from operating revenues. The power purchase contract requires the 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.

The Utility is a member of SCPPA, a joint powers agency (see Note 6). 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 Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Utility to the power output or transmission service, as applicable, and the 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 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 | 5.4 percent | 12.3 MW | 2017 | 2030 |
| Southern Transmission System | 10.2 percent | 244.0 MW | 2027 | 2027 |
| Hoover Dam Upgrading | 31.9 percent | 30.0 MW | 2017 | 2017 |
| Mead-Phoenix Transmission | 4.0 percent | 18.0 MW | 2020 | 2030 |
| Mead-Adelanto Transmission | 13.5 percent | 118.0 MW | 2020 | 2030 |

NOTE 8. COMMITMENTS (CONTINUED)

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

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and portions of the Mead Phoenix and Mead Adelanto Projects. The remaining projects have fixed interest rates which range from 0.35 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

| Debt Service Payment (in thousands) Year Ending June 30, | IPA | | SCPPA | | | | TOTAL |
|--|-----------------------------|---------------------------------------|------------------------------|----------------------|---------------------------|----------------------------|--------------|
| | Intermountain Power Project | Palo Verde Nuclear Generating Station | Southern Transmission System | Hoover Dam Upgrading | Mead-Phoenix Transmission | Mead-Adelanto Transmission | All Projects |
| 2015 | \$ 14,786 | \$ 669 | \$ 8,310 | \$ 703 | \$ 269 | \$ 3,087 | \$ 27,824 |
| 2016 | 22,127 | 672 | 8,364 | 701 | 269 | 3,013 | 35,146 |
| 2017 | 11,650 | 675 | 8,182 | 701 | 262 | 2,952 | 24,422 |
| 2018 | 16,935 | 679 | 8,020 | 699 | 258 | 2,910 | 29,501 |
| 2019 | 18,827 | - | 7,927 | - | 257 | 2,882 | 29,893 |
| 2020-2024 | 55,421 | - | 40,163 | - | 443 | 4,995 | 101,022 |
| 2025-2029 | - | - | 14,334 | - | - | - | 14,334 |
| Total | \$ 139,746 | \$ 2,695 | \$ 95,300 | \$ 2,804 | \$ 1,758 | \$ 19,839 | \$ 262,142 |

In addition to debt service, the 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, 2014 and 2013, are as follows (in thousands):

| FISCAL YEAR | Intermountain Power Project | Palo Verde Nuclear Generating Station | Southern Transmission System | Hoover Dam Upgrading | Mead-Phoenix Transmission | Mead-Adelanto Transmission | All Projects |
|-------------|-----------------------------|---------------------------------------|------------------------------|----------------------|---------------------------|----------------------------|--------------|
| 2014 | \$ 24,466 | \$ 2,416 | \$ 3,296 | \$ 104 | \$ 50 | \$ 312 | \$ 30,644 |
| 2013 | \$ 26,445 | \$ 2,528 | \$ 2,405 | \$ 97 | \$ 41 | \$ 338 | \$ 31,854 |

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

The Utility has become a Participating Transmission Owner (PTO) 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 Utility receives reimbursement for, its transmission revenue requirements (TRR), including the costs associated with these three transmission projects.

HOOVER UPGRATING PROJECT

In December 2011, the Hoover Power Allocation Act (the Hoover Act) was enacted into law. It provides for the extension of the existing Hoover contract for an additional 50 years from 2017 to 2067. The legislation required current Hoover Dam contractors to relinquish five percent of their allocations to be used to provide allocations to potential new Hoover contractors. The impact to the Utility is a reduction of about 1.5 MW in capacity and associated energy. Under the Hoover Act, the new Hoover contractors would be required to pay their proportionate share of the cost associated with the Lower Colorado River Multi-Species Conservation

Program and Upgrading Program. Any capacity and energy not contracted for by new Hoover contractors will be reallocated to the existing contractors along with any refunds due associated with the Multi-Species Conservation Program.

In March 2014, the 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 Utility elected to prepay the debt in order to realize savings on power costs in the future. The Utility's share of the debt was \$1.5 million and is recorded on the Statements of Net Position as unamortized purchased power, to be amortized over the remaining term of the project.

POWER PURCHASE AGREEMENTS

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

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 (\$375 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 September 10, 2013, the Act limits liability from third-party claims to approximately \$13.6 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 Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of \$25.2 million, limited to payments of \$3.8 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 STANDARD (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% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. It is expected that the Utility will be able to meet the new mandates with new resource procurement actions as outlined in the Utility's RPS Procurement Plan. For calendar year 2013, renewable resources provided 24% of retail sales requirements.

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

NOTE 8. COMMITMENTS (CONTINUED)

Long-term renewable PPAs in operation (in thousands):

| Supplier | Type | Maximum Contract ¹ | Contract Expiration | Estimated Annual Cost For 2015 |
|----------------------|------------|-------------------------------|---------------------|--------------------------------|
| Salton Sea Power LLC | Geothermal | 46.0 MW | 5/31/2020 | \$ 23,675 |
| Wintec | Wind | 1.3 MW | 12/30/2018 | 211 |
| WKN Wagner | Wind | 6.0 MW | 12/22/2032 | 1,113 |
| Total | | 53.3 MW | | \$ 24,999 |

Long-term renewable PPAs with expected delivery:

| Supplier | Type | Maximum Contract ¹ | Expected Delivery | Energy Delivery No Later Than | Contract Term In Years |
|------------------------|--------------|-------------------------------|-------------------|-------------------------------|------------------------|
| CalEnergy | Geothermal | 86.0 MW | 2/11/2016 | 2/11/2016 | 25 |
| AP North Lake | Photovoltaic | 20.0 MW | 6/30/2015 | 12/31/2015 | 25 |
| FTP Solar | | | | | |
| Summer Solar | Photovoltaic | 10.0 MW | 6/30/2016 | 12/31/2016 | 25 |
| Antelope Big Sky Ranch | Photovoltaic | 10.0 MW | 6/30/2016 | 12/31/2016 | 25 |
| First Solar | Photovoltaic | 14.0 MW | 12/31/2015 | 6/30/2016 | 20 |
| Recurrent Clearwater | Photovoltaic | 14.9 MW | Delayed | 12/31/2015 | 20 |
| Dominion Columbia II | Photovoltaic | 11.1 MW | 12/31/2014 | 12/31/2015 | 20 |
| Cabazon Wind | Wind | 39.0 MW | 1/1/2015 | 12/31/2015 | 10 |
| Solar Star | Photovoltaic | 7.3 MW | 9/30/2015 | 12/31/2015 | 25 |
| Total | | 212.3 MW | | | |

¹ All contracts are contingent on energy production from specific related generating facilities. The Utility has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

On May 20, 2003, the Utility and Salton Sea Power LLC (Salton Sea) entered into a ten-year PPA for 20 MW of geothermal energy. On August 23, 2005, the City Council approved an amendment to the PPA which increases the amount of renewable energy available to the Utility from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020.

On May 14, 2013, the City Council approved a new 25-year PPA with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power. The PPA provides power from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery starting with 20 MW in 2016 and increasing to 40 MW in 2019 and 86 MW in 2020. The PPA is expected to provide 7.5%, 15% and 30% of the City's total power demand in 2016, 2019, and 2020, respectively. The price under the agreement will be \$72.85 per megawatt-hour (MWh) in calendar year 2016 and escalate at 1.5% annually for the remaining term of the agreement. Similar to other renewable PPAs, the Utility is only obligated for purchases of energy delivered to the City.

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the new PPA with CalEnergy through the remaining term of the Salton Sea PPA. The pricing under the Salton Sea PPA increased by approximately \$7.57 per MWh, commencing July 1, 2013 to \$69.66 per MWh, with an escalation of 1.5% annually thereafter, reflecting the exchange of benefits for a substantial lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately \$2.7 million per year for the agreement's remaining term. This increase in price for fiscal year 2014 is recorded in the Statements of Net Position as unamortized purchased power in the amount of \$2.0 million, to be amortized over the term of the CalEnergy PPA.

On November 10, 2006, the Utility entered into a second renewable PPA with Wintec Energy, Ltd (Wintec) for wind generation capacity of up to 8.0 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer encountered challenges in finding suitable wind turbines to complete the project. Due to the delay of the proposed Wintec Facility II Wind Turbine Project, on February 7, 2012, Wintec entered into an assignment agreement

with WKN Wagner, LLC (WKN) for the purpose of assigning to WKN all of Wintec's right, title, and interest in the renewable PPA dated November 10, 2006. The Utility agreed to the assignment and entered into a new PPA with WKN under the same commercial terms and conditions as in the original agreement with Wintec, except that the term has been extended to 20 years, instead of 15. WKN completed the project development timely, and the project became commercially operational on December 22, 2012 and is expected to contribute 1% of the City's retail load requirements at a levelized cost of \$73 per MWh. The Utility does not expect to receive more than 1.3 MW from Wintec per the original contract which expires in December 2018.

On October 16, 2012, the Utility entered into a 25-year PPA with AP North Lake, LLC (AP North) for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The AP North project is expected to become commercially operational by June 30, 2015, but in no event later than December 31, 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of \$95 per MWh for the term of the PPA.

On January 8, 2013, the Utility entered into two 25-year PPAs for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built by Silverado Power, which was later acquired by FTP Solar LLC, in the City of Lancaster, California. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The Utility will have a 50% share of the output from each project through SCPPA. The projects were expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The Utility's share from the two projects is 55,000 MWh of renewable energy per year. On April 1, 2014, the City Council approved the first amendment to the PPAs, which postponed the outside commercial operation date for each project from December 31, 2015 to December 31, 2016, with the most significant change being a reduction in a price for energy and environmental attributes from \$95.30 per MWh to \$71.25 per MWh over the term of the agreement.

On September 19, 2013, the Utility entered into a 20-year PPA for 14 MW of solar photovoltaic energy generated by a facility to be built by First Solar in Kern County, California. The project is referred to as the Kingbird B Solar Photovoltaic Project, with a nameplate capacity of 20 MW. The Utility will have a 70% share of the output from the project through SCPPA. The project is expected to become commercially operational at the end of 2015, but no later than June 30, 2016. The Utility's share from the project is approximately 35,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$68.75 per MWh over the term of the agreement.

On September 19, 2013, the Utility entered into two 20-year PPAs for a combined 26 MW of solar photovoltaic energy generated by two facilities to be built by Recurrent Energy in Kern County, California. The two projects being developed are referred to as Clearwater and Columbia II Solar Photovoltaic Projects, with a nameplate capacity of 20 MW and 15 MW, respectively. The Utility will have a 74.29% share of the output from the projects through SCPPA. The Utility's share from the two projects is approximately 65,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$69.98 per MWh over the term of the agreements. Both projects were originally expected to become commercially operational at the end of 2014. However, the Clearwater project has encountered significant delays and is no longer expected to be commercially operational by that time. The Utility will be receiving liquidated damages as a result. The Columbia II project development is on schedule and still expected to be commercially operational by the end of 2014. On March 14, 2014 a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia II project to Dominion Solar. Upon completion of the permitting process by Recurrent Energy, a similar transfer to Dominion Solar is expected for the Clearwater project.

On December 6, 2013, the Utility and FPL Energy Cabazon Wind, LLC (Cabazon Wind) entered into a 10-year PPA for 39 MW of renewable wind energy from the Cabazon Wind Energy Center near Cabazon, California. Cabazon Wind is an existing renewable resource that has been in commercial operation since 1999. SCE is currently purchasing the output of the facility through December 2014. At the expiration of SCE's contract, the project will need to enter into new interconnection and generation agreements with the CAISO and SCE, and the developer is on schedule to implement the transition to the Utility. Delivery under the PPA will commence on January 1, 2015. The project is expected to generate 71,200 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$59.30 per MWh over the term of the agreement.

