FINANCIAL REPORT

Artwork by Audrey Alexander, Woodcrest Christian High School

2017

RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

OVERVIEW

Riverside Public Utilities generates, transmits and distributes electricity to a 81.5 square-mile territory that includes the City of Riverside. We also deliver water to a 74.2 square mile territory covering the majority of the City of Riverside.

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. They 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 nal determination.

SERVICE AREA POPULATION

326,733

RECORD PEAK DEMAND

Energy: 604 megawatts

9/16/2014

Water: 118,782,000 million gallons

8/9/2005

TOTAL OPERATING REVENUE

Energy: $366.1 million

Water: $62.6 million

CUSTOMERS

Energy: 109,274

Water: 65,428

CREDIT RATING

Energy: AA- Fitch

AA- Standard & Poor's

Water: AA+ Fitch

AAA Standard & Poors

Aa2 Moody's

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CITY OF RIVERSIDE
PUBLIC UTILITIES

OUR 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.

OUR 10-YEAR VISION

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

OUR CORE VALUES

Safety

Honesty and Integrity

Teamwork

Professionalism

Quality Service

Creativity and Innovation

Community Involvement

Environmental Stewardship

Inclusiveness and Mutual Respect

OUR FOCUS AREAS

RELIABILITY & RESILIENCY

Taking care of our infrastructure so that it remains safe, and effcient.

AFFORDABILITY

Thriving financially while balancing affordable rates for our customers.

SUSTAINABILITY

Ensuring adequate power and water supply in the most environmentally responsible manner.

CUSTOMER EXPERIENCE

Continuing to provide reliable customer-centered service every day.

OPERATIONAL EXCELLENCE

Implementing new technologies that will enhance the customer experience and ensure the tradition of operational excellence.

STRONG WORKFORCE

Developing and supporting a workforce that is safe, prepared and engaged.

OUR 3-YEAR GOALS

1. Contribute to the City of Riverside's economic development while preserving RPU's financial strength.
2. Maximize the use of technology to improve utility operations.
3. Impact positively legislation and regulations at all levels of government.
4. Develop and implement electric and water resource plans.
5. Create and implement a workforce development plan.

OUR 10-YEAR GOALS

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

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CITY OF RIVERSIDE

PUBLIC UTILITIES

EXECUTIVE MANAGEMENT

John Russo
City Manager

Girish Balachandran
Utilities General Manager

Kevin S. Milligan
Deputy General Manager

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

Daniel Garcia
Assistant General Manager, Resources

George Hanson
Assistant General Manager, Energy Delivery

Todd Jorgenson
Assistant General Manager, Water

Mujib Lodhi
Assistant General Manager, Operational Technology

CITY COUNCIL

Mike Gardner
Ward 1

Andy Melendrez
Ward 2

Mike Soubirous
Ward 3

Chuck Conder
Ward 4

Chris Mac Arthur
Ward 5

Jim Perry
Ward 6

Steve Adams
Ward 7

Rusty Bailey
Mayor

BOARD OF PUBLIC UTILITIES

Jennifer O'Farrell
(Board Vice Chair)
Ward 1

David M. Crohn
Ward 1/Citywide

Kevin D. Foust
Ward 2

Elizabeth Sanchez-Monville
Ward 3

David Austin
(Board Chair)
Ward 4

Jo Lynne Russo-Pereyra
Ward 4/Citywide

Andrew Walcker
Ward 5

Vacant
Ward 6

Gil Oceguera
Ward 7


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electric

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CITY OF RIVERSIDE

PUBLIC UTILITIES

MGO Certified Public Accountants

Independent Auditors' Report

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

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 years ended June 30, 2017 and 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, 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, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years 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

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 supplementary Electric Utility information is 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
October 31, 2017

ELECTRIC UTILITY:
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 2016-17 financial report for the periods ended June 30, 2017 and 2016 for Riverside's Electric Utility (Electric 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 25 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery were $308,781 and $304,486 for years ended June 30, 2017 and 2016, respectively. The increase in sales was primarily due to increased customer consumption as a result of warmer weather during the summer season.

- Utility plant assets as of June 30, 2017 increased by $14,098 primarily due to the completion of significant capital projects such as substation improvements, technology upgrades, city-wide communications, and major 4-12 kV conversions, as well as donated easements received for access to electrical systems, offset by current year depreciation.

- Total net position as of June 30, 2017 increased by $38,587 primarily due to positive operating results, non-cash capital contributions for donated assets received, and settlement recoveries received.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Electric Utility's financial statements. The Electric 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 Electric 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 Electric 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 Electric 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 Electric Utility's financial health.

The ***Statements of Net Position*** present information on all of the Electric 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 Electric 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 Electric 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 29 to 58 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2017	2016	2015
Current and other assets	$ 464,254	$ 460,113	$ 489,995
Capital assets	768,792	754,694	702,409
Deferred outflows of resources	65,176	64,735	42,266
Total assets and deferred outflows of resources	1,298,222	1,279,542	1,234,670
Long-term debt outstanding	547,122	561,728	576,081
Other liabilities	249,214	247,996	239,169
Deferred inflows of resources	17,685	24,204	20,683
Total liabilities and deferred inflows of resources	814,021	833,928	835,933
Net investment in capital assets	229,432	201,651	190,271
Restricted	47,727	40,913	37,345
Unrestricted	207,042	203,050	171,121
Total net position	$ 484,201	$ 445,614	$ 398,737

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2017 compared to 2016 The Electric Utility's total assets and deferred outflows of resources were $1,298,222, reflecting an increase of $18,680 (1.5%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $4,141.
  - Unrestricted assets increased by $8,277 primarily due to an increase of $6,249 in cash and cash equivalents due to positive operating results and settlement recoveries received and an increase of $1,591 in unamortized purchased power for the prepayment of power supply costs related to the Salton Sea power purchase agreement.
  - Restricted assets decreased by $4,136 primarily due to a decrease of $9,452 in cash and investments at fiscal agent for payment of decommissioning costs related to San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. This decrease was offset by an increase of $5,542 in cash and cash equivalents related to the sale of renewable energy credits and regulatory transactions.
- Capital assets increased by $14,098 primarily due to the receipt of $16,011 in donated land rights and easements for general access to electrical system assets, capital projects for additions and improvements to the Electric distribution infrastructure system and technology upgrades used to improve service to the Electric Utility's customers. This increase was offset by current year depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

2016 compared to 2015 Total assets and deferred outflows of resources were $1,279,542, a net increase of $44,872 (3.6%). Current and other assets had a net decrease of $29,882 primarily due to a decrease of

$52,293 in cash and investments at fiscal agent for the use of bond proceeds to fund capital projects and a partial payment of $27,000 for the purchase of the Mission Square office building. There was also a decrease of $6,427 in regulatory assets for the recognition of the replacement power associated with the shutdown of SONGS Units 2 and 3 as an expense. These decreases were offset by an increase of $21,822 in cash and cash equivalents due to positive operating results and settlement recoveries received, an increase of $3,840 in cash and cash equivalents in Public Benefit Programs and $1,301 in cash and cash equivalents related to regulatory transactions. Capital assets increased by $52,285 primarily due to the purchase of the Mission Square office building for $37,950, the receipt of $9,193 in donated land rights and easements for general access to electrical system assets, and capital projects for additions and improvements to the Electric distribution infrastructure system and technology upgrades used to improve service to the Electric Utility's customers. Deferred outflows of resources increased by $22,469, primarily due to an increase of $14,691 in deferred outflows related to pension for contributions made subsequent to the measurement date of the net pension liability and the difference between projected and actual earnings on pension plan investments and an increase of $8,925 in deferred changes in derivative values.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2017 compared to 2016 The Electric Utility's total liabilities and deferred inflows of resources were $814,021, a decrease of $19,907 (2.4%), due to the following:

- Long-term debt outstanding decreased by $14,606 primarily due to the principal payments on revenue bonds and the amortization of bond premiums. Additional debt information can be found in the "Capital Assets and Debt Administration" section.

- Other liabilities increased by $1,218 primarily due to an increase of $18,286 in net pension liability and an increase of $2,228 in advances from other funds of the City related to pension obligation. These increases were offset by a decrease of $11,676 in the negative fair value of derivative instruments, a decrease of $4,219 in nuclear decommissioning liabilities and a decrease of $2,632 in accounts payable and other accruals.

- Deferred inflows of resources decreased by $6,519 due to pension related adjustments which included the changes in assumptions, the differences between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2016 compared to 2015 Total liabilities and deferred inflows of resources were $833,928, a decrease of $2,005 (0.2%). Long-term debt outstanding decreased by $14,353 due to the principal payments of revenue bonds and the amortization of bond premiums. Other liabilities increased by $8,827 due to an increase of $9,903 in the negative fair value of derivative instruments, an increase of $6,134 in net pension liability, and an increase of $2,692 in capital leases payable for the financing of nine utility service trucks, offset by a decrease of $4,821 in accounts payable and other accruals and a decrease of $4,394 in nuclear decommissioning liabilities. Deferred inflows of resources increased by $3,521 due to pension related adjustments, which included the changes in assumptions, the differences between expected and actual experience and the change in, projected versus actual earnings on pension plan investments as determined by the plan actuary.

NET POSITION

2017 compared to 2016 The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $484,201, an increase of $38,587 (8.7%) which is primarily attributed to positive operating results, non-cash capital contributions for donated assets received, and settlement recoveries. The following represents the changes in components of Net Position:

- The largest portion of the Electric Utility's total net position, $229,432 (47.4%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion increased by $27,781 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion of net position totaled $47,727 (9.9%), an increase of $6,814, and represents resources that are subject to 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 totaled $207,042 (42.7%) an increase of $3,992 from prior year, primarily attributable to positive operating results and settlement recoveries received. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

2016 compared to 2015 Total net position, increased by $46,877 (11.8%), to a total of $445,614. Net investment in capital assets increased by $11,380 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Restricted net position increased by $3,568 and the unrestricted portion increased by $31,929 primarily due to positive operating results and settlement recoveries received.

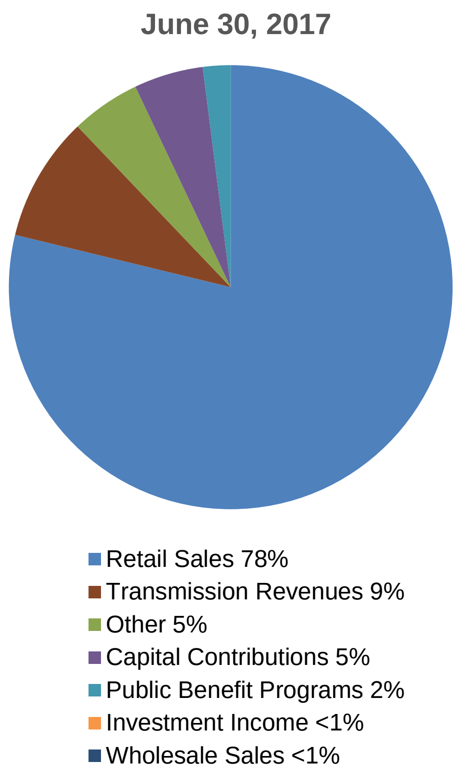
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

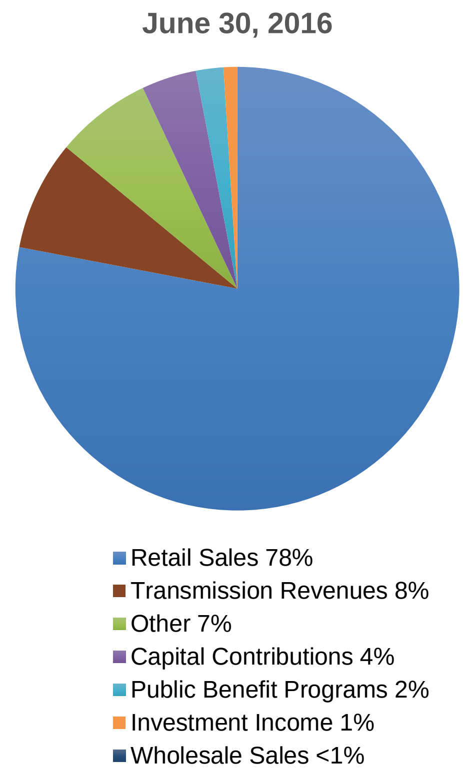
	2017	2016	2015
Revenues:			
Retail sales, net	$ 308,781	$ 304,486	$ 299,607
Wholesale sales	9	3	60
Transmission revenues	35,497	32,924	30,587
Investment income	1,809	5,143	3,821
Other revenues	20,493	26,040	12,030
Public Benefit Programs	8,880	8,929	8,699
Capital contributions	19,684	14,874	2,590
Total revenues	395,153	392,399	357,394
Expenses:			
Production and purchased power	132,349	137,081	145,312
Transmission	59,497	58,145	53,356
Distribution	59,906	49,346	49,319
Public Benefit Programs	7,602	6,657	6,870
Depreciation	32,642	30,953	29,328
Interest expenses and fiscal charges	25,340	24,980	25,311
Total expenses	317,336	307,162	309,496
Transfers to the City's general fund	(39,230)	(38,360)	(38,178)
Changes in net position	38,587	46,877	9,720
Net position, July 1, as previously reported	445,614	398,737	483,975
Less: Cumulative effect of change in accounting principle [(1)]	-	-	(94,958)
Net position, July 1, as restated	445,614	398,737	389,017
Net position, June 30	$ 484,201	$ 445,614	$ 398,737

[(1)] For the implementation of pension accounting standard, GASB Statement No. 68.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES





2017 compared to 2016 The Electric Utility's total revenues of $395,153 increased by $2,754 (0.7%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $308,781, a $4,295 (1.4%) increase. Retail sales continue to be the primary revenue source for the Electric Utility. The increase in sales was primarily due to a slight increase in customer consumption as a result of warmer weather during the summer season.