On March 11, 2014, the Utility and Solar Star California XXXI, LLC (Solar Star) entered into a 25-year PPA for 7.3 MW of solar photovoltaic energy generated by a facility to be built on the City-owned Tequesquite Landfill. The project is expected to become

NOTE 8. COMMITMENTS (CONTINUED)

commercially operational by June 1, 2015 and is expected to generate approximately 15,000 MWh of renewable energy per year. On September 5, 2014, SunPower, the parent company of Solar Star, requested an extension of the date of commercial operation to September 30, 2015. The all-in price for energy, capacity and environmental attributes is \$81.30 per MWh, escalating at 1.5% annually.

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 Utility's free allocation of GHG allowances is expected to be sufficient to meet the Utility's direct GHG compliance obligations. At times, the Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. As of June 30, 2014 and 2013, the Utility received \$2,769 and \$381, respectively, in proceeds related to the sale of the GHG allowances and is included on the Statements of Revenues, Expenses and Changes in Net Position as other operating revenue. The Utility has established a restricted cash reserve in the amount of \$3,150 and \$381 as of June 30, 2014 and 2013, respectively, to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. This reserve is included in restricted cash and cash equivalents on the Statements of Net Position. As of June 30, 2014 and 2013, the Utility also had purchased \$1,202 and \$507, respectively, in GHG allowances which can be used in future periods for GHG compliance regulations. These amounts are recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2014, the Utility had major commitments (encumbrances) of approximately \$11,977 with respect to unfinished capital projects, of which \$11,424 is expected to be funded by bonds and \$553 funded by rates.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2014, the Utility has net commitments for fiscal year 2015 and thereafter, of approximately \$33,663, with a market value of \$33,673.

NOTE 9. LITIGATION

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility 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 Utility.

Contractual and litigation matters of the Utility relating to SONGS are contained in Note 7.

CALIFORNIA ENERGY CRISIS SETTLEMENT

During the California Energy Crisis of 2001-2002, the Utility made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX), who filed for Chapter 11 bankruptcy in 2001, the Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Utility and numerous California entities, including all

of the IOUs and the California Attorney General, under which the Utility was paid all of its unpaid receivables, plus interest, minus \$1.27 million in refunds. The net payout to the Utility was \$3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus \$269 thousand paid to the City of Banning for transactions made on its behalf by the Utility). Under the settlement, the Utility may receive additional distributions of refunds from other sellers. The Utility also may be responsible for paying its allocated portion, as determined by FERC, of payments due to other sellers for any Emission Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the Utility.

DAIRY COW LITIGATION

In 2002 and 2003, the Los Angeles Department of Water and Power (LADWP) received a number of claims from dairies and dairy farmers located in Utah and California. The claims generally allege that since 1987, “stray voltage” emitted from the Intermountain Power Project (IPP) facilities through the ground and ground water damaged dairy herds, including causing higher than normal death rates, a reduction in milk production and impairment to the cows’ immune systems. LADWP, as operating agent for IPA, denied all of the claims.

In February 2005, claimants filed a lawsuit in the Utah state court, entitled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Power, et al.*, Case No. 050700157, naming SCPPA (the entity financing the Southern Transmission System’s (STS) facilities), LADWP (the operator of the STS facilities), the IPA (the owners of the STS facilities), and others as defendants. The plaintiff dairies seek compensatory damages in excess of \$515 million plus punitive damages. In November 2013, a mistrial was declared in the case relating to six of the plaintiff dairies. Subsequent to the mistrial, these six plaintiff dairies filed a motion for sanctions, including the request for a default judgment in favor of the six plaintiffs. SCPPA, LADWP, IPA and other defendants have filed an opposition to that motion, asserting that there is no basis for the requested remedy. Separate trials for two other plaintiff dairy groups have not yet commenced.

Electrical tests performed by LADWP’s experts reveal no current or voltage attributable to the IPP facilities on the plaintiff dairies’ farms, and SCPPA, LADWP, and the IPA believe that their claims are without merit. In the event that damages are awarded to the plaintiff dairies against the IPA, any part of the award not otherwise covered by insurance may be apportioned among utilities that purchase IPP capacity in accordance with their entitlement shares.

NOTE 10. EXTRAORDINARY ITEM

On June 7, 2013, SCE announced its decision to permanently retire SONGS Units 2 and 3. Consequently, the units are no longer a source of supply for the Utility. As a result, SONGS Units 2 and 3 with a net book value of \$29,075 are considered impaired and written off from Utility Plant assets on the Statements of Net Position. The associated nuclear fuel with a net book value of \$10,149 and nuclear materials inventory with a net book value of \$ 2,035 are also considered impaired and written off from the Statements of Net Position. The total loss of \$41,259 is reported as an extraordinary item on the Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2013.

NOTE 11. ACCOUNTING CHANGE

Effective July 1, 2012, the accompanying financial statements reflect the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). Significant impacts of GASB 63 include changing the title of the Balance Sheets to Statements of Net Position, changing the title of equity section to net position and reformatting the Statements of Net Position to add separate sections for deferred outflows of resources and deferred inflows of resources. Significant impacts of GASB 65 include reclassifying as deferred outflows of resources and deferred inflows of resources certain balances that were previously reported as assets and liabilities.

Electric

KEY HISTORICAL
OPERATING DATA



KEY HISTORICAL OPERATING DATA

| FISCAL YEAR | 2013/14 | 2012/13 | 2011/12 | 2010/11 | 2009/10 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| POWER SUPPLY (MWH) | | | | | |
| Nuclear | | | | | |
| San Onofre | 0 | 0 | 191,900 | 284,900 | 240,000 |
| Palo Verde | 99,900 | 102,300 | 101,100 | 102,000 | 96,300 |
| Coal | | | | | |
| Intermountain Power | 802,100 | 754,900 | 799,700 | 895,600 | 1,068,500 |
| Deseret | 0 | 0 | 0 | 0 | 187,400 |
| Hoover (Hydro) | 33,200 | 32,500 | 35,300 | 32,900 | 30,000 |
| Gas | | | | | |
| Springs | 1,300 | 5,500 | 2,300 | 3,100 | 1,400 |
| RERC | 64,400 | 77,700 | 39,400 | 34,500 | 11,500 |
| Clearwater | 20,600 | 24,000 | 17,000 | 9,700 | 0 |
| Renewable Resources | 423,800 | 444,300 | 472,300 | 385,700 | 354,900 |
| Other purchases | 899,200 | 937,500 | 620,000 | 464,200 | 276,500 |
| Exchanges In | 93,300 | 95,800 | 75,200 | 92,200 | 92,700 |
| Exchanges Out | (158,300) | (134,900) | (133,500) | (176,100) | (156,200) |
| Total | 2,279,500 | 2,339,600 | 2,220,700 | 2,128,700 | 2,203,000 |
| System peak (MW) | 577.9 | 591.7 | 581.2 | 579.7 | 560.3 |
| Number of meters as of year end | | | | | |
| Residential | 96,820 | 96,207 | 95,988 | 95,676 | 95,258 |
| Commercial | 10,558 | 10,337 | 10,425 | 10,185 | 10,073 |
| Industrial | 898 | 894 | 822 | 908 | 916 |
| Other | 82 | 87 | 86 | 86 | 88 |
| Total | 108,358 | 107,525 | 107,321 | 106,855 | 106,335 |
| Millions of kilowatt-hours sales | | | | | |
| Residential | 700 | 726 | 688 | 666 | 701 |
| Commercial | 421 | 419 | 413 | 400 | 406 |
| Industrial | 997 | 1,003 | 969 | 912 | 906 |
| Other | 30 | 31 | 31 | 31 | 32 |
| Subtotal | 2,148 | 2,179 | 2,101 | 2,009 | 2,045 |
| Wholesale | 4 | 14 | 2 | 7 | 44 |
| Total | 2,152 | 2,193 | 2,103 | 2,016 | 2,089 |

ELECTRIC FACTS

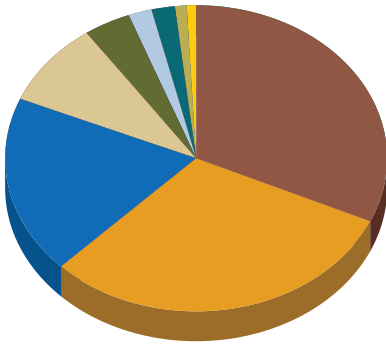
| | | | | | |
|---|---------|---------|---------|---------|---------|
| Average annual kWh per residential customer | 7,239 | 7,547 | 7,208 | 7,006 | 7,397 |
| Average price (cents/kWh) per residential customer | \$16.00 | \$16.27 | \$16.07 | \$16.17 | \$15.31 |
| Debt service coverage ratio (DSC) ² | 2.16 | 2.73 | 2.24 | 2.21 | 2.75 |
| Operating income as a percent of operating revenues | 19.5% | 24.0% | 22.1% | 18.9% | 23.5% |
| Employees ¹ | 463 | 460 | 453 | 449 | 427 |

¹Approved positions.

²For FY 10/11 and thereafter, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

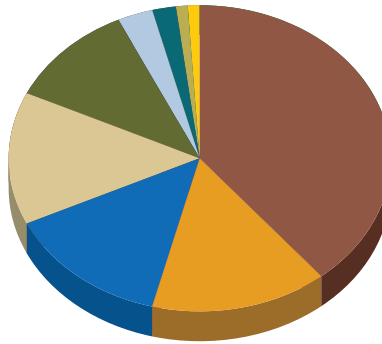
2013/2014 ELECTRIC REVENUE AND RESOURCES

Source of Revenue



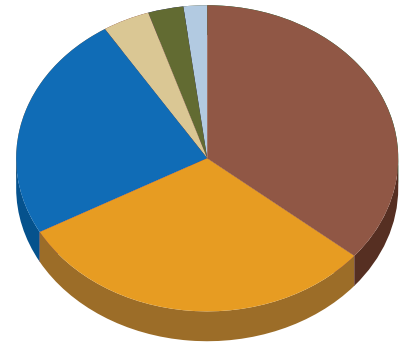
| | |
|-------------------------|------|
| Residential Sales | 32¢ |
| Industrial Sales | 31¢ |
| Commercial Sales | 19¢ |
| Transmission Revenue | 9¢ |
| Other Revenue | 4¢ |
| Public Benefit Programs | 2¢ |
| Investment Income | 2¢ |
| Other Sales | 1¢ |
| Wholesale Sales | < 1¢ |

Distribution of Revenue



| | |
|--|-----|
| Production | 39¢ |
| Transmission | 15¢ |
| Distribution | 14¢ |
| Debt Service | 14¢ |
| Transfers to the City's General Fund* | 11¢ |
| Additional Reserves | 3¢ |
| Public Benefit Programs | 2¢ |
| Unamortized Purchased Power | 1¢ |
| Additions and Replacements to the System | 1¢ |

Energy Resources

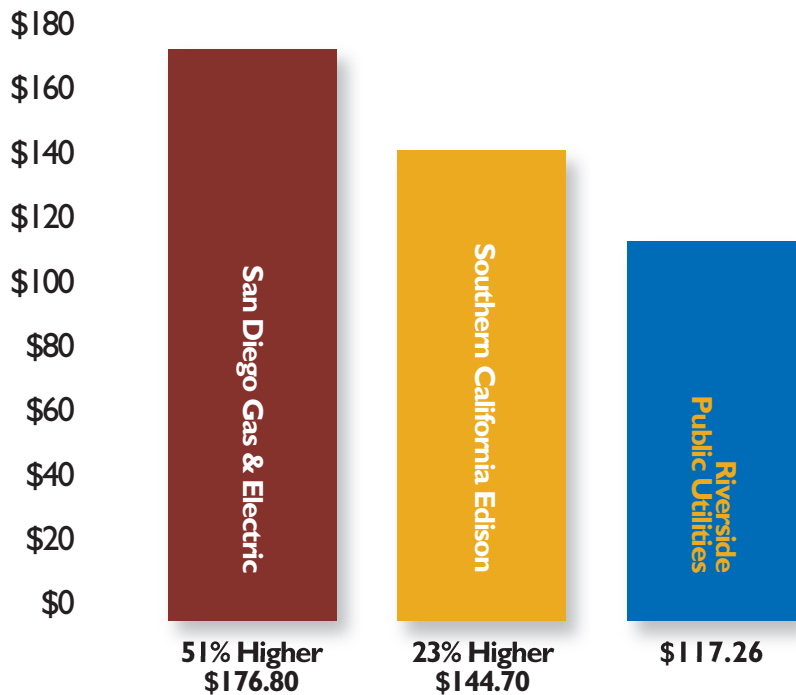


| | |
|-----------------|-----|
| Other Purchases | 36% |
| Coal | 31% |
| Renewables | 24% |
| Nuclear | 4% |
| Gas | 3% |
| Hydropower | 2% |

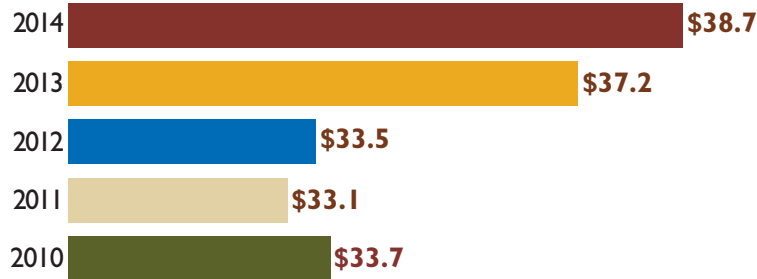
* Energy Resources are based on calendar year 2013 as filed with the California Energy Commission.

* Based on transfer of 11.5% of fiscal year 2012/2013 gross operating revenues including adjustments.

ELECTRIC RATE COMPARISON - 750 KWH PER MONTH (AS OF JUNE 30, 2014)



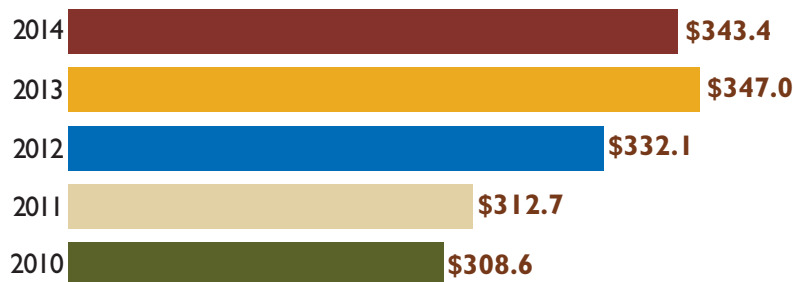
GENERAL FUND TRANSFER (IN MILLIONS)



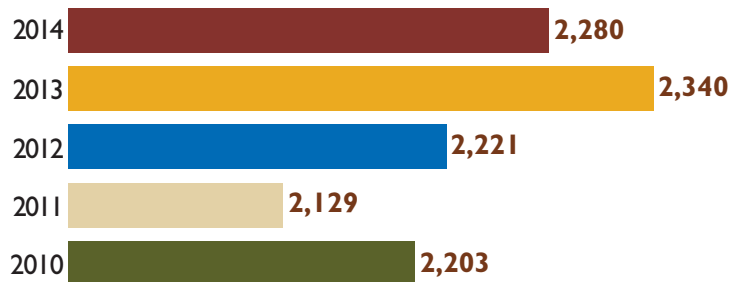
NUMBER OF METERS AT YEAR END



TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN MILLION KILOWATT-HOURS)



PEAK DAY DEMAND (IN MEGAWATTS)



ELECTRIC FACTS AND SYSTEM DATA

| | |
|------------------------------------|---------|
| Established | 1895 |
| Service Area Population | 313,975 |
| Service Area Size (square miles) | 81.5 |
| System Data: | |
| Transmission lines (circuit miles) | 98.6 |
| Distribution lines (circuit miles) | 1,327 |
| Number of substations | 14 |
| 2013-2014 Peak day (megawatts): | 578 |
| Highest single hourly use: | |
| 09/05/2013, 4 pm, 98 degrees | |
| Historical peak (megawatts): | 604 |
| 08/31/2007, 4 pm, 106 degrees | |

Bond Ratings

| | |
|--|-----|
| Fitch Ratings | AA- |
| Standard & Poor's | AA- |
| Debt Derivative Profile Score on Swap Portfolio | 2 |
| (1 representing the lowest risk and 4 representing the highest risk) | |



Water

Judi Castaneda

Customer Service Representative II
and a customer-owner of Riverside
Public Utilities.





Newport Beach
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor's Report

To the Honorable City Council and Board of Public Utilities
City of Riverside, California

Report on Financial Statements

We have audited the accompanying financial statements of the Water Utility Enterprise Fund (Water Utility) of the City of Riverside, California, (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility of the City, as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of the Water Utility as of June 30, 2013, were audited by other auditors whose report dated October 25, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information, such as the mission statement, fiscal message, and supplementary Water Utility information are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014

Water

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2013-14 financial report for the period ended June 30, 2014 and 2013 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 87 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery, were \$62,762 and \$61,837 for the fiscal years ended June 30, 2014 and 2013, respectively. The increase in sales was primarily due to an increase in retail consumption as a result of dryer weather patterns and a slight increase in customers.
- The net position for fiscal years 2014 and 2013 was \$332,730 and \$322,699, respectively. Of this amount, \$78,570 and \$69,996 represent unrestricted net position, which if necessary, would cover 153% and 141% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Utility's financial statements. The Utility is a department of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City's "Comprehensive Annual Financial Report."

The Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader with additional information about the Utility, including historical sales, operating activities and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Utility's financial health.

The **Statements of Net Position** present information on all of the Utility's assets, liabilities, deferred inflows and outflows of resources and net position. The Statements of Net Position provide information about the nature and amount of the Utility's resources and obligations at a specific point in time.

The **Statements of Revenues, Expenses and Changes in Net Position** report all of the Utility's revenues and expenses for the periods shown.

The **Statements of Cash Flows** report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Utility's financial statements. The Notes to the Financial Statements can be found on pages 93-108 of this report.

UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

| | 2014 | 2013 | 2012 |
|---|-------------------|-------------------|-------------------|
| Current and other assets | \$ 128,267 | \$ 134,052 | \$ 134,732 |
| Capital assets | 442,845 | 422,278 | 409,675 |
| Deferred outflows of resources | 11,156 | 11,165 | 15,851 |
| Total assets and deferred outflows of resources | <u>582,268</u> | <u>567,495</u> | <u>560,258</u> |
| Long-term debt outstanding | 202,968 | 208,438 | 213,763 |
| Other liabilities | 39,903 | 26,358 | 32,556 |
| Deferred inflows of resources | 6,667 | 10,000 | - |
| Total liabilities and deferred inflows of resources | <u>249,538</u> | <u>244,796</u> | <u>246,319</u> |
| Net investment in capital assets | 245,731 | 244,937 | 243,997 |
| Restricted | 8,429 | 7,766 | 8,083 |
| Unrestricted | <u>78,570</u> | <u>69,996</u> | <u>61,859</u> |
| Total net position | <u>\$ 332,730</u> | <u>\$ 322,699</u> | <u>\$ 313,939</u> |

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2014 compared to 2013 The Utility's total assets and deferred outflows of resources were \$582,268, reflecting a net increase of \$14,773 (2.6%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by \$5,785. This change reflects the use of \$14,518 in bond proceeds to fund capital projects and a decrease in other receivables of \$3,333 for the first of three payments received from the general fund on the City's lawsuit settlement, offset by an increase in cash and cash equivalents of \$13,551 due to positive operating results. Additional information on the City's lawsuit settlement can be found in the "Transfers" section.
- Capital assets increased by \$20,567 primarily due to \$5,426 in completed transmission and distribution system assets, \$9,488 in purchase of land, and \$5,653 increase in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

2013 compared to 2012 Total assets and deferred outflows of resources were \$567,495 reflecting an increase of \$7,237 (1.3%). This increase was primarily due to \$8,586 of completed capital assets for transmission and distribution systems and \$4,534 increase in intangibles for water rights. These increases were offset by a decrease of \$4,177 in deferred changes in derivative values.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2014 compared to 2013 The Utility's total liabilities and deferred inflows of resources were \$249,538, a net increase of \$4,742 (1.9%), mainly due to the following:

- Long-term debt outstanding decreased by \$5,470 primarily due to principal payments.
- Other liabilities increased by \$13,545 primarily due to a note payable of \$9,482 for the purchase of land and an increase of \$2,823 in accounts payable and other accruals.
- Deferred inflows of resources decreased by \$3,333 reflecting the recognition of the transfer-in from the general fund for the first of three payments on the City's lawsuit settlement.

2013 compared to 2012 The Utility's total liabilities and deferred inflows of resources were \$244,796, a decrease of \$1,523 (0.6%), primarily due to decreases of \$4,884 in the negative fair value of the Utility's derivative instruments, \$1,304 in accounts

payable and other accruals, and \$5,325 in long-term debt outstanding mostly due to principal payments offset by an increase in deferred inflows of resources of \$10,000 from the City's lawsuit settlement.

NET POSITION

2014 compared to 2013 The Utility's total net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$332,730, an increase of \$10,031 (3.1%).

- The largest portion of the Utility's total net position, which is its investment in capital assets of \$245,731 (73.9%), had an increase of \$794 from prior year. Investment in capital assets reflects the Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$8,429 (2.5%), a slight increase from prior year. Restricted net position is subject to internal and external restrictions on its use and is reserved for items such as debt repayment and funds collected for Water Conservation Programs.
- The unrestricted portion of net position totaled \$78,570 (23.6%) an increase of \$8,574 (12.2%) from prior year, primarily attributable to positive operating results. Unrestricted net position may be used to meet the Utility's ongoing operational needs and obligations to customers and creditors.

2013 compared to 2012 The Utility's total net position increased by \$8,760 (2.8%) to \$322,699. Net investment in capital assets increased by \$940 while the restricted portion decreased by \$317 from prior year. The unrestricted portion increased by \$8,137, primarily attributable to positive operating results.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

| | 2014 | 2013 | 2012 |
|---|----------------|----------------|----------------|
| Revenues: | | | |
| Retail sales, net | \$ 62,762 | \$ 61,837 | \$ 59,620 |
| Other revenues | 6,276 | 7,310 | 6,543 |
| Investment income | 1,049 | 503 | 1,428 |
| Capital contributions | 3,534 | 4,282 | 7,440 |
| Total revenues | 73,621 | 73,932 | 75,031 |
| Expenses: | | | |
| Operations and maintenance | 33,104 | 32,186 | 31,633 |
| Purchased energy | 5,430 | 4,832 | 4,600 |
| Depreciation | 12,799 | 12,698 | 11,824 |
| Interest expenses and fiscal charges | 8,599 | 8,877 | 8,510 |
| Total expenses | 59,932 | 58,593 | 56,567 |
| Transfers: | | | |
| Transfers in from the City's general fund | 3,333 | - | - |
| Transfers to the City's general fund | (6,991) | (6,579) | (6,258) |
| Total transfers | (3,658) | (6,579) | (6,258) |
| Changes in net position | 10,031 | 8,760 | 12,206 |
| Net position, July 1 | 322,699 | 313,939 | 301,733 |
| Net position, June 30 | \$ 332,730 | \$ 322,699 | \$ 313,939 |

I OWN IT

Riverside Public Utilities

Customer-owned since 1895



Tony Garcia

is a finder of flowers,
a trimmer of trees,
and a groomer of grass.

He's the owner of
Speedy Landscape Services and,
along with the Garcia family,
he's a customer-owner of
Riverside Public Utilities.