- Transmission revenues of $35,497 increased by $2,573 (7.8%), primarily due to an increase in high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.

- Other revenues of $20,493 decreased by $5,547 (21.3%), primarily due to a decrease of $10,820 in settlement recoveries as compared to prior year, offset by an increase of $5,021 in proceeds from the sale of renewable energy credits and regulatory transactions.

- Capital contributions of $19,684 increased by $4,810 (32.3%), due to an increase in donated land rights and easements for general access to electrical system assets.

2016 compared to 2015 The Electric Utility's total revenues of $392,399 increased by $35,005 (9.8%) with changes in the following:

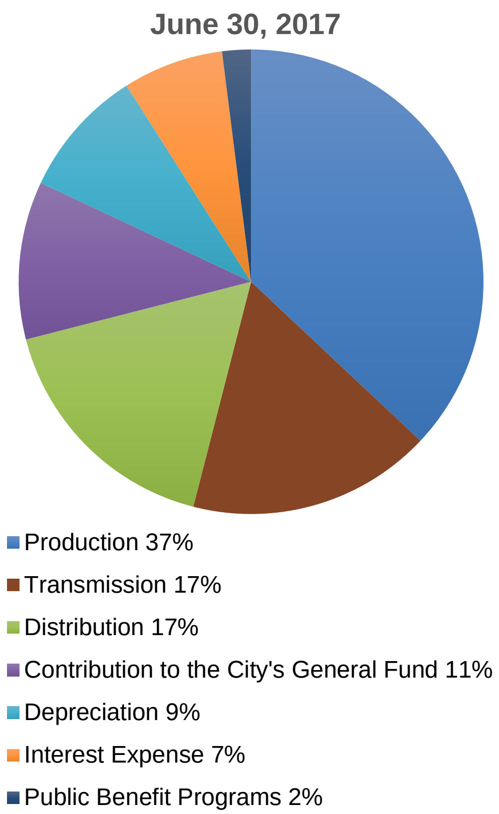
- Retail sales, net of uncollectibles/recovery, totaled $304,486, a $4,879 (1.6%) increase. The increase in sales was primarily due to a slight increase in customer consumption.

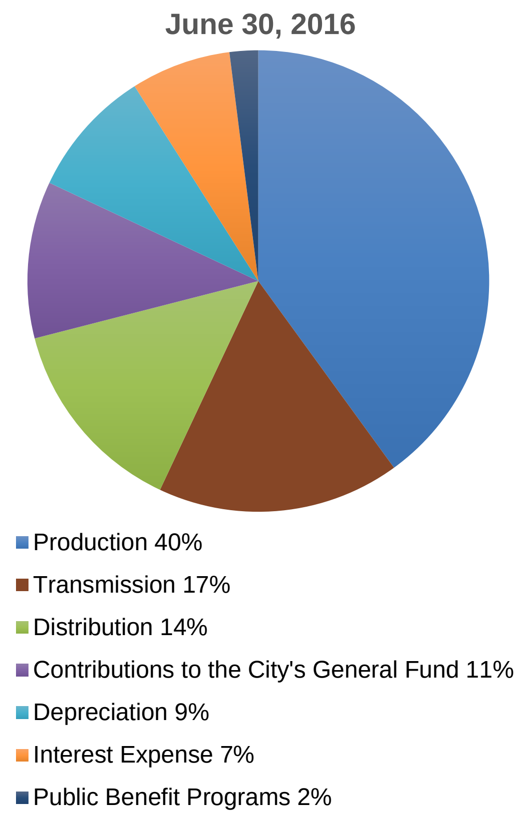
- Transmission revenues of $32,924 increased by $2,337 (7.6%), primarily due to an increase in high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.

- Other revenues of $26,040 increased by $14,010 (116%), primarily due to $9,457 in settlements resulting from recovery of costs and insurance claims related to the shutdown of SONGS Units 2 and 3, $1,500 in insurance proceeds for damages sustained on substation equipment in March 2014 due to a fire, and $2,328 in liquidated damages received on renewable power purchase agreements for not meeting certain project milestones.

- Capital contributions of $14,874 increased by $12,284 (474%), primarily due to $9,193 in donated land rights and easements for general access to electrical system assets, $1,842 in donated streetlight equipment and $1,020 in various system equipment used to improve service to the Electric Utility's customers.

EXPENSES BY SOURCES





2017 compared to 2016 The Electric Utility's total expenses, excluding general fund transfer, were $317,336, an increase of $10,174 (3.3%). The increase was primarily due to the following:

- Production and purchased power expenses of $132,349 decreased by $4,732 (3.5%) primarily due to the prior year recognition of SONGS replacement power of $7,160 associated with the shutdown of Units 2 and 3 as an expense, partially offset by an increase in power supply costs in the current year for the increase in customer consumption and new renewable energy projects coming online.

- Transmission expenses of $59,497 increased by $1,352 (2.3%), mainly due to increases in the transmission access charge from the California Independent System Operator (CAISO).

- Distribution expenses of $59,906 increased by $10,560 (21.4%), mainly due to a prior year non-cash pension expense credit of $5,036 as a result of pension accounting standards, the City's refinancing of pension obligation bonds resulting in an additional obligation of $2,593 to the Electric Utility for its share of the bonds, and an increase of general operating expenses.

- Depreciation expense of $32,642 increased by $1,689 (5.5%), reflecting the completion of capital projects and their current year depreciation.

2016 compared to 2015 Total expenses, excluding general fund transfer, were $307,162, a decrease of $2,334 (0.8%). The increase was primarily due to the following:

- Production and purchased power expenses of $137,081 decreased by $8,231 (5.7%) primarily due to lower energy prices.

- Transmission expenses of $58,145 increased by $4,789 (9.0%), mainly due to increases in the transmission access charge from the CAISO.

- Depreciation expense of $30,953 increased by $1,625 (5.5%), reflecting the completion of capital projects and their current year depreciation.

TRANSFERS

Pursuant to the City of Riverside Charter, the Electric 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 Electric Utility transferred $39,230 and $38,360 for 2017 and 2016, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2017	2016	2015
Production	$ 187,543	$ 196,489	$ 205,316
Transmission	27,068	27,425	27,922
Distribution	363,986	361,948	349,980
General	72,923	74,282	37,590
Intangibles	17,140	17,134	13,560
Land	37,845	21,439	8,786
Intangibles, non-amortizable	10,651	10,651	10,651
Construction in progress	51,636	45,326	48,604
Total capital assets	$ 768,792	$ 754,694	$ 702,409

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

2017 compared to 2016 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $768,792, an increase of $14,098 (1.9%). The increase resulted primarily from the following significant capital projects offset by current year depreciation:

- $19,963 in additions and improvements to the Electric system, such as substations, transformers, underground conduit and conductors, neighborhood streetlights, and distribution line extensions and replacements to serve customers.
- $16,011 in donated land rights and easements for general access to electrical system assets.
- $3,277 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV) to reduce system losses, increases capacity for necessary system growth, and improves electric system reliability.
- $2,601 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid to serve future retail needs.

2016 compared to 2015 Investment in capital assets, net of accumulated depreciation, was $754,694, an increase of $52,285 (7.4%). The increase resulted from $37,950 for the purchase of the Mission Square office building, $19,489 in additions and improvements to the Electric system, $9,193 in donated land rights and easements for general access to electrical system assets, and $3,790 in technology upgrades to improve service to the Electric Utility's customers.

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:

	2017	2016	2015
Revenue bonds	$ 553,515	$ 566,835	$ 582,660
Unamortized premium	7,402	8,213	9,231
Arbitrage liability	-	-	15
Less: Current portion	(13,795)	(13,320)	(15,825)
Total	$ 547,122	$ 561,728	$ 576,081

The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.96, 2.99, and 2.39 at June 30, 2017, 2016 and 2015, respectively. This debt is backed by the revenues of the Electric Utility.

2017 compared to 2016 The Electric Utility's long-term debt decreased by $14,606 (2.6%) to $547,122 as a result of principal payments and amortization of bond premiums.

2016 compared to 2015 Long-term debt decreased by $14,353 (2.5%) to $561,728 as a result of principal payments and amortization of bond premiums.

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

CREDIT RATINGS

The Electric Utility maintains a credit rating of "AA-" from both Standard & Poor's (S&P) and Fitch Ratings (Fitch).

In November 2016, S&P affirmed its "AA-" rating on the Electric Utility's revenue bonds. The rating reflects the Electric Utility's strong debt service coverage, strong liquidity position and the Electric Utility's diverse and low-cost resource portfolio, including an emphasis on renewal energy resources.

In June 2017, Fitch also affirmed its "AA-" rating on the Electric Utility's revenue bonds. This rating is a result of the Electric Utility's evolving power resource portfolio which is well positioned to meet California's increasing environmental regulations, stable financial performance and strong liquidity levels.

The Electric Utility has maintained these credit ratings since 2008.

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 Electric Utility.

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

AB 32, enacted in 2006, requires that utilities in California reduce their greenhouse gas (GHG) emissions to 1990 levels by the year 2020. On September 8, 2016, the Governor of California expanded on this bill by approving Senate Bill 32 (SB 32), which requires the state board to ensure that statewide greenhouse gas emissions are reduced to 40% below the 1990 level by 2030.

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 placed 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 expanded to cover emissions from transportation fuels, natural gas, propane, and other fossil fuels. Since the enactment of AB 32, the Electric Utility has actively participated with major investor owned utilities and other publicly-owned utilities (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 Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

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 Electric 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 California Energy Commission (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. To date, Electric Utility customers have installed approximately 23 MW of solar PV capacity throughout the city, either independently or in conjunction with the SB 1 program.

SENATE BILL (SB) 1368 – EMISSION PERFORMANCE STANDARD

The state legislature passed SB 1368 in 2006, which mandates that electric utilities are prohibited from making long term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed GHG emissions of 1,100 lbs/megawatt hour (MWh). SB 1368 essentially prohibits any long-term investments in generating resources based on coal. Thus, SB 1368 disproportionally impacts Southern California POU's as these utilities have heavily invested in coal technology.

The City has ownership entitlement rights to 136 MW of the Intermountain Power Plant (IPP). IPP has a GHG emission factor of approximately 2,000 lbs/MWh. Therefore, under SB 1368, the City is precluded from renewing its IPP Power Purchase Contract at the end of its term in June 2027.