WATER | ENERGY | LIFE

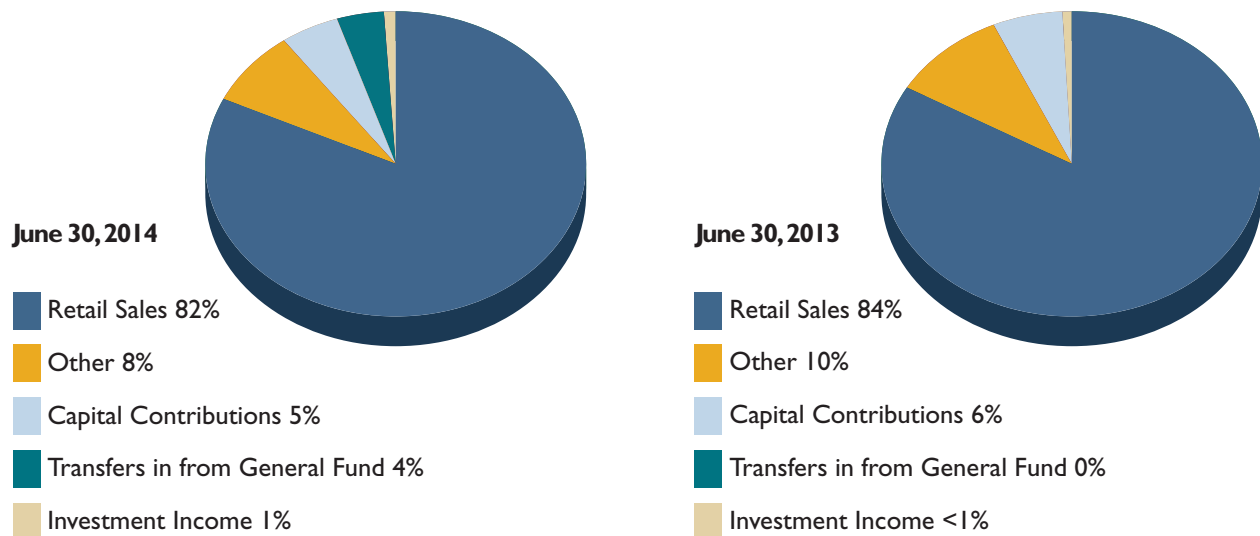


CITY OF RIVERSIDE
PUBLIC UTILITIES

RiversidePublicUtilities.com

UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES



2014 compared to 2013 Total revenues of \$73,621, excluding transfers in, was consistent with prior year.

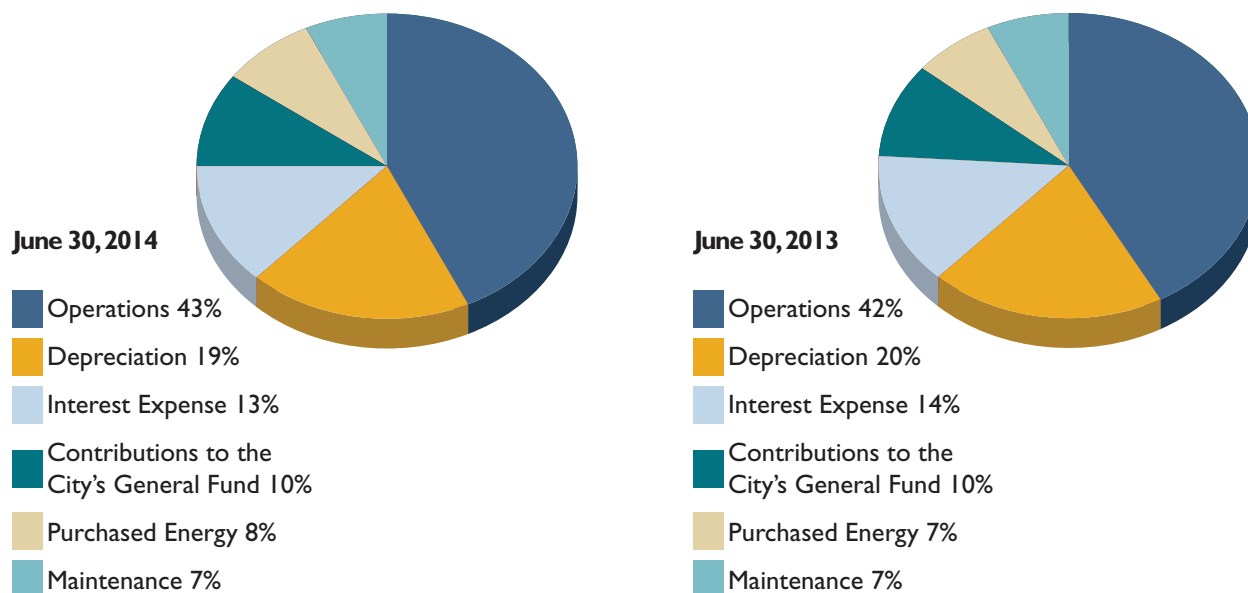
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$62,762, an increase of \$925 (1.5%) over prior fiscal year. Retail sales continue to be the primary revenue source for the Utility accounting for 82% of total revenues. The increase in sales was primarily due to a 2.5% increase in retail consumption as a result of dryer weather patterns.
- Other revenues of \$6,276 decreased by \$1,034 (14.1%) primarily due to a decrease in water conveyance revenue.
- Investment income of \$1,049 reflects an increase of \$546 (108%), due to an increase in the market value of investments in the current fiscal year.
- Capital contributions of \$3,534 decreased by \$748 (17.5%), primarily as a result of completed phases in the relocation of Water facilities related to the construction of the high occupancy vehicle (HOV) lanes project funded by Riverside County Transportation Commission (RCTC).

2013 compared to 2012 Total revenues of \$73,932 decreased by \$1,099 (1.5%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$61,837, an increase of \$2,217 (3.7%) over the prior fiscal year. Retail sales represented 84% of total revenues. The increase represented a 4.1% increase in retail consumption.
- Other revenues of \$7,310 increased by \$767 (11.7%), primarily due to an increase in water conveyance revenue.
- Investment income of \$503 decreased by \$925 (64.8%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates in the fiscal year.
- Capital contributions of \$4,282 decreased by \$3,158 (42.4%), primarily due to the completed phases in the relocation of Water facilities related to the construction of HOV lanes project funded by RCTC.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

EXPENSES BY SOURCES



2014 compared to 2013 Total expenses, excluding general fund transfer, were \$59,932, an increase of \$1,339 (2.3%) primarily due to slight increases in personnel related expenses, purchased energy for pumping, and other general operating expenses.

2013 compared to 2012 Total expenses were \$58,593, reflecting an increase of \$2,026 (3.6%) due to an increase in building occupancy costs associated with relocation to new facilities and an increase in depreciation related to completion of system expansion and improvements during the fiscal year.

TRANSFERS

The City of Riverside Charter has called for transfers from the Utility to the general fund since voters first approved the Charter in 1907. Subsequently, the voters have voted twice approving the transfer which provides essential funding for community services. A ballot measure was placed for voter consideration in June 2013 to reaffirm the previous actions of the voters. On June 4, 2013, the voters of the City of Riverside approved the Water General Fund Transfer as a general tax pursuant to Article 13.C of the California Constitution.

Pursuant to the City's Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Utility transferred \$6,991 and \$6,579 for 2014 and 2013, respectively to the City's general fund. This represents a \$412 and \$321 increase, respectively year over year primarily due to increased retail sales.

In April 2013, the City settled a lawsuit challenging the transfer of Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay \$10,000 over a three year period beginning fiscal year 2013-14. As of June 30, 2014, the Utility received the first of three payments in the amount of \$3,333.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Utility's investment in capital assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, land, intangibles, and construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of accumulated depreciation, as of June 30:

| | 2014 | 2013 | 2012 |
|-------------------------------|------------|------------|------------|
| Source of supply | \$ 34,603 | \$ 32,793 | \$ 33,888 |
| Pumping | 19,518 | 18,960 | 17,871 |
| Treatment | 33,989 | 35,172 | 36,355 |
| Transmission and distribution | 304,439 | 299,939 | 289,285 |
| General | 2,986 | 3,233 | 4,069 |
| Land | 20,484 | 10,996 | 10,996 |
| Intangible | 10,998 | 11,010 | 6,519 |
| Construction in progress | 15,828 | 10,175 | 10,692 |
| Total capital assets | \$ 442,845 | \$ 422,278 | \$ 409,675 |

The Utility continues to make significant progress in replacing its aging infrastructure since the adoption of the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. Since implementation, the Utility has invested approximately \$209 million in infrastructure improvements.

2014 compared to 2013 The Utility's investment in capital assets was \$442,845, an increase of \$20,567 (4.9%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- \$12,961 for system expansion and improvements, facilities rehabilitation, and reservoir construction.
- \$8,183 for continued pipeline replacement programs.
- \$9,488 in land acquisition.

2013 compared to 2012 Investment in capital assets (net of accumulated depreciation) for the Utility increased by \$12,603 (3.1%), to a total of \$422,278. Major capital projects included \$13,483 for system expansion and improvements, including facilities rehabilitation; \$7,693 for continued pipeline replacement programs; and \$3,081 for relocation of Water facilities related to the construction of HOV lanes project funded by RCTC.

Additional information regarding capital assets can be found in Note 3 of the accompanying financial statements.

DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt as of June 30:

| | 2014 | 2013 | 2012 |
|--------------------------|------------|------------|------------|
| Revenue bonds | \$ 203,755 | \$ 208,115 | \$ 213,320 |
| Unamortized bond premium | 3,436 | 3,888 | 4,341 |
| Contracts payable | 942 | 945 | 947 |
| Less: Current portion | (5,165) | (4,510) | (4,845) |
| Total | \$ 202,968 | \$ 208,438 | \$ 213,763 |

The Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Utility's debt service coverage ratio was 2.56, 2.61, and 2.82 at June 30, 2014, 2013, and 2012, respectively. The debt is backed by the revenues of the Utility.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Utility's long-term debt decreased by \$5,470 (2.6%) and \$5,325 (2.5%) for 2014 and 2013, respectively primarily due to principal payments.

Additional information on the Utility's long-term debt can be found in Note 4 of the accompanying financial statements.

CREDIT RATINGS

In March 2013, Moody's affirmed its "Aa2" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds.

In April 2013, Fitch Ratings affirmed its "AA+" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AA+" rating on the Utility's outstanding debt.

In March 2014, Standard & Poor's affirmed its "A-1+" short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and its "AAA" long-term rating on the Utility's outstanding debt.

These affirmations and ratings reflect the Utility's strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among many other factors.

REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

The State of California has experienced unprecedented drought conditions over the last three years with nearly 80% of the state being classified as having Extreme Drought Conditions. In July 2014, the City implemented Stage Two of the Water Conservation Ordinance in reaction to the state's ongoing water supply concerns which calls for customers to cut back consumption by 15% by primarily reducing irrigation for outdoor landscape. The Utility is very fortunate as a water provider in California in that the Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Utility draws from are experiencing historic low levels. The Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources. In addition, the Utility has increased its drought messaging to its customers, increased community educational awareness and leveraged funding from Metropolitan Water District (MWD) to dramatically increase incentive levels for water conservation programs such as turf removal.

SACRAMENTO-SAN JOAQUIN RIVER DELTA

Under certain emergency conditions or a prolonged interruption of water supply, the challenges faced at the state level could impact the Utility.

A majority of Southern California's water supply comes from the State Water Project (SWP). The hub of SWP, the Sacramento-San Joaquin River Delta (Delta), is in an ecological crisis that has led to historic restrictions on water deliveries from northern to southern California and threatens California's economy. In addition, the levees along the Delta are at risk of failure during a seismic event. A catastrophic failure could lead to saltwater intrusion into the Delta and stop SWP deliveries for an extended period of time. This problem is being addressed through a 50 year adaptive management plan known as the Bay Delta Conservation Plan (BDCP), a collaborative effort between the state, federal, local government agencies, water agencies, environmental organizations, and other interested parties with the goal of improving water supply reliability and ecosystem restoration in the Delta.

Another major source of imported water is the Colorado River via the Colorado River Aqueduct owned and operated by MWD. Due to a prolonged drought along the Colorado River's watershed, the storage reservoirs are low. Continued drought conditions may threaten the availability of this source of imported water.

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Delta ecosystem. The package was revised in June 2014, which includes four policy bills and a \$7.5 billion



Elizabeth Pia

Customer Service Representative II
and a customer-owner of Riverside
Public Utilities.

REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

general obligation bond known as Proposition 1 targeted for the November 2014 ballot. One of the bills enacted, SB X7-7, requires a statewide 20% reduction in urban per-capita water use by 2020. Urban water retail suppliers determine baseline water use and set reduction targets to achieve a 10% cumulative urban per capita water use reduction by December 31, 2015 and 20% by December 31, 2020, respectively. Further, SB X7-7 requires agricultural water suppliers to plan and develop efficient water management plans by December 31, 2012 with updates by December 31, 2015 and every 5 years thereafter. After January 2021, failure to meet the targets establishes a violation of law for administrative or judicial proceedings.

The Utility has developed a comprehensive Water Use Efficiency Master Plan that outlines the steps necessary to comply with this requirement. For more information on the Utility's conservation efforts and available programs, visit BlueRiverside.com.

SANTA ANA SUCKER FISH

In December 2010, the United States Fish and Wildlife Service (FWS) issued a final rule designating the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker fish, a federally threatened species. This final rule expanded the existing designation of 8,305 acres to 9,331 acres of the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker. This expansion can potentially impact a number of water supply projects planned by the Utility.

In August 2011, the Utility joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the rule. The trial court issued a ruling on October 23, 2012, upholding the critical habitat designation. An appeal has been filed by all plaintiffs and briefing is completed; however, no hearing date has been set. The agencies are requesting that the FWS reevaluate the effect of its decision with the primary concern that the expanded territory could adversely impact water diversion, storage, groundwater recharge and flood control efforts on the Santa Ana River, as well as potentially nullify water rights obtained recently by San Bernardino Valley and Western Municipal water districts.

Additionally, a recently formed collaborative between a number of the agencies involved in the lawsuit, including the FWS, the California Department of Fish and Wildlife, and the US Army Corps of Engineers is seeking projects to improve habitat and serve as mitigation for planned projects within the Santa Ana River. The Utility will remain engaged and will continue to advocate at the state and federal level for sound environmental policy.

WATER STANDARDS

The development of new and increasingly stringent drinking water regulations by the California Environmental Protection Agency (CalEPA) and the U.S. Environmental Protection Agency (USEPA) are significantly impacting water supply costs throughout the state and the nation. New chemical and biological contaminants are being discovered through more sophisticated research techniques and improved analytical methods. In addition, public health and environmental agencies are now evaluating how anthropogenic factors are impacting our water supplies. Pesticides, pharmaceuticals, and personal care products are being evaluated at trace levels, which can be orders of magnitude lower than what was achievable 20 years ago. As a result, water treatment costs are increasing as federal and state legislators and regulators try to balance public health risk with affordable water supply costs.

In 2007, CalEPA set a drinking water standard for perchlorate at 6 ppb, which is equal to its Public Health Goal (PHG). During this time, the Utility employed treatment technologies to remove perchlorate to below the drinking water standard. In 2012, the CalEPA issued a revised PHG for perchlorate set at 1 ppb. Drinking water standards are required to be established as feasibly close to the PHG while taking into consideration technological and economical factors. CalEPA is currently reevaluating its 6 ppb perchlorate standard and is expected to release it in late 2014. A reduction in the perchlorate standard will impact the Utility's water supply costs.

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Utility's water supply costs due to the proposed levels and grouping of contaminants. In particular, the USEPA is developing a regulation that would group contaminants into one lower standard. Depending on the grouping, the Utility would have to employ treatment

for a group of chemicals rather than individual chemicals. This may increase treatment costs as combining chemicals would create a treatment requirement which did not exist when the chemicals were regulated individually. The Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.


CLEAN WATER ACT

On March 25, 2014, USEPA and the Army Corps released a draft proposed rule revising the definition of “Waters of the United States”. The proposed rule significantly expands the scope of federal jurisdiction in determining waters of US. In particular, the rule adds jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defines tributaries too broadly that it includes canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs.

The revised proposed rule will also impact water agencies' water recycling and recharge operations. In California, water recycling facilities, groundwater replenishment basins, and aquifer storage facilities are located adjacent to “Waters of the United States”. The proposed change of the term “adjacent wetlands” to “adjacent waters” means that these facilities would be required to obtain multiple Clean Water Act permits and potentially trigger reviews under other federal environmental laws. Water recycling is an important strategy to help mitigate the impacts of a prolonged drought, reduce reliance on the Delta and Colorado River and help meet the co-equal goals of a thriving economy and healthy environment. The proposed rule will make these projects and others more difficult to complete and manage. The Utility will remain engaged and will continue to advocate at the federal level for sound environmental policy.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Utility’s finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.RiversidePublicUtilities.com.

A photograph showing a close-up view of a water filtration basin. The image features several large, horizontal, light-colored pipes or filter housings. Below these, there is a row of numerous blue and red valves or components, likely part of the filtration system. The background is dark and industrial.

*Water filtration basin at
J.W. North Water Treatment Plant.*



Water

FINANCIAL STATEMENTS



*Water wise landscaping
at a commercial building*

STATEMENTS OF NET POSITION

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | June 30, 2014 | June 30, 2013 |
|---|--------------------------|--------------------------|
| | (in thousands) | |
| UTILITY PLANT: | | |
| Utility plant, net of accumulated depreciation (Note 3) | \$ 442,845 | \$ 422,278 |
| RESTRICTED ASSETS: | | |
| Cash and investments at fiscal agent (Note 2) | 10,554 | 25,072 |
| OTHER NON-CURRENT ASSETS: | | |
| Net pension asset | 4,926 | 5,143 |
| Other non-current receivables | 3,333 | 6,670 |
| Regulatory assets | 943 | 1,523 |
| Total other non-current assets | 9,202 | 13,336 |
| Total non-current assets | 462,601 | 460,686 |
| CURRENT ASSETS: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents (Note 2) | 86,181 | 73,081 |
| Accounts receivable, less allowance for doubtful accounts 2014 \$132; 2013 \$118 | 9,664 | 10,238 |
| Accrued interest receivable | 429 | 384 |
| Advances to other funds | 392 | 756 |
| Prepaid expenses | 17 | 19 |
| Other receivables | 3,333 | 3,330 |
| Total unrestricted current assets | 100,016 | 87,808 |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 5,930 | 5,479 |
| Water Conservation Programs - cash and cash equivalents (Note 2) | 2,437 | 2,229 |
| Water Conservation Programs receivable | 128 | 128 |
| Total restricted current assets | 8,495 | 7,836 |
| Total current assets | 108,511 | 95,644 |
| Total assets | 571,112 | 556,330 |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred changes in derivative values | 2,941 | 2,437 |
| Deferred loss on refunding | 8,215 | 8,728 |
| Total deferred outflows of resources | 11,156 | 11,165 |
| | | |
| Total assets and deferred outflows of resources | \$ 582,268 | \$ 567,495 |

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

| NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES | June 30, 2014 | June 30, 2013 |
|---|-------------------|-------------------|
| | (in thousands) | |
| NET POSITION: | | |
| Net investment in capital assets | \$ 245,731 | \$ 244,937 |
| Restricted for: | | |
| Debt service (Note 5) | 5,930 | 5,479 |
| Water Conservation Programs | 2,499 | 2,287 |
| Unrestricted | 78,570 | 69,996 |
| Total net position | <u>332,730</u> | <u>322,699</u> |
| LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4) | <u>202,968</u> | <u>208,438</u> |
| OTHER NON-CURRENT LIABILITIES: | | |
| Advances from other funds - pension obligation (Note 4) | 4,855 | 5,069 |
| Postemployment benefits payable (Note 4) | 2,422 | 2,083 |
| Compensated absences (Note 4) | 333 | 201 |
| Derivative instrument (Note 4) | 8,083 | 7,884 |
| Note payable (Note 4) | 9,482 | - |
| Total other non-current liabilities | <u>25,175</u> | <u>15,237</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Accounts payable and other accruals | 1,290 | 207 |
| Accrued interest payable | 1,801 | 1,845 |
| Water Conservation Programs payable | 66 | 70 |
| Current portion of long-term obligations (Note 4) | 5,015 | 4,360 |
| Total current liabilities payable from restricted assets | <u>8,172</u> | <u>6,482</u> |
| CURRENT LIABILITIES: | | |
| Accounts payable and other accruals | 5,471 | 3,731 |
| Current portion of long-term obligations (Note 4) | 150 | 150 |
| Customer deposits | 935 | 758 |
| Total current liabilities | <u>6,556</u> | <u>4,639</u> |
| Total liabilities | <u>242,871</u> | <u>234,796</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Deferred regulatory charges | 6,667 | 10,000 |
| Total deferred inflows of resources | <u>6,667</u> | <u>10,000</u> |
| Total net position, liabilities and deferred inflows of resources | <u>\$ 582,268</u> | <u>\$ 567,495</u> |

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | For the Fiscal Years Ended June 30, | |
|--|--|------------|
| | 2014 | 2013 |
| | (in thousands) | |
| OPERATING REVENUES: | | |
| Residential sales | \$ 40,687 | \$ 40,313 |
| Commercial sales | 20,227 | 19,891 |
| Other sales | 1,946 | 1,808 |
| Water conveyance revenue | 2,356 | 3,050 |
| Water Conservation Programs | 1,047 | 1,047 |
| Other operating revenue | 2,428 | 2,380 |
| Total operating revenues before uncollectibles | 68,691 | 68,489 |
| Estimated uncollectibles, net of bad debt recovery | (98) | (175) |
| Total operating revenues, net of uncollectibles | 68,593 | 68,314 |
| OPERATING EXPENSES: | | |
| Operations | 27,600 | 26,474 |
| Maintenance | 4,668 | 4,633 |
| Purchased energy | 5,430 | 4,832 |
| Water Conservation Programs | 836 | 1,079 |
| Depreciation | 12,799 | 12,698 |
| Total operating expenses | 51,333 | 49,716 |
| Operating income | 17,260 | 18,598 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Investment income | 1,049 | 503 |
| Interest expense and fiscal charges | (8,599) | (8,877) |
| Gain (loss) on sale of assets | (253) | 191 |
| Other | 698 | 642 |
| Total non-operating revenues (expenses) | (7,105) | (7,541) |
| Income before contributions and transfers | 10,155 | 11,057 |
| Capital contributions | 3,534 | 4,282 |
| Transfers in from the City's general fund | 3,333 | - |
| Transfers out - contributions to the City's general fund | (6,991) | (6,579) |
| Total capital contributions and transfers | (124) | (2,297) |
| Increase in net position | 10,031 | 8,760 |
| NET POSITION, BEGINNING OF YEAR | 322,699 | 313,939 |
| NET POSITION, END OF YEAR | \$ 332,730 | \$ 322,699 |