Going forward, SB 1368 related issues are expected to have minimal impact to the CAISO markets as the percentage of California load served by coal resources is small. However, to the extent that significant numbers of coal plants throughout the western United States (U.S.) start to retire in the next 5 to 15 years, it is possible that there can be a tightening of supply throughout the western U.S. electricity market. In turn, this can lead to higher regional costs and potentially reduced system reliability.

ASSEMBLY BILL (AB) 2514 - ENERGY STORAGE

AB 2514 "Energy Storage Systems" was signed into law on September 29, 2010. In 2012, AB 2227 amended the reporting timeline of the energy storage targets referenced in AB 2514. The law directs the governing boards of POUs to consider setting targets for energy storage procurement, but emphasizes that any such targets must be consistent with technological viability and cost effectiveness. The law's main directives for POUs and their respective deadlines are as follows: (a) to open a proceeding by March 1, 2012 to determine appropriate targets, if any, for the utility to procure viable and cost-effective energy storage systems, and (b) to adopt an energy storage system procurement target by October 1, 2014, if determined to be appropriate, to be achieved by the utility by December 31, 2016, and a 2nd target to be achieved by December 31, 2020. POU's were required to submit compliance reports to the CEC of their first adopted target by January 1, 2017. The utility's second adopted target compliance report is due to the CEC by January 1, 2021.

Energy storage (ES) has been advocated as an effective means for addressing the growing operational problems of integrating intermittent renewable resources, as well as contributing to other applications on and off the grid. In general, ES is a set of technologies capable of storing previously generated electric energy and releasing that energy at a later time. Currently, the commercially available ES technologies (or soon to be available technologies) consist of pumped hydro generation, compressed air systems, batteries, and thermal ES systems.

On February 17, 2012, as per the statute, the City of Riverside's Board of Public Utilities opened a proceeding to investigate the various energy storage technologies available and determine if the City should adopt energy storage procurement targets. The City finished its investigation of energy storage pricing and benefits in September 2014 and adopted a zero megawatts target based on the conclusion that the viable applications of energy storage technologies and solutions at the time were not cost effective and outweighed the benefits that it might provide to our electrical system. The City must reevaluate its assessment not less than every three years or by October 1, 2017, and report to the CEC any modifications to its initial target resulting from this reevaluation.

On March 3, 2015, City Council approved the Ice Bear Pilot program for 5 MW. The program is intended to reduce load during peak hours, improve energy efficiency, and demonstrate the City's proactive support of the State's energy storage goals. On July 28, 2015, the City Council approved a 20-year power purchase agreement for the City to procure renewable energy from the Antelope DSR Solar Photovoltaic Project that includes a built-in energy storage option for the buyers to exercise during the first fifteen years of operation.

On December 12, 2016, Riverside submitted its first compliance report to the CEC describing Riverside's proactive efforts in investigating viable energy storage options in the market and conducting energy storage pilot projects within the City.

SENATE BILL (SB) 380 – MORATORIUM ON NATURAL GAS STORAGE – ALISO CANYON

On October 23, 2015, a significant gas leak was discovered at the Aliso Canyon natural gas storage facility, which makes up 63% of total storage capacity and serves 17 gas fired power generation units. On May 10, 2016, the Governor of California signed SB 380 placing a moratorium on Aliso Canyon's natural gas storage usage until rigorous tests were performed and completed by the Division of Oil, Gas, and Geothermal Resources (DOGGR) as to which wells could continue to be in operation. This moratorium caused great concern regarding reliability in the upcoming summer and winter months. An action plan study area was initiated to review the summer and winter assessment that was conducted as a joint effort between the California Public Utilities Commission (CPUC), CEC, CAISO, and Los Angeles Department of Water and Power (LADWP). Although the area of study does not include nor immediately impact Riverside, it is highly plausible that the Electric Utility could still experience curtailed gas deliveries under certain adverse low-flow gas scenarios.

Beginning June 1, 2016, Southern California Gas Company (SoCalGas) implemented new Operational Flow Order (OFO) tariffs due to limitations surrounding Aliso Canyon storage injections and withdrawals. These tariff changes were put in place to reduce the probability of natural gas curtailments, which would disproportionally impact Riverside due to the requirements to operate internal natural gas generation to maintain system reliability during the summer. Also, gas curtailments during high peak days could lead to severe service curtailments throughout Riverside. Therefore, the Electric Utility immediately increased internal communication across divisions, created internal gas curtailment procedures to address this specific issue, and created revised dispatch procedures when load forecasts exceed 400 MW. These tighter OFO tariff restrictions were scheduled to conclude upon the earlier of the return of Aliso Canyon to at least 450 million cubic feet per day (MMcfd) of injection capacity and 1,395 MMcfd of withdrawal capacity, or March 31, 2017. However, new OFO tariffs began on December 1, 2016 and are expected to continue through November 30, 2017. In addition, the Electric Utility continues to communicate daily with the CAISO and SoCalGas on any changes that could impact our service territory.

On June 20, 2016, one of the hottest days across southern California, the Electric Utility fulfilled its system reliability without any issues. Going forward, the Electric Utility is continually monitoring the workshops, potential legislations, and regulations that may impact the reopening of Aliso Canyon and keeping up-to-date with all activity related to Aliso Canyon's status and next steps. On July 19, 2017, DOGGR issued a press release on their determination, in concurrence with the CPUC, that Aliso Canyon is safe to resume injections up to 28% of the facility's maximum capacity. On that same day, the CEC issued a different press release with a recommendation urging closure of Aliso Canyon in the long-term. On July 31, 2017, SoCalGas resumed injections. As of September 21, 2017, the results of the 114 injection well tests are as follows: 52 passed all tests, 62 taken out of operation, and 0 are pending test results.

SENATE BILL (SB) 859 – "BUDGET TRAILER BILL" – BIOMASS MANDATE

In the final two days of the 2015-2016 legislative session, a "budget trailer bill" on how to spend cap-and-trade funds was amended to include a biomass procurement mandate for local publically owned utilities serving more than 100,000 customers. These utilities would be required to procure their pro-rata share of the statewide obligation of 125 MW based on the ratio of the utility's peak demand to the total statewide peak demand from existing in-state bioenergy projects for at least a 5 year term. On September 14, 2016, the Governor of California signed SB 859 into law.

The Electric Utility is still waiting upon direction from the CEC on the actual MW obligation shares and the target date on when the contracts must be procured. It is expected that these facilities will be counted towards the Electric Utility's Renewable Portfolio Standard (RPS) goals and preliminary analysis indicates that our MW share should be minimal. The affected POUs will most likely need to procure a contract together for economies of scale. Currently, informal communications and coordination on this biomass procurement issue are occurring amongst the Southern California Public Power Authority (SCPPA) POUs.

SENATE BILL (SB) 350 – CLEAN ENERGY AND POLLUTION REDUCTION ACT OF 2015

SB 350, enacted in 2015, consists of a multitude of requirements to meet the Clean Energy and Pollution Reduction Act of 2015. The primary components that affect the Electric Utility are a) the increased mandate of the California RPS to 50% by December 31, 2030, b) doubling of energy efficiency savings by January 1, 2030, and c) provides for the transformation of the CAISO into a regional organization. In addition, there is a specific Integrated Resource Planning (IRP) mandate embedded in the bill that applies to 16 POUs that have a 3-year average annual demand over 700 GWh, which includes the Electric Utility.

The Electric Utility's current IRP was completed in 2014 and approved by the Board of Public Utilities and City Council in 2015 and will continue to be approved in this manner going forward. The current IRP addresses most of the required topics to some extent, but will require further study and expansion on certain topics.

By January 1, 2019, the governing board of the Electric Utility shall adopt an IRP and a process for updating the plan every 5 years. The IRP must address specific topics such as energy efficiency and demand response resources, transportation electrification, GHG emissions, energy storage resources, enhance distribution systems and demand-side management, etc. The IRP must be submitted to the CEC for review, of which the CEC will check if the statutory requirements have been met and will adopt guidelines to govern the submission of the IRP information. Currently, the CEC is working with the POUs to better determine the CEC's role in the IRP and the POUs governing body in the IRP process. On August 9, 2017, the CEC adopted the POU IRP Submission and Review Guidelines. The CEC continues to host various workshops on different components of the SB 350 requirement and the Electric Utility has been monitoring its outcome.

ASSEMBLY BILL (AB) 1110- GREENHOUSE GAS EMISSIONS INTENSITY REPORTING

On September 26, 2016, AB 1110 was signed into law requiring GHG emissions intensity data and unbundled renewable energy credits (RECs) to be included as part of the retail suppliers' power source disclosure (PSD) and power content label (PCL) to their customers. GHG emissions intensity factors will need to be provided for all the retail electricity products. The inclusion of this new information requirement on the PCL will begin in 2020 for calendar year 2019 data. In addition to still being required to post the PCL on the city website, the bill also reinstated the requirement that the PCL disclosures must be mailed to the customers starting in 2017 for calendar year 2016 data unless customers have opted for electronic notifications. Per this requirement, Riverside reinstated the inclusion of printed disclosures of the PCL with its September bills to the customers.

Currently, the CEC is hosting workshops on the GHG emissions disclosure requirements and have begun the rulemaking process of updating their PSD regulations. A pre-rulemaking phase is being conducted that includes an implementation proposal on AB 1110. Once the CEC officially begins the rulemaking process, then they must finalize and adopt the updated regulations by January 1, 2018. Riverside continues to monitor the workshops and draft regulations for any impacts to the utility's reporting and resources in meeting this requirement.

ASSEMBLY BILL (AB) 398 – GHG CAP-AND-TRADE PROGRAM EXTENSION

AB 398 was signed on July 25, 2017, and approved extending the GHG cap-and-trade program to December 31, 2030, which was originally implemented under AB 32. In addition, it required the CARB to update their scoping plan no later than January 1, 2018 and that all GHG rules and regulations that are adopted are consistent with this plan. On July 27, 2017, the ARB approved the 2016 Cap-and-Trade Amendments, which includes the Electric Utility's 2021-2030 allowance allocations they will receive each year. The Electric Utility's allowance allocations should be more than sufficient to cover all of our 2021-2030 direct compliance obligations.

The unknown component of this law is that it is unclear whether the Electric Utility will be required to consign 100% of their allowances to the market and then purchase allowances to fulfill its compliance obligations. Currently, POUs receive a sufficient amount of allowances each year to cover their compliance, without needing to consign these direct compliance allowances to the market for purchase. Other unknown components of the law are the banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. CARB will be hosting more workshops and issuing the next iteration of regulation changes. The Electric Utility will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

ASSEMBLY BILL (AB) 802 – ENERGY EFFICIENCY

On October 8, 2015, AB 802 was signed into law creating a new energy use disclosure program for the State of California. The bill requires California utilities to maintain records of energy usage data for all buildings (i.e., commercial and multifamily buildings over 50,000 square feet gross floor area) for at least the most recent 12 months. Beginning January 1, 2017, utilities are required to deliver or provide aggregated energy usage data for a covered building, as defined, to the owner, owner's agent or operator upon written request. The Electric Utility will need to provide consumption data for buildings meeting the legislative requirement upon owner's written request.

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 conservation, the City has remained committed to environmental issues and serving as a state leader in sustainability. In 2012, the City increased its commitment to these issues with the adoption of its third Green Action Plan, which was spearheaded by the Electric Utility.

In 2015, the Electric Utility led an effort to formally assess the City's sustainability work, earning for the City the prestigious 3-STAR Community Rating designation from STAR Communities, an organization that works to evaluate, improve and certify sustainable communities.

The City was honored in 2016 with the Green Community Award from Audubon International, recognizing Riverside for its ongoing sustainability initiatives. In addition, the City received the 2016 Sustainable Communities Award from the Green California Leadership Summit for its ongoing community-wide sustainability projects and programs that create environmental awareness and action throughout the community, including business, government and private citizens.

In 2017, the Electric Utility enjoyed additional load growth and new revenue associated with three large economic development projects in the City. These projects include Riverside Community Hospital's $360 million expansion for a seven story, 250,000 square foot patient tower with 120 new beds. Other projects include Sigma Plastics expansion with the addition of a new stretch film production line and a new customer to the Electric Utility, Garden Highway Foods with their new fresh fruit and vegetable processing facility. Combined these businesses resulted in over 6 MW of new electric load and new revenue of $3.1 million annually.