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

For the Fiscal Years
Ended June 30,
2014 2013
(in thousands)

| | | |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and users | \$ 69,567 | \$ 67,918 |
| Cash paid to suppliers and employees | (34,922) | (38,111) |
| Other receipts | 698 | 642 |
| Net cash provided by operating activities | 35,343 | 30,449 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Transfers out - contributions to the City's general fund | (6,991) | (6,579) |
| Transfers in from the City's general fund | 3,333 | - |
| Cash received on advances to other funds | 364 | 220 |
| Payment on advances to other funds - pension obligation | (214) | (187) |
| Net cash used by non-capital financing activities | (3,508) | (6,546) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of utility plant | (22,648) | (24,934) |
| Proceeds from the sale of utility plant | 126 | 270 |
| Principal paid on long-term obligations | (4,363) | (5,207) |
| Interest paid on long-term obligations | (8,848) | (8,861) |
| Bond issuance costs | (19) | (65) |
| Capital contributions | 2,154 | 6,561 |
| Net cash used by capital and related financing activities | (33,598) | (32,236) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from investment securities | - | 535 |
| Income from investments | 1,004 | 399 |
| Net cash provided by investing activities | 1,004 | 934 |
| Net decrease in cash and cash equivalents | (759) | (7,399) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$32,780 and \$49,333 at June 30, 2013 and June 30, 2012, respectively, reported in restricted accounts) | | |
| | 105,861 | 113,260 |
| CASH AND CASH EQUIVALENTS, END OF YEAR (including \$18,921 and \$32,780 at June 30, 2014 and June 30, 2013, respectively, reported in restricted accounts) | | |
| | \$ 105,102 | \$ 105,861 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 17,260 | \$ 18,598 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 12,799 | 12,698 |
| Amortization of net pension asset | 217 | 184 |
| Increase in allowance for uncollectible accounts | 14 | 7 |
| Decrease (increase) in accounts receivable | 684 | (612) |
| Decrease in prepaid expenses | 2 | 4 |
| Increase (decrease) in accounts payable and other accruals | 3,025 | (1,505) |
| Increase in postemployment benefits payable | 339 | 439 |
| Increase (decrease) increase in compensated absences | 132 | (15) |
| Decrease in Water Conservation Programs payable | (4) | (25) |
| Increase in customer deposits | 177 | 34 |
| Other receipts | 698 | 642 |
| Net cash provided by operating activities | \$ 35,343 | \$ 30,449 |
| SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | |
| Capital contributions - capital assets | 1,256 | 185 |
| Purchase of land with note payable | 9,482 | - |

See accompanying notes to the financial statements

Water

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility (Utility) exists under, and by virtue of, the City of Riverside (City) Charter enacted in 1883. The Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility. The accompanying financial statements present only the financial position and the results of operations of the Utility, which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. Effective July 1, 2012, the Utility adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments issued on or before November 30, 1989 so that they derive from a single source. The accounting records of the Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Utility is not subject to the regulations of the California Public Utilities Commission.

The Utility distinguishes 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for water sales and services. Operating expenses for the Utility include the cost of water 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.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Utility customers are billed monthly. Unbilled water service charges, including the Water Conservation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,397 at June 30, 2014, and \$3,528 at June 30, 2013.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

UTILITY PLANT AND DEPRECIATION

The Utility 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. Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

| | |
|---|-------------|
| Supply, pumping and treatment plant | 20-50 years |
| Transmission and distribution plant | 25-50 years |
| General plant and equipment | 5-50 years |
| Intangibles | 3-15 years |

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants.

In June 2004, the Utility began collecting a surcharge for Water Conservation Programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. On April 22, 2014, the City Council approved continuation of the 1.5% surcharge effective for the next ten years. The programs and services offered include conservation, education, and water use efficiency programs; research, development and demonstration programs to advance science and technology with respect to water conservation; and water service provided to low-income customers. The activity associated with the surcharge is reflected in the accompanying financial statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

CASH AND INVESTMENTS

In accordance with the Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The Utility values its cash and investments in accordance with provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

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.

City-wide information concerning cash and investments as of June 30, 2014, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are used to fund construction of capital assets.

DERIVATIVES

The Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred inflows and outflows of resources on the Statements of Net Position. Changes

in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the non-operating revenues section of the Statements of Revenue, Expenses and Changes in Net Position.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

BOND PREMIUM/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

Bond premium/discounts and gains/losses on refunding (including gains/losses related to interest rate swap transactions) are deferred and amortized over the term of the new bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Gains/losses on refunding are reported as deferred inflows or outflows of resources.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Utility's portion of these deposits as of June 30, 2014 and 2013 was \$935 and \$758, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2014 and 2013. The Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$1,682 at June 30, 2014, and \$1,478 at June 30, 2013.

Employees receive 10 to 25 vacation days per 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.

Employees primarily 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.

INSURANCE PROGRAMS

The Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2014, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2014 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Utility were \$515 and \$598 for the years ended June 30, 2014 and 2013, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. The City has the following multiple tier retirement plan with benefits varying by plan for non-safety employees:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1st Tier – The retirement formula is 2.7% at age 55. The Utility pays the employee share (8%) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 2% in fiscal year 2014, with the City paying the remaining 6% of the employee share.

2nd Tier – The retirement formula is 2.7% at age 55. Employees hired on or after October 19, 2011 pay their share (8%) of contributions.

3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013. Employees must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (PERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The total Utility's contribution to PERS for the years ended June 30, 2014 and 2013 was \$3,028 and \$3,066, respectively. The employer portion of PERS funding for the years ended June 30, 2014 and 2013 was 18.31 percent and 18.28 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2014, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report."

PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Utility's proportional share of the outstanding principal amount of the bonds was \$4,855 and \$5,069 as of June 30, 2014 and 2013, respectively, and is shown on the Statements of Net Position as Advances from other funds-pension obligation. The bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The balance in the net pension asset as of June 30, 2014 and 2013 was \$4,926 and \$5,143, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2014.

OTHER POSTEMPLOYMENT BENEFITS

The City provides healthcare benefits to retirees in the form of an implied rate subsidy. Retirees and active employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees receive the benefit of a lower rate. The difference between these amounts is the implied rate subsidy, which is considered an other postemployment benefit (OPEB) under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45).

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

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

The Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period

not to exceed thirty years. The Utility's OPEB liability including Water Conservation Programs as of June 30, 2014 and 2013 was \$2,446 and \$2,103, respectively.

City-wide information concerning the description of the plan, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2014 can be found in the notes to the City's "Comprehensive Annual Financial Report."

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position 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.

When applicable, the Statements of Net Position will report a separate section for deferred inflows of resources. 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.

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

In accordance with GASB 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 related to debt issuance costs have been recognized in the Statements of Net Position and regulatory charges relating to a lawsuit settlement have been recognized as a deferred inflow of resources in the Statements of Net Position.

NET POSITION

The Utility's net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, which is classified into the following three components:

Net investment in capital assets – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

Restricted – this component represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2014 and 2013, \$6,991 and \$6,579, respectively was transferred representing 11.5 percent.

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay \$10,000 over a three year period beginning in fiscal year 2013-14. The settlement has been reflected as a receivable and a corresponding deferred regulatory charge under deferred inflows of resources on the Statements of Net Position. As of June 30, 2014, the Utility received the first of three payments in the amount of \$3,333.

I OWN IT

Riverside Public Utilities

Customer-owned since 1895

Dr. Raelene Fulford

is uncanny with cavities,
first-rate in flossing,
and great with gums.

She's a dentist at
Dental Associates of Riverside
and a customer-owner of
Riverside Public Utilities.

WATER | ENERGY | LIFE



PUBLIC UTILITIES

RiversidePublicUtilities.com

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

BUDGET AND BUDGETARY ACCOUNTING

The Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Utility's budget in June each year via resolution.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform to the current year's presentation.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 and 2013, consist of the following (in thousands):

| | June 30, 2014 | June 30, 2013 |
|---|----------------------|----------------------|
| | Fair Value | |
| Equity interest in City Treasurer's investment pool | \$ 94,548 | \$ 80,789 |
| Cash and investments at fiscal agent | 10,554 | 25,072 |
| Total cash and investments | \$ 105,102 | \$ 105,861 |

The amounts above are reflected in the accompanying financial statements as:

| | June 30, 2014 | June 30, 2013 |
|---|----------------------|----------------------|
| Unrestricted cash and cash equivalents | \$ 86,181 | \$ 73,081 |
| Restricted cash and cash equivalents | 8,367 | 7,708 |
| Restricted cash and investments at fiscal agent | 10,554 | 25,072 |
| Total cash and investments | \$ 105,102 | \$ 105,861 |

The investment types in the tables below related to the Utility's investments in the City Treasurer's investment pool represent the Utility's prorated share of the investment types in the investment pool and do not represent ownership interests in the individual investments.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2014 and 2013, are as follows:

| Investment Type | June 30, 2014 Fair Value | Remaining Maturity (In Months) | | |
|---|-----------------------------|--------------------------------|--------------------|--------------------|
| | | 12 Months or less | 13 to 24 Months | 25 to 60 Months |
| Held by fiscal agent | | | | |
| Commercial paper ¹ | \$ 10,554 | \$ 10,554 | \$ - | \$ - |
| City Treasurer's investment pool ² | | | | |
| Money market funds | 1,785 | 1,785 | - | - |
| Federal agency securities | 19,245 | - | 12,903 | 6,342 |
| US Treasury notes/bonds | 33,407 | - | 5,627 | 27,780 |
| Corp medium term notes | 13,174 | 2,974 | 4,944 | 5,256 |
| State investment pool | 24,006 | 24,006 | - | - |
| Negotiable certificate of deposit | 2,931 | 958 | 1,313 | 660 |
| Total | \$ 105,102 | \$ 40,277 | \$ 24,787 | \$ 40,038 |

| Investment Type | June 30, 2013 Fair Value | Remaining Maturity (In Months) | | |
|---|-----------------------------|--------------------------------|--------------------|--------------------|
| | | 12 Months or less | 13 to 24 Months | 25 to 60 Months |
| Held by fiscal agent | | | | |
| Commercial paper ¹ | \$ 25,072 | \$ 25,072 | \$ - | \$ - |
| City Treasurer's investment pool ² | | | | |
| Money market funds | 11,562 | 11,562 | - | - |
| Federal agency securities | 36,742 | 6,325 | 3,489 | 26,928 |
| Corp medium term notes | 11,469 | 1,970 | 3,414 | 6,085 |
| State investment pool | 18,822 | 18,822 | - | - |
| Negotiable certificate of deposit | 2,194 | 977 | 706 | 511 |
| Total | \$ 105,861 | \$ 64,728 | \$ 7,609 | \$ 33,524 |

Presented below is the actual rating as of June 30, 2014 and 2013 for each investment type:

| Investment Type | June 30, 2014 Fair Value | Rating as of Year End | | | | |
|---|-----------------------------|-----------------------|------------------|-----------------|------------------|------------------|
| | | AAA | AA | A | A-1 | Unrated |
| Held by fiscal agent | | | | | | |
| Commercial paper ¹ | \$ 10,554 | \$ - | \$ - | \$ - | \$ 10,554 | \$ - |
| City Treasurer's investment pool ² | | | | | | |
| Money market funds | 1,785 | 256 | 311 | 1,218 | - | - |
| Federal agency securities | 19,245 | 19,245 | - | - | - | - |
| US Treasury notes/bonds | 33,407 | 33,407 | - | - | - | - |
| Corp medium term notes | 13,174 | - | 10,694 | 2,480 | - | - |
| State investment pool | 24,006 | - | - | - | - | 24,006 |
| Negotiable certificate of deposit | 2,931 | - | - | - | - | 2,931 |
| Total | \$ 105,102 | \$ 52,908 | \$ 11,005 | \$ 3,698 | \$ 10,554 | \$ 26,937 |

| Investment Type | Rating as of Year End | | | | | |
|---|-----------------------------|------------------|------------------|------------------|-------------|------------------|
| | June 30, 2013 Fair Value | AAA | AA | A | A-1 | Unrated |
| Held by fiscal agent | | | | | | |
| Commercial paper ¹ | \$ 25,072 | \$ - | \$ 25,072 | \$ - | \$ - | \$ - |
| City Treasurer's investment pool ² | | | | | | |
| Money market funds | 11,562 | 491 | 243 | 10,828 | - | - |
| Federal agency securities | 36,742 | 36,742 | - | - | - | - |
| Corp medium term notes | 11,469 | - | 9,468 | 2,001 | - | - |
| State investment pool | 18,822 | - | - | - | - | 18,822 |
| Negotiable certificate of deposit | 2,194 | - | - | - | - | 2,194 |
| Total | \$ 105,861 | \$ 37,233 | \$ 34,783 | \$ 12,829 | \$ - | \$ 21,016 |