In 2017, the City received the "Outstanding Award" for Climate Change from the Association of Environmental Professional (AEP) for the Riverside Restorative Growthprint (RRG) Plan, a comprehensive plan with two major parts: the Economic Prosperity Action Plan (RRG-EPAP) and the Climate Action Plan (RRG-CAP). The Electric Utility played a key role in the City's effort to create and adopt RRG, which helps the City identify GHG reduction measures and strategies with the greatest potential to drive local economic development through clean-tech investment and the expansion of local green businesses. Ultimately, this effort spurs entrepreneurship and smart growth while advancing the City's GHG reduction goals.

The Electric Utility supports the local economy by offering some of the lowest commercial electric rates in Southern California combined with attractive economic development electric discount rates to qualified new and expanded load customers. These rate programs have helped create and retain over 3,600 jobs in the City since 2010. The City's Green Business Program recognizes local businesses for pursing sustainability in their facilities and operations. Businesses are evaluated based on their efforts to reduce pollution and waste and to improve resource use efficiency. Once certified through the program, the businesses are recognized locally and statewide through the California Green Business Network, a network of over 3,600 other businesses in the State of California that have already committed to pursuing greener practices. Currently, the City has certified UTC Aerospace, OSI Industries and the Riverside Convention Center with this designation.

Beyond rate incentives, the Electric Utility also offers local businesses a comprehensive assortment of water and energy efficiency programs to improve building efficiency and reduce customer electric consumption. These programs include, the Small Business Direct Installation Program, which has helped over 5,000 participants save over $1.5 million in utility costs and conserve over 10 million kilowatt hours (kWh).

The City initiated an ambitious LED streetlight replacement program in 2016. The program will eventually replace all city-owned streetlights by 2019, resulting in approximately 10 million kWh saved annually along with substantially reduced maintenance costs. The Electric Utility's grant program continues to provide assistance to local universities by providing funding for important research projects which explore new ways to advance energy technology and water conservation techniques.

These economic development, and sustainability projects and programs put the Electric Utility on the cutting edge of job creation and resource efficiency, making the City a better place to live and do business.

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 Electric 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.

ELECTRIC UTILITY:
FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2017 (in thousands)	June 30, 2016
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Notes 3)	$ 768,792	$ 754,694
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	82,941	92,393
Other non-current assets:		
Advances to other funds of the City	4,665	5,113
Unamortized purchased power (Note 8)	8,927	6,964
Regulatory assets	3,056	4,395
Total other non-current assets	16,648	16,472
Total non-current assets	868,381	863,559
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	255,496	249,247
Accounts receivable, less allowance for doubtful accounts 2017 $509; 2016 $750	35,432	34,397
Advances to other funds of the City	183	418
Accrued interest receivable	891	650
Inventory	1,097	1,097
Prepaid expenses	23,382	22,199
Unamortized purchased power (Note 8)	124	496
Total unrestricted current assets	316,605	308,504
Restricted assets:		
Cash and cash equivalents (Note 2)	32,633	27,091
Public Benefit Programs - cash and cash equivalents (Note 2)	14,500	14,756
Public Benefit Programs receivable	927	897
Total restricted current assets	48,060	42,744
Total current assets	364,665	351,248
Total assets	1,233,046	1,214,807
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 10)	38,247	26,232
Changes in derivative values	17,157	27,713
Loss on refunding	9,772	10,790
Total deferred outflows of resources	65,176	64,735
Total assets and deferred outflows of resources	$ 1,298,222	$ 1,279,542

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	June 30, 2017 (in thousands)	June 30, 2016
NET POSITION:		
Net investment in capital assets	$ 229,432	$ 201,651
Restricted for:		
Regulatory requirements (Note 5)	16,123	10,802
Debt service (Note 5)	16,510	16,289
Public Benefit Programs	15,094	13,822
Unrestricted	207,042	203,050
Total net position	484,201	445,614
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	547,122	561,728
OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 4)	808	764
Net pension liability (Note 10)	96,193	77,907
Advances from other funds of the City - pension obligation (Note 4)	12,312	10,084
Nuclear decommissioning liability (Note 4)	56,067	62,767
Net other postemployment benefits payable	7,905	7,264
Derivative instruments (Note 4)	22,525	34,201
Capital leases payable (Note 4)	3,098	3,905
Total non-current liabilities	198,908	196,892
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	5,215	5,405
Public Benefit Programs payable	233	1,847
Nuclear decommissioning liability (Note 4)	8,607	6,126
Current portion of long-term obligations (Note 4)	13,795	13,320
Total current liabilities payable from restricted assets	27,850	26,698
CURRENT LIABILITIES:		
Accounts payable and other accruals	16,409	19,041
Customer deposits	5,996	5,040
Unearned revenue	51	325
Total current liabilities	22,456	24,406
Total liabilities	796,336	809,724
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 10)	17,685	24,204
Total deferred inflows of resources	17,685	24,204
Total net position, liabilities and deferred inflows of resources	$ 1,298,222	$ 1,279,542

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2017	2016
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 117,662	$ 116,997
Commercial sales	71,456	69,759
Industrial sales	115,432	113,756
Other sales	4,782	4,737
Wholesale sales	9	3
Transmission revenue	35,497	32,924
Other operating revenue	12,899	7,425
Public Benefit Programs	8,880	8,929
Total operating revenues before uncollectibles	366,617	354,530
Estimated uncollectibles, net of bad debt recovery	(551)	(763)
Total operating revenues, net of uncollectibles	366,066	353,767
OPERATING EXPENSES:		
Production and purchased power	132,349	137,081
Transmission	59,497	58,145
Distribution	59,906	49,346
Public Benefit Programs	7,602	6,657
Depreciation	32,642	30,953
Total operating expenses	291,996	282,182
Operating income	74,070	71,585
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,809	5,143
Interest expense and fiscal charges	(25,340)	(24,980)
Gain on sale of assets	420	424
Other	7,174	18,191
Total non-operating revenues (expenses)	(15,937)	(1,222)
Income before capital contributions and transfers out	58,133	70,363
Capital contributions	19,684	14,874
Transfers out - contributions to the City's general fund	(39,230)	(38,360)
Total capital contributions and transfers out	(19,546)	(23,486)
Increase in net position	38,587	46,877
NET POSITION, BEGINNING OF YEAR	445,614	398,737
NET POSITION, END OF YEAR	$ 484,201	$ 445,614

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2017	2016
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 366,039	$ 354,041
Cash paid to suppliers and employees	(267,768)	(259,639)
Other receipts	7,174	18,191
Net cash provided by operating activities	105,445	112,593
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(39,230)	(38,360)
Payment on advances from other funds of the City - pension obligation	(712)	(635)
Cash received on advances to other funds of the City	683	929
Net cash used by non-capital financing activities	(39,259)	(38,066)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(27,999)	(65,534)
Proceeds from the sale of utility plant	426	483
Principal paid on long-term obligations	(14,109)	(16,499)
Interest paid on long-term obligations	(26,274)	(26,500)
Capital contributions	2,285	2,830
Net cash used by capital and related financing activities	(65,671)	(105,220)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) investment securities	9,452	(1,101)
Income from investments	1,568	5,363
Net cash provided by investing activities	11,020	4,262
Net increase (decrease) in cash and cash equivalents	11,535	(26,431)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $41,847 and $90,100 at June 30, 2016 and June 30, 2015, respectively, reported in restricted accounts)**	291,094	317,525
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $47,133 and $41,847 at June 30, 2017 and June 30, 2016, respectively, reported in restricted accounts)**	$ 302,629	$ 291,094
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 74,070	$ 71,585
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	32,642	30,953
Decrease in allowance for uncollectible accounts	(241)	(59)
Increase in accounts receivable	(742)	(195)
Decrease in inventory	-	105
Increase in prepaid expenses	(1,183)	(1,368)
Increase in unamortized purchased power	(1,591)	(1,917)
Decrease in regulatory assets	-	7,160
Decrease in accounts payable and other accruals	(2,650)	(5,103)
Increase in compensated absences	44	186
Increase in postemployment benefits payable	641	647
(Decrease) increase in Public Benefit Programs payable	(1,614)	1,453
Decrease in unearned revenue	(274)	(143)
Increase in customer deposits	956	528
Decrease in decommissioning liability	(4,219)	(4,394)
Increase in advance from other funds of the City - pension obligations	2,680	-
Changes in net pension liability and related deferred outflows and inflows of resources	(248)	(5,036)
Other receipts	7,174	18,191
Net cash provided by operating activities	$ 105,445	$ 112,593
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	17,317	12,440
Borrowing under capital lease	-	3,648
Increase (decrease) in fair value of investments	902	(50)

See accompanying notes to the financial statements

ELECTRIC UTILITY:
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Electric 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 Electric 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 Electric Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Electric 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. The accounting records of the Electric Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC.

The Electric 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 Electric Utility are charges to customers for electric sales and services. Operating expenses for the Electric 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 Electric 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 $16,868 at June 30, 2017, and $16,349 at June 30, 2016.

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

ELECTRIC UTILITY PLANT AND DEPRECIATION

The Electric 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. Electric 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.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2017 and 2016, the Electric Utility capitalized net interest costs of $1,429 and $1,675, respectively. Total interest expense incurred by the Electric Utility was $25,553 and $25,780, respectively.

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	5-10 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. Generally, the Electric Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

In January 1998, the Electric 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 Electric Utility policy, the Electric 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. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Electric 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 Electric Utility values its cash and investments in accordance with provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation includes a hierarchy of inputs with three distinct levels. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Electric Utility does not value any of its investments using level 1 and level 3 inputs.

City-wide information concerning cash and investments as of June 30, 2017, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Electric 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 Electric Utility's proportionate share of Units 2 and 3 at San Onofre Generating Stations (SONGS).

UNRESTRICTED DESIGNATED CASH RESERVES

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy which established several designated cash reserves in the Electric Utility for strategic purposes. Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board of Public Utilities and City Council. Designated reserves may be held for capital or operating purposes.

Unrestricted designated cash reserve balances as of June 30, 2017 and 2016 were as follows: Additional Decommissioning Liability Reserve $6,590 and $4,951, Customers Deposits $4,385 and $3,763, Capital Repair and Replacement Reserve $3,119 and $2,000, Electric Reliability Fund $54,242 and $45,008, and Mission Square Improvement Fund $734 and $240. In June 2017, the Board of Public Utilities and City Council approved the establishment of a bond defeasance unrestricted designated cash reserve account and authorized the transfer of settlements and cost recoveries in the amount of $11,244 to the designated reserve for bond defeasance. The combined total for these reserves was $80,314 and $55,962 at June 30, 2017 and 2016, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Electric Utility and the City. The balances as of June 30, 2017 and 2016 are $4,848 and $5,531, respectively.

DERIVATIVES

The Electric Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Electric 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 Electric 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 Electric Utility's interest rate swaps.

Various transactions permitted in the Electric 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 Electric 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific decommissioning cost estimate as of September 2014, submitted by Southern California Edison (SCE) and accepted by the Nuclear Regulatory Commission (NRC), the Electric Utility has fully funded the SONGS nuclear decommissioning liability. The Electric Utility has set aside $70,324 and $80,494 in cash investments with the trustee and $6,590 and $4,951 in an unrestricted designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2017 and 2016, respectively, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. There is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively continued to set aside $1,581 per year in an unrestricted designated cash reserve for unexpected costs not contemplated in the current estimates. See Note 7 for further discussion on SONGS nuclear decommissioning liability.

CAPITAL LEASES

The Electric Utility has entered into sixteen capital lease agreements as a lessee for financing sixteen compressed natural gas heavy duty service trucks. All leases have seven year terms of monthly payments with interest rates ranging from 2.0 percent to 2.5 percent. The total gross value of all existing leases is $5,715 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2017 and 2016, the total liability was $3,905 and $4,694, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases are $881 annually through fiscal year ended June 30, 2019, $868 in fiscal year ended June 30, 2020, $559 annually in fiscal years ended June 30, 2021 and 2022, and $367 in fiscal year ended June 30, 2023. Total outstanding lease payments are $4,115, with $3,905 representing the present value of the net minimum lease payments and $210 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 Electric Utility's portion of these deposits as of June 30, 2017 and 2016 was $5,996 and $5,040, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2017 and 2016. The Electric 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 $4,985 at June 30, 2017 and $4,887 at June 30, 2016.

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 Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric 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 Electric 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, 2017, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2017 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 Electric Utility including the Public Benefit Programs, were $620 and $534 for the years ended June 30, 2017 and 2016, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 10.

PENSION OBLIGATION BONDS

The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Electric Utility's proportional share of the outstanding principal amount of the bonds was $12,312 and $10,084 as of June 30, 2017 and 2016, respectively, and is shown on the Statements of Net Position as Advances from other funds of the City – pension obligation. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2017.

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 CalPERS survivor annuity.

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

The Electric 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) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2017 and 2016 was $7,905 and $7,264, 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, 2017 can be found in the notes to the City's financial statements in the City's CAFR.

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. Deferred outflows of resources consist of changes in derivative values, loss on refunding and deferred outflows related to pension which include pension contributions subsequent to measurement date, difference between actual and actuarial determined contribution and net differences between projected and actual earnings on pension plan investments.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS

In accordance with regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the Electric Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets relating to debt issuance costs have been recognized in the Statements of Net Position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION

The Electric 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) 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 Electric 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, 2017 and 2016, $39,230 and $38,360, respectively was transferred representing 11.5 percent.

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 Electric Utility presents, and the City Council adopts, a biennial budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June biennially via resolution.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2017 and 2016, consist of the following (in thousands):

	June 30, 2017	June 30, 2016
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 302,629	$ 291,094
Cash and investments at fiscal agent	82,941	92,393
Total cash and investments	$ 385,570	$ 383,487

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

	June 30, 2017	June 30, 2016
Unrestricted cash and cash equivalents	$ 255,496	$ 249,247
Restricted cash and cash equivalents	47,133	41,847
Restricted cash and investments at fiscal agent	82,941	92,393
Total cash and investments	$ 385,570	$ 383,487

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

The Electric Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Electric Utility has the following recurring fair value measurements as of June 30, 2017 and 2016:

Investment Type	June 30, 2017 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments not Subject to Fair Value Hierarchy
Held by fiscal agent					
Money market funds	$ 54,697	$ -	$ 54,697	$ -	$ -
Federal agency securities	13,485	-	13,485	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	-	3,998	-	-
City Treasurer's investment pool [1]					
Money market funds	46,303	-	46,303	-	-
Federal agency securities	5,440	-	5,440	-	-
US Treasury notes/bonds	166,652	-	166,652	-	-
Corp medium term notes	9,270	-	9,270	-	-
State investment pool	68,967	-	-	-	68,967
Neg certificate of deposit	5,997	-	5,997	-	-
Total	$ 385,570	$ -	$ 305,842	$ -	$ 79,728

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's *CAFR*.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Investment Type	June 30, 2016 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments not Subject to Fair Value Hierarchy
Held by fiscal agent					
Money market funds	$ 20,580	$ -	$ 20,580	$ -	$ -
Federal agency securities	43,147	-	43,147	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	17,905	-	17,905	-	-
City Treasurer's investment pool [1]					
Money market funds	24,781	-	24,781	-	-
Federal agency securities	5,922	-	5,922	-	-
US Treasury notes/bonds	175,245	-	175,245	-	-
Corp medium term notes	20,156	-	20,156	-	-
State investment pool	55,496	-	-	-	55,496
Neg certificate of deposit	9,494	-	9,494	-	-
Total	$ 383,487	$ -	$ 317,230	$ -	$ 66,257

Cash and investments distribution by maturities as of June 30, 2017 and 2016, are as follows:

		Remaining Maturity (In Months)			
Investment Type	June 30, 2017 Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 54,697	$ 54,697	$ -	$ -	$ -
Federal agency securities	13,485	13,485	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	3,998	-	-	-
City Treasurer's investment pool [1]					-
Money market funds	46,303	46,303	-	-	-
Federal agency securities	5,440	5,440	-	-	-
US Treasury notes/bonds	166,652	24,612	53,225	88,815	-
Corp medium term notes	9,270	4,690	4,580	-	-
State investment pool	68,967	68,967	-	-	-
Negotiable certificate of deposit	5,997	1,995	2,401	1,601	-
Total	$ 385,570	$ 224,187	$ 60,206	$ 90,416	$ 10,761

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR .

		Remaining Maturity (In Months)			
Investment Type	June 30, 2016 Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 20,580	$ 20,580	$ -	$ -	$ -
Federal agency securities	43,147	9,227	33,920	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	17,905	7,473	10,432	-	-
City Treasurer's investment pool [1]					
Money market funds	24,781	24,781	-	-	-
Federal agency securities	5,922	-	5,922	-	-
US Treasury notes/bonds	175,245	26,042	71,537	77,666	-
Corp medium term notes	20,156	10,424	4,910	4,822	-
State investment pool	55,496	55,496	-	-	-
Negotiable certificate of deposit	9,494	3,180	2,086	4,228	-
Total	$ 383,487	$ 157,203	$ 128,807	$ 86,716	$ 10,761

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2017 and 2016 for each investment type:

Investment Type	June 30, 2017 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 54,697	$ 52,815	$ -	$ 1,882	$ -
Federal agency securities	13,485	13,485	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	-	-	3,998	-
City Treasurer's investment pool [1]					
Money market funds	46,303	-	43,569	2,734	-
Federal agency securities	5,440	5,440	-	-	-
US Treasury notes/bonds	166,652	166,652	-	-	-
Corp medium term notes	9,270	1,895	6,408	967	-
State investment pool	68,967	-	-	-	68,967
Neg certificate of deposit	5,997	-	-	-	5,997
Total	$ 385,570	$ 240,287	$ 49,977	$ 9,581	$ 85,725

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR .

Investment Type	June 30, 2016 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 20,580	$ 18,471	$ -	$ 2,068	$ 41
Federal agency securities	43,147	43,147	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	17,905	-	-	17,905	-
City Treasurer's investment pool [1]					
Money market funds	24,781	10,629	11,319	2,833	-
Federal agency securities	5,922	5,922	-	-	-
US Treasury notes/bonds	175,245	175,245	-	-	-
Corp medium term notes	20,156	-	19,146	1,010	-
State investment pool	55,496	-	-	-	55,496
Neg certificate of deposit	9,494	-	-	-	9,494
Total	$ 383,487	$ 253,414	$ 30,465	$ 23,816	$ 75,792

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR .

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2017 and 2016 (in thousands):

	Balance As of 6/30/2015	Additions	Retirements/ Transfers	Balance As of 6/30/2016	Additions	Retirements/ Transfers	Balance As of 6/30/2017
Production	$ 267,197	$ 115	$ -	$ 267,312	$ -	$ -	$ 267,312
Transmission	43,956	459	-	44,415	553	-	44,968
Distribution	558,436	27,222	(1,648)	584,010	18,026	(730)	601,306
General	69,814	41,028	(4,096)	106,746	3,462	(310)	109,898
Intangibles	13,864	5,097	-	18,961	1,990	-	20,951
Depreciable utility plant	953,267	73,921	(5,744)	1,021,444	24,031	(1,040)	1,044,435
Less accumulated depreciation:							
Production	(61,881)	(8,942)	-	(70,823)	(8,946)	-	(79,769)
Transmission	(16,034)	(956)	-	(16,990)	(910)	-	(17,900)
Distribution	(208,456)	(15,220)	1,614	(222,062)	(15,986)	727	(237,320)
General	(32,224)	(4,312)	4,072	(32,464)	(4,816)	305	(36,975)
Intangibles	(304)	(1,523)	-	(1,827)	(1,984)	-	(3,811)
Accumulated depreciation	(318,899)	(30,953)	5,686	(344,166)	(32,642)	1,032	(375,775)
Net depreciable utility plant	634,368	42,968	(58)	677,278	(8,612)	(8)	668,660
Land	8,786	12,653	-	21,439	16,406	-	37,845
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	48,604	65,315	(68,593)	45,326	29,155	(22,845)	51,636
Nondepreciable utility plant	68,041	77,968	(68,593)	77,416	45,561	(22,845)	100,132
Total utility plant	$ 702,409	$ 120,936	$ (68,651)	$ 754,694	$ 36,949	$ (22,853)	$ 768,792

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2017 and 2016 (in thousands):

	Balance As of 6/30/2015	Additions	Reductions	Balance As of 6/30/2016	Additions	Reductions	Balance As of 6/30/2017	Due Within One Year
Revenue bonds	$591,891	$ -	$ (16,843)	$575,048		$ (14,131)	$ 560,917	$13,795
Arbitrage liability	15	-	(15)	-			-	
Compensated absences	4,957	4,112	(4,182)	4,887	4,259	(4,161)	4,985	4,177
Advances from other funds of the City-pension obligation	10,719	-	(635)	10,084	2,940	(712)	12,312	
Nuclear decommissioning liability	73,287	749	(5,143)	68,893		(4,220)	64,673	8,607
Capital leases	1,720	3,648	(674)	4,694		(789)	3,905	807
Total long-term obligations	$682,589	$ 8,509	$ (27,492)	$663,606	$ 7,199	$ (24,013)	$ 646,792	$27,386

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

REVENUE BONDS PAYABLE

	June 30, 2017	June 30, 2016
$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, 2017 was 3.0 percent). Partially refunded $13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	70,540	70,540
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, 2017 was 3.1 percent). Partially refunded $11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	41,975	41,975
$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual principal installments from $3,460 to $25,345 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 $1,215 to $1,275 through October 1, 2018, interest from 4.0 to 5.0 percent	2,490	3,640
$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 $2,210 to $2,440 through October 1, 2019, interest from 4.0 to 5.0 percent	6,995	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, 2017 was 3.1 percent). Partially refunded $11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	41,925	41,925
$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from $795 to $6,775 through October 1, 2043, interest from 3.5 to 5.3 percent	46,560	58,635
Total electric revenue bonds payable	553,515	566,835
Unamortized bond premium	7,402	8,213
Total electric revenue bonds payable, including bond premium	560,917	575,048
Less current portion of revenue bonds payable	(13,795)	(13,320)
Total long-term electric revenue bonds payable	$ 547,122	$ 561,728

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Revenue bonds annual debt service requirements to maturity as of June 30, 2017 are as follows (in thousands):

	2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2037	2038-2042	2043-2047	Total
Principal	$ 13,795	$ 14,445	$ 14,995	$ 15,535	$ 16,085	$ 90,180	$ 110,540	$ 136,375	$ 136,440	$ 5,125	$ 553,515
Interest	$ 24,530	$ 23,887	$ 23,317	$ 22,755	$ 22,167	$ 99,906	$ 78,362	$ 51,229	$ 15,510	$ 259	$ 361,922
Total	$ 38,325	$ 38,332	$ 38,312	$ 38,290	$ 38,252	$ 190,086	$ 188,902	$ 187,604	$ 151,950	$ 5,384	$ 915,437

The Electric Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of electric revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Electric Utility capital improvement projects. For June 30, 2017 and 2016, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2017	Electric revenues	$ 117,206	$ 39,585	2.96
June 30, 2016	Electric revenues	$ 126,458	$ 42,240	2.99

LETTERS OF CREDIT

The Electric Utility's 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the Electric Utility and the purchaser of the bonds. The Electric 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	2021	0.325%
2008 Electric Refunding/Revenue Bonds Series C	Barclays Bank, PLC	2021	0.325%

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

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan with principal to be paid quarterly not to exceed a 5-year period. The Electric Utility would be required to pay annual interest equal to the highest of 8 percent, the Prime Rate plus 2.5 percent, the Federal Funds Rate plus 2.5 percent and 150 percent of the yield on the 30-year U.S. Treasury Bond. No amounts have ever been drawn against the two LOCs due to a failed remarketing.