¹ Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

² Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2014 and 2013 (in thousands):

| | Balance As of 6/30/2012 | Additions | Retirements/ Transfers | Balance As of 6/30/2013 | Additions | Retirements/ Transfers | Balance As of 6/30/2014 |
|-------------------------------|-------------------------------|------------------|---------------------------|-------------------------------|------------------|---------------------------|-------------------------------|
| Source of supply | \$ 48,304 | \$ 464 | \$ (2,514) | \$ 46,254 | \$ 2,812 | \$ - | \$ 49,066 |
| Pumping | 26,869 | 1,715 | (34) | 28,550 | 1,197 | - | 29,747 |
| Treatment | 43,697 | - | - | 43,697 | - | - | 43,697 |
| Transmission and distribution | 408,661 | 20,696 | (3,806) | 425,551 | 13,428 | (458) | 438,521 |
| General | 14,041 | 162 | (209) | 13,994 | 625 | (250) | 14,369 |
| Intangible | 353 | - | - | 353 | 33 | - | 386 |
| Depreciable utility plant | 541,925 | 23,037 | (6,563) | 558,399 | 18,095 | (708) | 575,786 |
| Less accumulated depreciation | | | | | | | |
| Source of supply | (14,416) | (963) | 1,918 | (13,461) | (1,002) | - | (14,463) |
| Pumping | (8,998) | (626) | 34 | (9,590) | (639) | - | (10,229) |
| Treatment | (7,342) | (1,183) | - | (8,525) | (1,183) | - | (9,708) |
| Transmission and distribution | (119,376) | (8,894) | 2,658 | (125,612) | (9,069) | 599 | (134,082) |
| General | (9,972) | (989) | 200 | (10,761) | (862) | 240 | (11,383) |
| Intangible | (141) | (43) | - | (184) | (45) | - | (229) |
| Accumulated depreciation | (160,245) | (12,698) | 4,810 | (168,133) | (12,800) | 839 | (180,094) |
| Net depreciable utility plant | 381,680 | 10,339 | (1,753) | 390,266 | 5,295 | 131 | 395,692 |
| Land | 10,996 | - | - | 10,996 | 9,488 | - | 20,484 |
| Intangible, non-amortizable | 6,307 | 3,951 | 583 | 10,841 | - | - | 10,841 |
| Construction in progress | 10,692 | 25,001 | (25,518) | 10,175 | 22,733 | (17,080) | 15,828 |
| Nondepreciable utility plant | 27,995 | 28,952 | (24,935) | 32,012 | 32,221 | (17,080) | 47,153 |
| Total utility plant | \$ 409,675 | \$ 39,291 | \$ (26,688) | \$ 422,278 | \$ 37,516 | \$ (16,949) | \$ 442,845 |

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2014 and 2013 (in thousands):

| | Balance As of 6/30/2012 | | | Balance As of 6/30/2013 | | | Balance As of 6/30/2014 | | Due Within One Year |
|---|-------------------------------|-----------|------------|-------------------------------|-----------|------------|-------------------------------|--|---------------------------|
| | Balance | Additions | Reductions | Balance | Additions | Reductions | Balance | | |
| Revenue bonds | \$ 217,661 | \$ - | \$ (5,658) | \$ 212,003 | \$ - | \$ (4,812) | \$ 207,191 | | \$ 5,015 |
| Advances from other funds - pension obligation | 5,164 | 92 | (187) | 5,069 | - | (214) | 4,855 | | - |
| Postemployment benefits payable | 1,644 | 439 | - | 2,083 | 339 | - | 2,422 | | - |
| Water stock acquisition rights | 947 | - | (2) | 945 | - | (3) | 942 | | 150 |
| Compensated absences | 1,428 | 1,288 | (1,238) | 1,478 | 1,388 | (1,184) | 1,682 | | 1,349 |
| Note payable | - | - | - | - | 9,482 | - | 9,482 | | - |
| Total long-term obligations | \$ 226,844 | \$ 1,819 | \$ (7,085) | \$ 221,578 | \$ 11,209 | \$ (6,213) | \$ 226,574 | | \$ 6,514 |

NOTE PAYABLE

On September 30, 2013, the Utility entered into a Purchase and Sale Agreement and a Well Relocation Agreement with Hillwood Enterprises, L.P. (Hillwood) for their development of a logistic center located in the City of San Bernardino. In order to construct the logistic center, Hillwood purchased 27.21 acres of land owned by a private entity and conveyed it to the Utility for a purchase price of \$9,482. Under a 55-year Ground Lease Agreement entered into on May 20, 2014, the land was leased back to Hillwood including 22.56 acres of existing land owned by the Utility. The Utility has two active wells located on the leased site that will be relocated by Hillwood under the terms of the Well Relocation Agreement with an estimated cost of \$6,100. The land purchase and the cost of the well relocation will be paid by the Utility through credits against future rent payments for the first 15 years under terms of the Ground Lease Agreement. Rent will commence the earlier of when Hillwood starts construction of the logistic center, which is contingent upon the completion of the well relocation, or May 20, 2016. As of June 30, 2014, the well relocation is not completed and it is not anticipated that rent will commence in fiscal year 2015. Estimated annual rent credits to be applied for the land purchase, at an interest rate of 1.65%, are as follows (in thousands):

| Fiscal Year | Principal | Interest | Total |
|-------------|-----------|----------|-----------|
| 2015 | \$ - | \$ - | \$ - |
| 2016 | 40 | 156 | 196 |
| 2017 | 483 | 152 | 635 |
| 2018 | 492 | 144 | 636 |
| 2019 | 512 | 136 | 648 |
| 2020-2024 | 2,900 | 543 | 3,443 |
| 2025-2029 | 3,522 | 279 | 3,801 |
| 2030-2031 | 1,533 | 26 | 1,559 |
| Total | \$ 9,482 | \$ 1,436 | \$ 10,918 |



Construction crew installing recycled water purple pipeline.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Long-term debt consists of the following (in thousands):

CONTRACTS PAYABLE

| | June 30, 2014 | June 30, 2013 |
|---|---------------|---------------|
| Water Stock Acquisitions: Payable on demand to various water companies | \$ 942 | \$ 945 |
| Total contracts payable | <u>942</u> | <u>945</u> |

REVENUE BONDS PAYABLE

| | | |
|--|-------------------|-------------------|
| \$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual principal installments from \$1,210 to \$7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 to 5.0 percent | 58,235 | 58,235 |
| \$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from \$2,360 to \$4,335 through October 1, 2020, interest from 3.0 to 5.0 percent | 21,205 | 24,715 |
| \$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual principal installments from \$2,475 to \$4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent | 67,790 | 67,790 |
| \$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from \$600 to \$3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2014 was 3.1 percent) | 56,525 | 57,375 |
| Total water revenue bonds payable | <u>203,755</u> | <u>208,115</u> |
| Total water revenue bonds and contracts payable | <u>204,697</u> | <u>209,060</u> |
| Unamortized bond premium | 3,436 | 3,888 |
| Total water revenue bonds and contracts payable, net of bond premium | <u>208,133</u> | <u>212,948</u> |
| Less current portion | (5,165) | (4,510) |
| Total long-term water revenue bonds and contracts payable | <u>\$ 202,968</u> | <u>\$ 208,438</u> |

Revenue bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2014, are as follows (in thousands):

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020-2024 | 2025-2029 | 2030-2034 | 2035-2039 | 2040 | TOTAL |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| Principal | \$ 5,165 | \$ 5,410 | \$ 5,330 | \$ 5,565 | \$ 5,785 | \$ 31,772 | \$ 38,055 | \$ 46,200 | \$ 56,430 | \$ 4,985 | \$204,697 |
| Interest | 8,381 | 8,152 | 7,920 | 7,683 | 7,457 | 33,776 | 26,563 | 18,174 | 7,625 | 104 | 125,835 |
| Total | \$ 13,546 | \$ 13,562 | \$ 13,250 | \$ 13,248 | \$ 13,242 | \$ 65,548 | \$ 64,618 | \$ 64,374 | \$ 64,055 | \$ 5,089 | \$330,532 |

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Utility's debt service coverage ratio was 2.56 and 2.61 at June 30, 2014 and 2013, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.

INTEREST RATE SWAPS ON REVENUE BONDS

The Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included as part of the deferred loss on refunding associated with the new bonds. The swap was 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 Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2014 is as follows:

| | Notional Amount | Fair Value as of 6/30/2014 | Change in Fair Value for Fiscal Year |
|---|----------------------------|---|---|
| 2011 Water Refunding/Revenue Bonds Series A | \$ 56,525 | \$ (8,083) | \$ (199) |

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Utility entered into an interest rate swap agreement in connection with its \$59,000 2011 Water Refunding/Revenue Series A Bonds.

Terms: Per the existing swap agreement, the Utility pays the 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. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by \$600 to \$3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2014, rates were as follows:

Interest rate swap:

| | Terms | Rates |
|------------------------------------|---------------------|--------------|
| Fixed payment to counterparty | Fixed | 3.20000% |
| Variable payment from counterparty | 62.68 LIBOR + 12bps | (0.24900%) |
| Net interest rate swap payments | | 2.95100% |
| Variable-rate bond coupon payments | | 0.16488% |
| Synthetic interest on bonds | | 3.11588% |

Fair value: As of June 30, 2014, in connection with the swap agreement, the transactions had a total negative fair value of (\$8,083). Because the coupons on the Utility’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: As of June 30, 2014, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor’s (S&P). To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty’s rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2014, there is no requirement for collateral posting for the outstanding swap.

Basis risk: As noted above, the swap exposes the Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. 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 Utility if the counterparty’s credit quality falls below “BBB-” as issued by S&P. The Utility 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 Utility 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, 2014, 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 as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.



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Jack B. Clarke, Jr.

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an ace in argumentation,
and a commander of contracts.

He's an attorney at
Best Best & Krieger
and a customer-owner of
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WATER | ENERGY | LIFE



PUBLIC UTILITIES

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NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

| Fiscal Year Ending June 30, | Variable-Rate Bonds | | | |
|-----------------------------------|---------------------|----------|-----------------------------|-----------|
| | Principal | Interest | Interest Rate Swaps, Net | Total |
| 2015 | \$ 875 | \$ 92 | \$ 1,642 | \$ 2,609 |
| 2016 | 925 | 90 | 1,615 | 2,630 |
| 2017 | 600 | 89 | 1,597 | 2,286 |
| 2018 | 1,700 | 86 | 1,547 | 3,333 |
| 2019 | 1,475 | 84 | 1,504 | 3,063 |
| 2020-2024 | 12,700 | 359 | 6,418 | 19,477 |
| 2025-2029 | 14,200 | 244 | 4,369 | 18,813 |
| 2030-2034 | 16,275 | 117 | 2,103 | 18,495 |
| 2035-2036 | 7,775 | 7 | 116 | 7,898 |
| Total | \$ 56,525 | \$ 1,168 | \$ 20,911 | \$ 78,604 |

NOTE 5. RESTRICTED NET POSITION

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Certain revenue/refunding bond issues are covered by a Surety Bond (2008B) and certain issues have no debt service reserve requirements (2009A & B and 2011A).

NOTE 6. LITIGATION

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility 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 operations of the Utility.

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2014, the Utility had major commitments (encumbrances) of approximately \$4,701 with respect to unfinished capital projects of which \$1,524 is expected to be funded by bonds, \$2,299 to be funded by rates, and \$878 to be funded by other sources.

NOTE 8. ACCOUNTING CHANGE

Effective July 1, 2012, the accompanying financial statements reflect the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). Significant impacts of GASB 63 include changing the title of Balance Sheets to Statements of Net Position, changing the title of equity section to net position and reformatting the Statements of Net Position to add separate sections for deferred outflows of resources and deferred inflows of resources. Significant impacts of GASB 65 include reclassifying as deferred outflows of resources and deferred inflows of resources certain balances that were previously reported as assets and liabilities.

Water

KEY HISTORICAL OPERATING DATA

Linden Reservoir Roof Replacement Project.