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

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric 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 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, 2017 is as follows:

	Notional Amount	Fair Value as of 6/30/2017	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 68,525	$ (7,665)	$ 4,319
2008 Electric Refunding/Revenue Bonds Series C	$ 41,975	$ (7,441)	$ 3,681
2011 Electric Refunding/Revenue Bonds Series A	$ 41,925	$ (7,419)	$ 3,676

***Objective*:** In order to lower borrowing costs as compared to fixed-rate bonds, the Electric 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 Electric Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent 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, 2017, rates were as follows:

		2008 Electric Refunding/Revenue Series A Bonds	2008 Electric Refunding/Revenue Series C Bonds	2011 Electric Refunding/Revenue Series A Bonds
Interest rate swap:	Terms	Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.40870%)	(0.40948%)	(0.32275%)
Net interest rate swap payments		2.70230%	2.79452%	2.87825%
Variable-rate bond coupon payments		0.32339%	0.32271%	0.22165%
Synthetic interest on bonds		3.02569%	3.11723%	3.09990%

***Fair value*:** As of June 30, 2017, in connection with all swap agreements, the transactions had a total negative fair value of ($22,525). Because the coupons on the Electric 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, 2017, the Electric 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 BBB+ 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, 2017, there is no requirement for collateral posting for any of the outstanding swaps.

***Basis risk*:** As noted above, the swaps expose the Electric 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 Electric Utility if either counterparty's credit quality falls below "BBB-" as issued by S&P. The Electric 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 Electric 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, 2017, 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.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2018	$ -	$ 486	$ 4,666	$ 5,152
2019	6,375	471	4,527	11,373
2020	8,300	446	4,296	13,042
2021	8,600	419	4,043	13,062
2022	8,950	391	3,779	13,120
2023-2027	38,760	1,565	15,404	55,729
2028-2032	44,105	902	9,463	54,470
2033-2037	39,350	212	2,278	41,840
Total	$ 154,440	$ 4,892	$ 48,456	$ 207,788

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 Electric 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 percent of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 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 fiscal years ended June 30, 2017 and 2016, the Electric Utility paid approximately $28,806 and $22,928, respectively, to SCPPA under various take-or-pay and renewable 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 percent undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. Both Units 2 and 3 of SONGS were permanently retired in June 2013. Consequently, the units are no longer a source of supply for the Electric Utility, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning (see Note 1 for nuclear decommissioning liability).

The other owners are SCE, with a 78.21 percent interest (including the 3.16 percent interest it acquired from the City of Anaheim in 2006), and San Diego Gas & Electric Company (SDG&E), with a 20.00 percent 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. 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 Electric 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 NRC.

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

***Nuclear Decommissioning*.** As a result of SCE's decision to permanently retire SONGS Units 2 and 3, the decommissioning phase of the plant began in June 2013. The process of decommissioning the nuclear power plant is expected to take many years and is governed by NRC regulations. According to the SCE's decommissioning cost estimate document as of September 2014, total decommissioning costs for Units 2 and 3 are estimated at $4.4 billion of which the Electric Utility's share is $79 million.

***Nuclear Decommissioning Funding and Liability*.** As of June 30, 2017, the Electric Utility has set aside $70,325 in cash investments with the trustee and $6,590 in an unrestricted designated decommissioning reserve for the Electric Utility's estimated share of the decommissioning costs. 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 Electric 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. Decreases to the funds held for decommissioning liability are from actual funds drawn from the trust for decommissioning costs invoiced by SCE.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. The Electric Utility began drawing decommissioning trust funds to pay for decommissioning costs in the fiscal year ended June 30, 2017. As of June 30, 2017, the Electric Utility has paid to date $18,887 in decommissioning obligations, of which $9,899 has been reimbursed by the trust funds with the balance to be reimbursed in fiscal year ending June 30, 2018.

As of June 30, 2017 and 2016, decommissioning liability balance was $64,673 and $68,894, respectively, with a portion reflected as current liabilities payable from restricted assets. Due to adequate funding in the liability, the Electric Utility will no longer provide additional funding to the trustee. However, since the decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, site remediation costs, as well as a number of other assumptions and estimates, the Electric Utility will continue to set aside funds in the unrestricted designated decommissioning reserve of $1,581 per year, as approved by the Board of Public Utilities and City Council.

***Replacement Power Costs*.** During the outage, the Electric Utility procured replacement power to serve its customers' requirements. These costs were in addition to the usual approximate $11,500 in operating and maintenance expenses paid annually during normal operations. Replacement power costs incurred by the Electric 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 $13,266 and were reflected as regulatory assets on the Statements of Net Position. The remaining balance of $7,160 of the regulatory assets was fully expensed in fiscal year ended June 30, 2016, as current revenues were adequate to absorb the previously incurred costs thus no longer requiring them to be deferred. The Electric Utility is in the process of calculating any additional costs associated with the unexpected shutdown of SONGS and may seek recovery of any such costs, as set forth herein.

***Contractual Matters*.** The replacement steam generators for Units 2 and 3 were designed and manufactured by Mitsubishi Heavy Industries (MHI) and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. MHI's liability under the purchase agreement is limited to $138,000 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 outages issued by Nuclear Electric Insurance Limited (NEIL). On October 12, 2015, the owners of SONGS reached a $400,000 settlement with NEIL for the outages caused by the failures of the replacement steam generators. The Electric Utility's allocation of the settlement was $7,160 and is reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2016. As mentioned above, the settlement was used to offset the remaining portion of the regulatory asset.

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 an arbitration hearing for such dispute was set for March and April of 2016. The SCE/MHI arbitration hearings concluded on April 29, 2016. On March 13, 2017, the arbitration tribunal awarded the owners of SONGS $125,000 for the defective steam generators supplied by MHI. In addition, the tribunal ordered SONGS owners to pay MHI $58,000 in legal costs but rejected MHI's counterclaims. The Electric Utility was awarded an amount of $1,078, which is reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2017. The Electric Utility is still calculating its damages and reviewing its legal options for any further recovery.

NOTE 8. COMMITMENTS

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

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

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

The Electric Utility is a member of 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 Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.40%	12.3 MW	2017	2030
Southern Transmission System	10.20%	244.0 MW	2027	2027
Hoover Dam Uprating	31.90%	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.00%	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.50%	118.0 MW	2020	2030

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

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and portions of the Mead Phoenix and Mead-Adelanto Transmission Projects. The remaining projects have fixed interest rates which range from 0.85 percent to 5.25 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payment (in thousands) Year Ending June 30,	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2018	$ 17,019	$ 679	$ 7,917	$ 699	$ 258	$ 2,909	$ 29,481
2019	18,613	-	7,893	-	257	2,881	29,644
2020	18,096	-	6,913	-	254	2,859	28,122
2021	16,470	-	7,926	-	189	2,136	26,721
2022	11,600	-	9,448	-	-	-	21,048
2023-2027	9,246	-	24,179	-	-	-	33,425
2028-2032	-	-	3,254	-	-	-	3,254
Total	$ 91,044	$ 679	$ 67,530	$ 699	$ 958	$ 10,785	$ 171,695

In addition to debt service, the Electric Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2017 and 2016, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2017	$ 23,000	$ 3,285	$ 2,712	$ 58	$ 64	$ 254	$ 29,373
2016	$ 22,667	$ 3,601	$ 3,001	$ 81	$ 34	$ 377	$ 29,761

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

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

HOOVER UPRATING PROJECT

The Electric Utility's entitlement in the Hoover project through SCPPA will terminate on September 30, 2017. In March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project Visitors Center and Air Slots. The payment of principal and interest on the debt is a component of the cost of power and energy payable by Hoover contractors, which includes SCPPA participants that receive power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt bears interest at rates that are substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the debt is recorded on the Statements of Net Position as unamortized purchased power to be amortized over the remaining term of the project through 2017. As of June 30, 2017 and 2016, unamortized purchased power was $124 and $620, respectively, with amortization of $496 and $496, respectively.

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

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective January 1, 2017, the Act limits liability from third-party claims to approximately $13.4 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Electric Utility would be responsible for a maximum assessment of $5.8 million, limited to payments of $0.9 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO 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 percent by December 31, 2020 in three stages: average of 20 percent of retail sales during 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility met the 20 percent mandates from 2011-2013 and the 25 percent mandate by December 31, 2016. The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan. For calendar year 2016, renewable resources provided 27 percent of retail sales requirements.

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

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements (PPA) 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.

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

Supplier	Type	Maximum Contract [1]	Contract Expiration	Estimated Annual Cost For 2018
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 28,730
Wintec Energy, Ltd.	Wind	1.3 MW	12/30/2018	243
WKN Wagner	Wind	6.0 MW	12/22/2032	1,293
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,554
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,314
Cabazon Wind	Wind	39.0 MW	1/1/2025	4,299
First Solar - Kingbird B	Photovoltaic	14.0 MW	12/31/2036	2,867
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036	3,826
Solar Star - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,321
CalEnergy - Salton Sea Portfolio Phase 1	Geothermal	20.0 MW	12/31/2039	12,007
Total		209.7 MW		$ 64,950

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

Long-term renewable PPAs with expected delivery:

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

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

On May 20, 2003, the Electric 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 Electric 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 that started with 20 MW in 2016 increasing to 40 MW in 2019 and 86 MW in 2020. The price under the agreement will be $72.85 per megawatt-hour (MWh) in calendar year 2016 and escalate at 1.5 percent annually for the remaining term of the agreement. Similar to other renewable PPAs, the Electric 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 percent 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 $2,700 per year for the agreement's remaining term. As of June 30, 2017 and 2016, the Electric Utility's prepayment of future contractual obligations was $8,927 and $6,840, respectively. The balance is recorded in the Statements of Net Position as unamortized purchased power, to be amortized over the term of the CalEnergy PPA. The CalEnergy PPA commenced in February 2016. As of June 30, 2017 and 2016, the Electric Utility has recorded $118 and $45, respectively, in amortization related to the unamortized purchased power.

On January 28, 2003, the Electric Utility entered into a 15-year renewable PPA with Wintec Energy, Ltd (Wintec) to purchase all of the energy output generated by Wintec's wind powered electric generating units with capacity up to 5 MW. Due to unforeseen circumstances, Wintec was only able to generate capacity totaling 1.3 MW. On November 15, 2005, the City Council approved an amendment to the original agreement, reducing the capacity to 1.3 MW. The amended contract with Wintec will terminate in December 2018.

On October 16, 2012, the Electric 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 Lake Project became fully operational in August 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 December 20, 2012, the Electric Utility entered into a 20-year PPA with WKN Wagner, LLC (WKN) for up to 6 MW of renewable wind energy and renewable energy credits from the WKN Wagner wind project in Palm Springs, California. WKN is expected to generate 21,000 MWh of renewable energy annually at a levelized cost of $73 per MWh.

On January 8, 2013, the Electric 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 Electric Utility has a 50 percent share of the output from each project through SCPPA. 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. Summer Solar became commercially operational on July 25, 2016, and Antelope Big Sky Ranch became commercially operational on August 19, 2016. The Electric Utility's share from the two projects is 55,000 MWh of renewable energy per year.

On September 19, 2013, the Electric 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 Electric Utility has a 70 percent share of the output from the project through SCPPA. The project became commercially operational on April 30, 2016. The Electric 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 Electric 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 initially intended to be developed are referred to as Clearwater and Columbia Two Solar Photovoltaic Projects, with a nameplate capacity of 20 MW and 15 MW, respectively. Unanticipated permitting challenges for Clearwater stalled and eventually terminated construction plans for the facility in 2014. As a result, the Electric Utility received liquidated damages in the amount of $1,336 from the Clearwater Project in fiscal year ended June 30, 2016. The liquidated damages are reported as other non-operating revenues on the Statement of Revenues, Expenses and Changes in Net Position. On March 14, 2014 a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia Two project from Recurrent Energy to Dominion Resources. The Columbia Two Project completed construction and achieved commercial operation in December 2014. The Electric Utility has a 74.3 percent share (11.1 MW) of the output from the Columbia Two Project through SCPPA. The Electric Utility's share of Columbia Two is approximately 33,000 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.

On December 6, 2013, the Electric 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 purchased the output of the facility through December 2014. At the expiration of SCE's contract, Cabazon Wind entered into new interconnection and generation agreements with CAISO and SCE. The developer completed the implementation of the transition to the Electric Utility as of January 1, 2015. Delivery under the PPA commenced 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 Electric 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 was initially expected to become commercially operational by June 1, 2015. 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 project was fully commissioned and operational on September 30, 2015 and is expected to generate approximately 15,000 MWh of renewable energy per year. The all-in price for energy, capacity and environmental attributes is $81.30 per MWh, escalating at 1.5 percent annually.