KEY HISTORICAL OPERATING DATA

| FISCAL YEAR | 2013/14 | 2012/13 | 2011/12 | 2010/11 | 2009/10 |
|---------------------------------|------------|------------|------------|------------|------------|
| WATER SUPPLY (ACRE FEET) | | | | | |
| Pumping | 72,647 | 72,480 | 69,564 | 66,492 | 69,676 |
| Percentage pumped ¹ | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| System peak day (gallons) | 90,020,000 | 95,390,000 | 88,370,000 | 90,556,000 | 98,017,000 |
| WATER USE | | | | | |
| Number of meters as of year end | | | | | |
| Residential | 58,958 | 58,756 | 58,506 | 58,460 | 58,372 |
| Commercial/Industrial | 5,527 | 5,508 | 5,504 | 5,482 | 5,451 |
| Other | 344 | 327 | 357 | 407 | 408 |
| Total | 64,829 | 64,591 | 64,367 | 64,349 | 64,231 |
| *CCF sales | | | | | |
| Residential | 17,432,384 | 17,061,832 | 16,288,918 | 15,698,321 | 16,321,425 |
| Commercial/Industrial | 10,292,548 | 10,045,813 | 9,703,162 | 9,219,913 | 9,344,085 |
| Other | 960,694 | 869,807 | 893,971 | 826,165 | 871,396 |
| Subtotal | 28,685,626 | 27,977,452 | 26,886,051 | 25,744,399 | 26,536,906 |
| Wholesale | 201,678 | 208,726 | 176,091 | 158,040 | 150,365 |
| Total | 28,887,304 | 28,186,178 | 27,062,142 | 25,902,439 | 26,687,271 |

*(CCF equals 100 cubic feet)

WATER FACTS

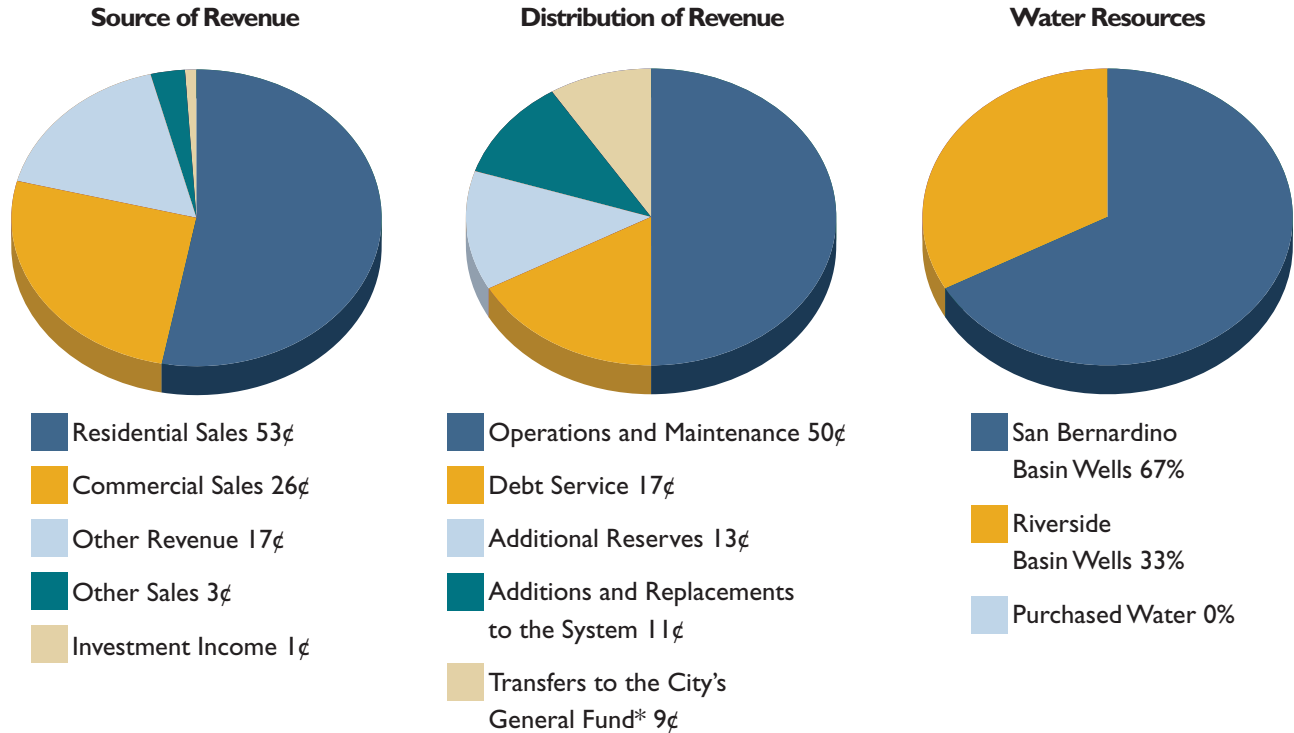
| | | | | | |
|---|--------|--------|--------|--------|--------|
| Average annual CCF per residential customer | 296 | 291 | 280 | 270 | 281 |
| Average price (\$/CCF) per residential customer | \$2.33 | \$2.36 | \$2.37 | \$2.28 | \$2.05 |
| Debt service coverage ratio (DSC) ² | 2.56 | 2.61 | 2.82 | 3.49 | 2.08 |
| Employees ³ | 182 | 181 | 181 | 180 | 178 |

¹ No purchased water.

² Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

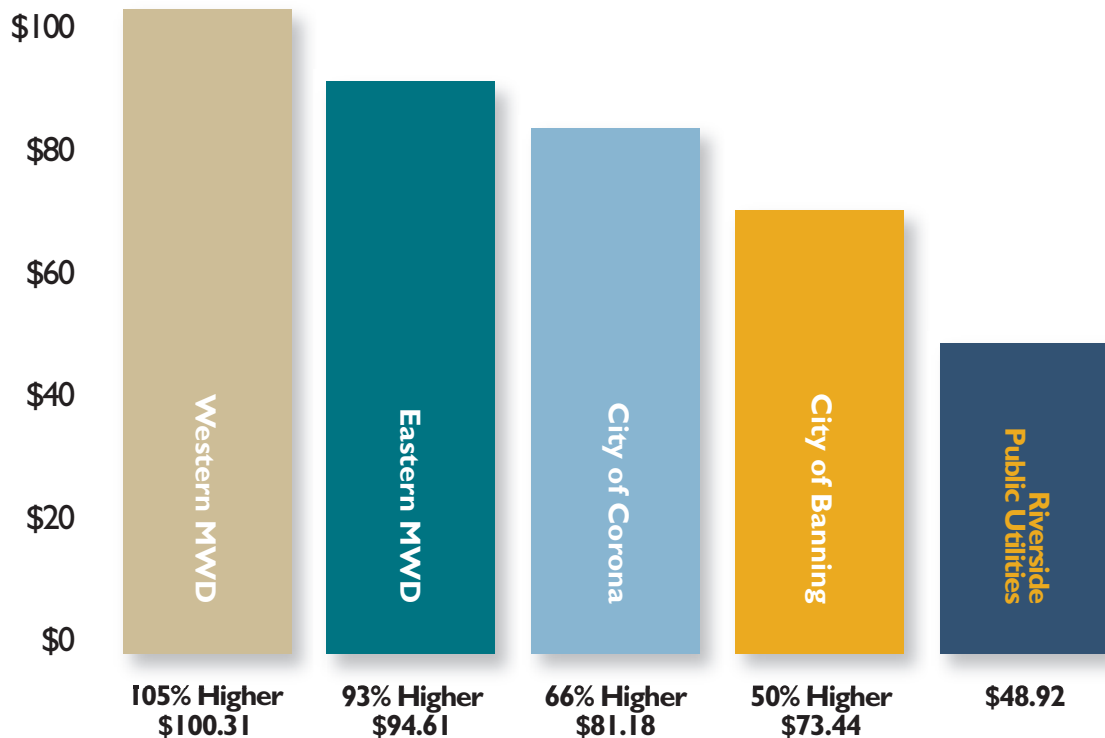
³ Approved positions.

2013/2014 WATER REVENUE AND RESOURCES



* Based on transfer of 11.5% of fiscal year 2012/2013 gross operating revenues including adjustments.

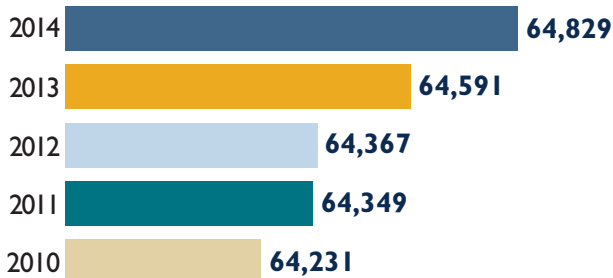
RESIDENTIAL WATER RATE COMPARISON - 25 CCF PER MONTH (AS OF JUNE 30, 2014)



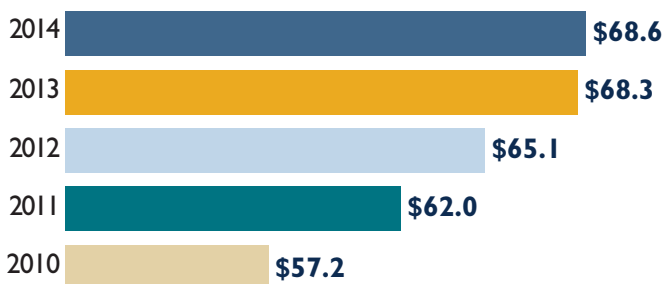
GENERAL FUND TRANSFER (IN MILLIONS)



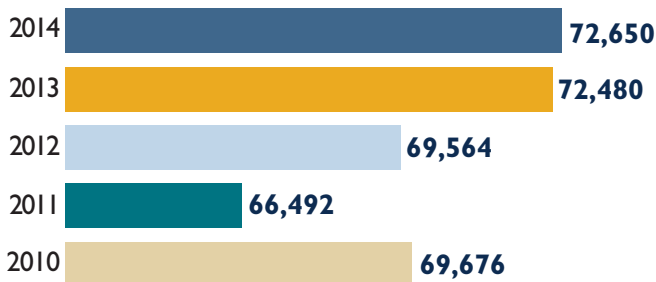
NUMBER OF METERS AT YEAR END



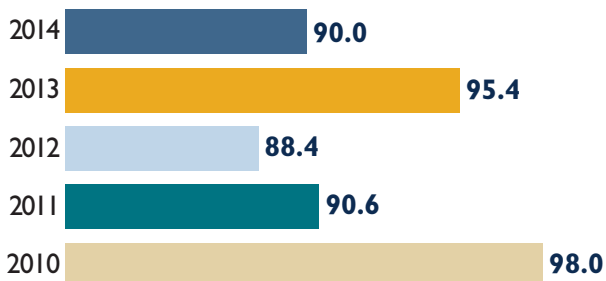
TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN ACRE FEET)



PEAK DAY DEMAND (IN MILLION GALLONS)



WATER FACTS AND SYSTEM DATA

| | |
|------------------------------------|-------------|
| Established | 1913 |
| Service Area Population | 313,975 |
| Service Area Size (square miles) | 74.20 |
| System Data: | |
| Smallest pipeline | 2.0" |
| Largest pipeline | 72.0" |
| Miles of pipeline | 1,000 |
| Number of domestic wells | 54 |
| Number of active reservoirs | 15 |
| Total reservoir capacity (gallons) | 108,500,000 |
| Number of treatment plants | 6 |
| Number of treatment vessels | 84 |
| Miles of canal | 14 |
| Number of fire hydrants | 7,754 |
| Daily average production (gallons) | 63,597,627 |
| 2013-2014 Peak day (gallons) | 90,020,000 |
| 07/07/2013, 99 degrees | |
| Historical peak (gallons) | 118,782,000 |
| 08/09/2005, 99 degrees | |

Bond Ratings

| | |
|-------------------|-----|
| Fitch Ratings | AA+ |
| Moody's | Aa2 |
| Standard & Poor's | AAA |

Riverside Public Utilities

Administration

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