On July 16, 2015, the Electric Utility entered into a 20-year PPA for 25 MW of solar photovoltaic energy generated by FTP Solar LLC subsidiary sPower's Antelope DSR Solar PV Project in the City of Lancaster, California. The Electric Utility has a 50 percent share of the output of the project through SCPPA. The project became commercially operational on December 20, 2016. The Electric Utility's share of Antelope DSR Solar is approximately 71,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of $53.75 per MWh over the term of the agreement.

CAP-AND-TRADE PROGRAM

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

At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal years ended June 30, 2017 and 2016, the Electric Utility received $6,881 and $3,698, respectively, in proceeds related to the sale of the GHG allowances which are included on the Statements of Revenues, Expenses and Changes in Net Position as other operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was $16,123 and $10,802 as of June 30, 2017 and 2016, respectively.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was $1,097 and $1,097 as of June 30, 2017 and 2016, respectively, and is recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2017, the Electric Utility had major commitments (encumbrances) of approximately $16,081 with respect to unfinished capital projects, of which $3,160 is expected to be funded by restricted cash reserves and $12,921 to be funded by unrestricted cash reserves.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric 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, 2017, the Electric Utility has net commitments for fiscal year 2018 and thereafter, of approximately $12,061, with a market value of $11,174.

NOTE 9. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric 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 Electric Utility. Contractual and litigation matters of the Electric Utility relating to SONGS are contained in Note 7.

CALIFORNIA ENERGY CRISIS SETTLEMENT

During the California Energy Crisis of 2001-2002, the Electric 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 Electric Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Electric Utility and numerous California entities, including all of the investor-owned utilities (IOUs) and the California Attorney General, under which the Electric Utility was paid all of its unpaid receivables, plus interest, minus $1.3 million in refunds. The net payout to the Electric 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 Electric Utility). Under the settlement, the Electric Utility may receive additional distributions of refunds from other sellers. The Electric 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 Electric 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 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.

A new trial date was set for March 9, 2017, and the six plaintiff dairies would have had their claims addressed in the retrial. In June of 2017, a settlement was reached with the claimants in the amount of $5 million and the case has been dismissed, with prejudice. The settlement costs that would have otherwise been paid by the Electric Utility have been paid by the primary insurer for the STS facilities.

OLQUIN LAWSUIT

On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric Utility from the CAISO to the Electric revenue transfer to the City’s general fund was a violation of Proposition 26. Plaintiff sought a court order compelling the City to return to the Electric Utility approximately $115 million, which represents all Electric revenue transfer paid to the City’s general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric revenue transfers. In April of 2017, the trial court entered judgment in favor of the City, on the grounds that (1) Olquin had failed to allege a rate increase, because the contested transfer did not require the Electric Utility to raise its rates; and (2) even if such a rate increase could be alleged, Olquin’s lawsuit was untimely under the statute of limitations in Public Utilities Code Section 10004.5. In May of 2017, Olquin filed an appeal to that judgment. No hearing date has been set for the appeal.

NOTE 10. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City contributes to CalPERS, an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. Benefit provisions and all other requirements are established by state statute and City ordinance. A copy of CalPERS' annual financial report may be obtained online at www.calpersca.gov. The Electric Utility participates in the City's Miscellaneous (non-safety) Plan (the Plan).

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. 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. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier - The retirement formula is 2.7 percent at age 55. The City pays the employee share (8 percent) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 6 percent for both fiscal years June 30, 2017 and 2016, with the City paying the remaining 2 percent of the employee share.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
    - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
    - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Under the recently approved memorandums of understanding agreed to by all bargaining units, effective January 1, 2018, all employees in Tier 1 with the exception of the International Brotherhood of Electrical Workers (IBEW) bargaining unit will begin contributing 1 percent to 2 percent of additional annual earnings to a maximum 8 percent rate by January 1, 2020 or January 1, 2021, depending on the bargaining unit. IBEW Tier 1 employees will begin paying 2 percent per year starting November 1, 2017 and will contribute a total of 8 percent by November 1, 2020.

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

BENEFITS PROVIDED

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

NOTE 10. EMPLOYEE RETIREMENT PLAN (CONTINUED)

EMPLOYEES COVERED

At June 30, 2017 and 2016, the following employees, City-wide, were covered by the benefit terms of the Plan:

	June 30, 2017	June 30, 2016
Inactive employees or beneficiaries		
currently receiving benefits	2,040	1,889
Inactive employees entitled to but		
not yet receiving benefits	1,317	1,283
Active employees	1,536	1,550

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. For fiscal year June 30, 2016, the net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	Miscellaneous - Prior Year
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase (1)	3.30% - 14.20%	3.30% - 14.20%
Investment rate of return (2)	7.50%	7.50%
Mortality (3)	-	-

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

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

(3) The probabilities of mortaility are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

DISCOUNT RATE

The discount rate used to measure the Plan’s total pension liability was 7.65 percent for both fiscal years June 30, 2017 and 2016. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

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

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

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

Asset Class	Current Target Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11 + (2)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

(1) An expected inflation of 2.50% used for this period.

(2) An expected inflation of 3.00% used for this period.

CHANGES IN THE NET PENSION LIABILITY

The changes in the Electric Utility's proportionate share of the net pension liability as of June 30, 2017 (measurement date June 30, 2016) and 2016 (measurement date June 30, 2015) for the Plan are as follows:

June 30, 2017	Net Pension Liabiltiy		Proportion of the Plan
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$	96,193	31.08%
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	$	77,907	31.96%
Change - Increase / (Decrease)	$	18,286	-0.88%
June 30, 2016			
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	$	77,907	31.96%
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$	71,773	31.14%
Change - Increase / (Decrease)	$	6,134	0.82%

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Electric Utility's proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.65 percent for both fiscal years June 30, 2017 and 2016, as well as what the Electric Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2017			June 30, 2016		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
The Electric Utility's proportionate share of the Plan's net pension liability	$ 149,304	$ 96,193	$ 52,510	$ 130,950	$ 77,907	$ 34,313

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2017 and 2016, the Electric Utility recognized pension expense of $9,199 and $5,110, respectively. At June 30, 2017 and 2016, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,447	$ -	$ 10,145	$ -
Difference between actual and actuarial determined contribution	3,321	-	3,252	-
Changes in assumptions	-	(3,135)	-	(4,885)
Differences between expected and actual experience	-	(3,805)	-	(3,807)
Net differences between projected and actual earnings on plan investments	25,479	(10,745)	12,835	(15,512)
Total	$ 38,247	$ (17,685)	$ 26,232	$ (24,204)

$9,447 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	$ 9,442	$ (5,429)
2019	9,442	(5,429)
2020	9,442	(5,429)
2021	474	(1,398)
Total	$ 28,800	$ (17,685)

ELECTRIC UTILITY: KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2016/17	2015/16	2014/15	2013/14	2012/13
POWER SUPPLY MEGAWATT-HOURS (MWH)					
Nuclear					
Palo Verde	102,400	103,300	103,900	99,900	102,300
Coal					
Intermountain Power	619,500	560,000	744,200	802,100	754,900
Hoover (Hydro)	28,400	30,900	30,900	33,200	32,500
Gas					
Springs	500	500	950	1,300	5,500
RERC	84,300	51,600	39,500	64,400	77,700
Clearwater	25,900	15,500	16,100	20,600	24,000
Renewable Resources	753,000	585,800	397,000	423,800	444,300
Market Purchases	653,000	1,084,700	1,029,350	899,200	937,500
Exchanges In	0	28,600	87,000	93,300	95,800
Exchanges Out	0	(133,500)	(131,800)	(158,300)	(134,900)
Total	2,267,000	2,327,400	2,317,100	2,279,500	2,339,600
System peak megawatt (MW)	581.7	598.6	604.4	577.92	591.7
ELECTRIC USE					
Number of meters as of year end					
Residential[1]	97,372	96,934	96,664	96,820	96,207
Commercial	11,016	10,898	10,757	10,558	10,337
Industrial	833	891	888	898	894
Other[2]	53	53	79	82	87
Total	109,274	108,776	108,388	108,358	107,525
Millions of kilowatt-hours (kWh) sales					
Residential	730	726	711	700	726
Commercial	448	438	428	421	419
Industrial	996	982	995	997	1003
Other	23	23	31	30	31
Subtotal	2,197	2,169	2,165	2,148	2,179
Wholesale[3]	1	0	2	4	14
Total	2,198	2,169	2,167	2,152	2,193

[1]Decrease in meters, as adjusted in fiscal year 14/15, was most likely due to timing of billing customers. A new billing system was implemented in the fiscal year.

[2]Decrease in Other meters in fiscal year 15/16 was a result of customers transitioning to Commercial and Industrial classes.

[3]For fiscal year 15/16, wholesale kWh was less than 1 millon kWh.

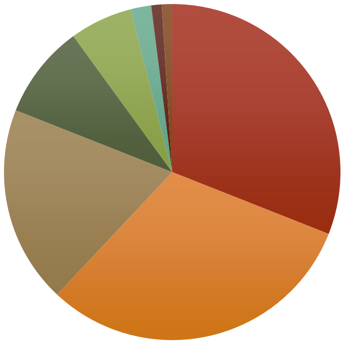
ELECTRIC FACTS	2016/17	2015/16	2014/15	2013/14	2012/13
Average annual kWh per residential customer	7,519	7,528	7,334	7,239	7,547
Average price (cents/kWh) per residential customer	$16.12	$16.12	$16.05	$16.00	$16.27
Debt service coverage ratio (DSC)[4]	2.96	2.99	2.39	2.16	2.73
Operating income as a percent of operating revenues	20.2%	20.2%	18.0%	19.5%	24.0%
Employees[5]	472	465	465	463	460

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

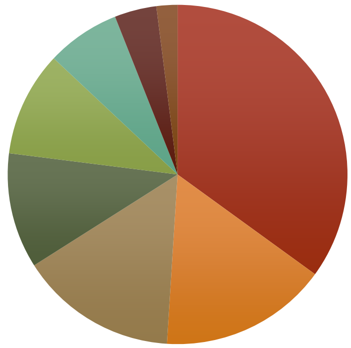
[5]Approved positions.

2016/2017 ELECTRIC REVENUE AND RESOURCES

SOURCE OF REVENUE

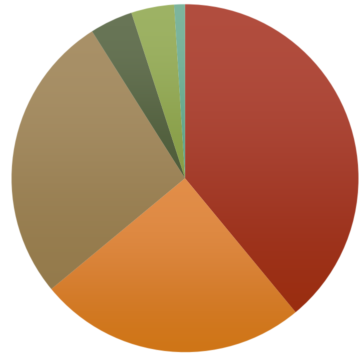


DISTRIBUTION OF REVENUE



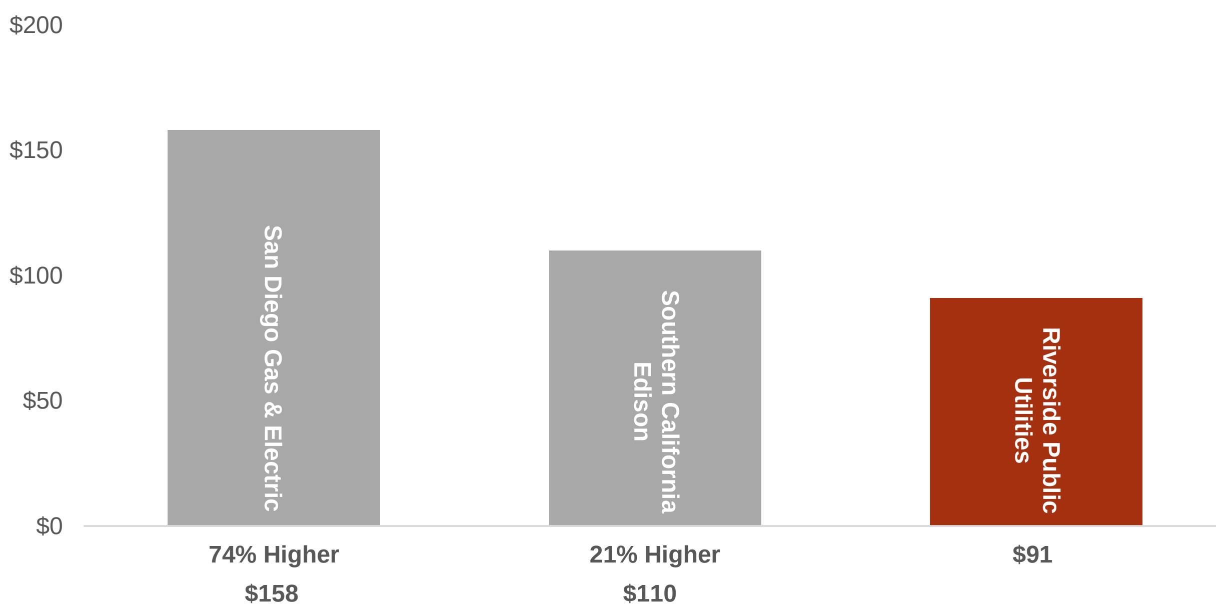
*Based on transfer of 11.5% of fiscal year 2015/2016 gross operating revenues including adjustments.

ENERGY RESOURCES*



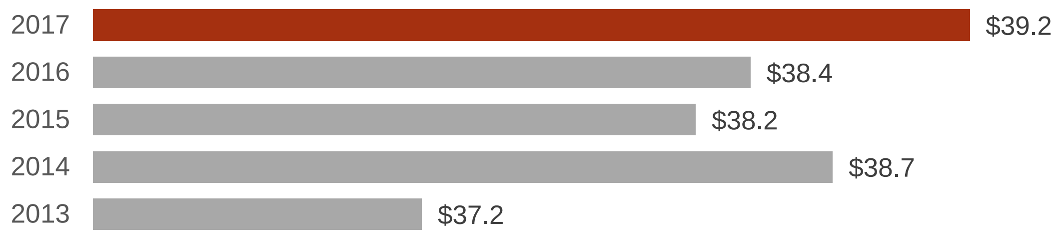
*Energy Resources are based on calendar year 2016 as filed with the California Energy Commission

ELECTRIC RATE COMPARISON - 592 KWH PER MONTH (AS OF JUNE 30, 2017)

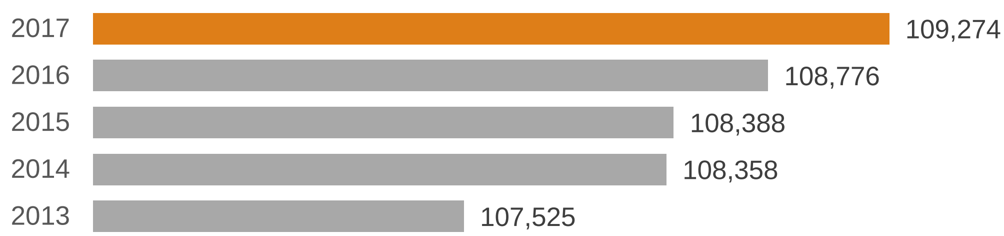


ELECTRIC KEY OPERATING INDICATORS

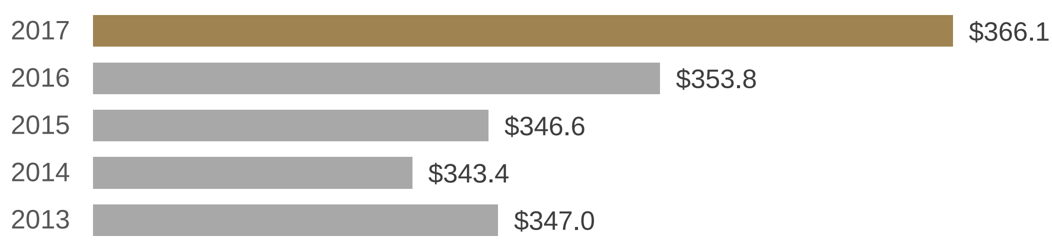
General Fund Transfer (In Millions)



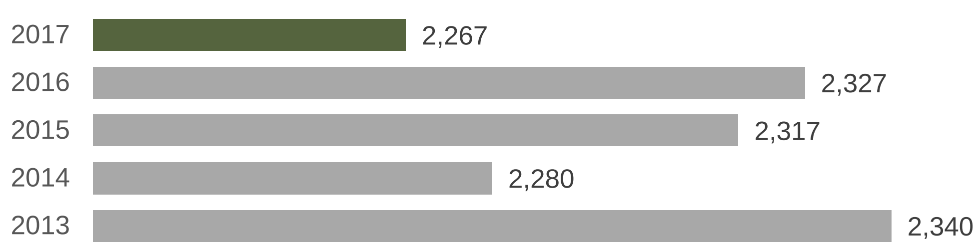
Number of Meters At Year End



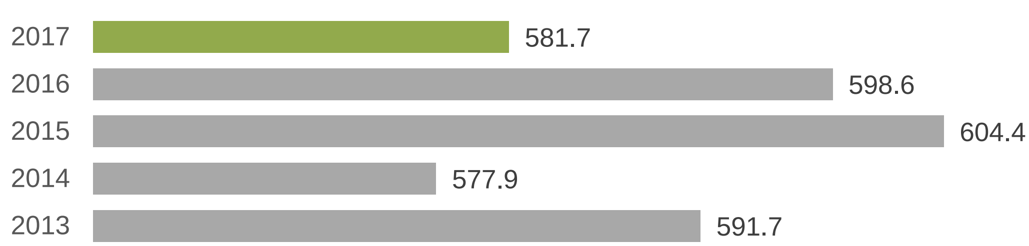
Total Operating Revenue (In Millions)



Production (In Million Kilowatt-Hours)



Peak Day Demand (In Megawatts)



ELECTRIC FACTS AND SYSTEM DATA

Established.. 1895

Service Area Population.. 326,733

Service Area Size (square miles).. 81.5

System Data

- Transmission Lines (circuit miles).. 99.2
- Distribution Lines (circuit miles).. 1,339
- Number of Substations.. 14
- 2016-17 Peak Day (megawatts).. 582
  - Highest Single Hourly Use:
  - 07/22/2016, 5pm, 104.8 degrees
- Historical Peak (megawatts).. 604
  - Highest Single Hourly Use:
  - 09/16/2014, 3pm, 91 degrees

Bond Ratings

- Fitch Ratings.. AA-
- Standard & Poor's.. AA-

WATER

water

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WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

Independent Auditors' Report

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

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 years ended June 30, 2017 and 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, 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, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years 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

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 supplementary Water Utility information is 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
October 31, 2017

WATER UTILITY:
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 2016-17 financial report for the period ended June 30, 2017 and 2016 for Riverside's Water Utility (Water 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 77 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery, were $54,596 and $50,195 for the fiscal years ended June 30, 2017 and 2016, respectively. The increase in sales was primarily due to higher retail consumption as a result the lifting of water restriction mandates in June 2016.
- Utility plant assets as of June 30, 2017 increased by $4,824 due to continued investment in water infrastructure system to provide safe, reliable water to Water Utility's customers.
- Total net position as of June 30, 2017 increased by $206 primarily due to positive operating results. While retail sales, the primary revenue source for the Water Utility, increased due to the lifting of water mandates, production costs resulting from higher consumption also increased. In addition, non-operating revenues decreased over prior year due to final payment of a settlement with the City received in fiscal year end June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Water Utility's financial statements. The Water 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 Water 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 Water 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 Water 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 Water Utility's financial health.

The ***Statements of Net Position*** present information on all of the Water 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 Water 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 Water 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 Water Utility's financial statements. The Notes to the Financial Statements can be found on pages 81 to 99 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2017	2016	2015
Current and other assets	$ 84,801	$ 92,456	$ 105,788
Capital assets	467,973	463,149	457,357
Deferred outflows of resources	24,097	24,023	15,884
Total assets and deferred outflows of resources	576,871	579,628	579,029
Long-term debt outstanding	185,736	191,530	197,210
Other liabilities	79,096	74,107	68,299
Deferred inflows of resources	6,621	8,779	10,834
Total liabilities and deferred inflows of resources	271,453	274,416	276,343
Net investment in capital assets	271,087	260,468	252,615
Restricted	8,079	8,175	8,547
Unrestricted	26,252	36,569	41,524
Total net position	$ 305,418	$ 305,212	$ 302,686

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2017 compared to 2016 The Water Utility's total assets and deferred outflows of resources were $576,871, reflecting a decrease of $2,757 (0.5%) primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by $7,655. This change reflects a decrease of $10,038 in unrestricted cash and cash equivalent for the use of reserves to fund on-going capital projects partially offset by an increase of $2,421 in restricted cash and cash equivalent for the financing proceeds received for the lease purchase of heavy equipment vehicles.

- Capital assets increased by $4,824 primarily due to an increase of $7,318 in construction in progress, offset by a decrease of $2,494 for current year depreciation, net of completed transmission and distribution system assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

2016 compared to 2015 Total assets and deferred outflows of resources were $579,628, reflecting a slight increase over prior year. Current and other assets decreased by $13,332 due to the use of $10,323 in unrestricted cash and cash equivalent for the use of reserves to fund on-going capital projects and a decrease in other receivables for the receipt of $3,333 for the final payment on the general fund transfer settlement. Capital Assets increased by $5,792 primarily due to $11,165 in completed transmission and distribution system assets, net of current year depreciation, offset by a decrease of $5,373 in construction in progress. Deferred outflows of resources increased by $8,139 primarily due to an increase of $5,329 in deferred outflows related to pension contributions made in the fiscal year subsequent to the measurement date of the net pension liability and the difference between projected and actual earnings on pension plan investments and an increase of $3,338 in deferred changes in derivative values.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2017 compared to 2016 The Water Utility's total liabilities and deferred inflows of resources were $271,453, a decrease of $2,963 (1.1%) primarily due to the following:

- Long-term debt outstanding decreased by $5,794 primarily due to principal payments on revenue bonds.

- Other liabilities increased by $4,989 primarily due to an increase of $6,208 in the net pension liability, an increase of $2,095 in capital lease payable and an increase of $738 in accounts payable and other accruals. These increases were partially offset by a decrease of $4,205 in the negative fair value of derivative instruments.

- Deferred inflows of resources decreased by $2,158 due a decrease in deferred inflows related pension which included the changes in assumptions, the differences between expected and actual experience, and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2016 compared to 2015 Total liabilities and deferred inflows of resources were $274,416, reflecting a decrease of $1,927 (0.7%). The decrease was primarily due to a decrease of $5,680 in long-term debt outstanding primarily due to principal payments on revenue bonds. There was an increase in other liabilities of $5,808 primarily due to an increase of $3,537 in the negative fair value of derivative instruments, an increase of $2,253 in note payable for the completion of well relocation paid for by a developer and an increase of $2,225 in the net pension liability. These increases were offset by a decrease of $1,572 in accounts payable and other accruals. Deferred inflows of resources decreased by $2,055 due a decrease in deferred regulatory charges of $3,333 reflecting the recognition of the transfer-in from the general fund for the final payment on the City's lawsuit settlement. The decrease was offset by an increase of $1,277 in deferred inflows related pension which included the changes in assumptions, the differences between expected and actual experience, and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

NET POSITION

2017 compared to 2016 The Water Utility's total net position, which represents the difference between the Water Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $305,418, an increase of $206 (0.1%).

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of $271,087 (88.8%), had an increase of $10,619 from prior year. Investment in capital assets reflects the Water 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 $8,079 (2.6%), reflecting a slight decrease from prior year. Restricted net position is subject to 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 $26,252 (8.6%) a decrease of $10,317 (28.2%) from prior year, primarily attributable to the use of unrestricted cash and cash equivalent to fund capital projects. Unrestricted net position may be used to meet the Water Utility's ongoing operational needs and obligations to customers and creditors.

2016 compared to 2015 Total net position increased by $2,526 (0.8%) to $305,212. The increase was primarily due to the increase of $7,853 in net investment in capital assets. This was offset by a slight decrease of $372 in the restricted portion of net position. In addition, there was a decrease of $4,955 in the unrestricted portion of net position mainly resulting from the use of unrestricted cash and cash equivalent to fund capital projects.

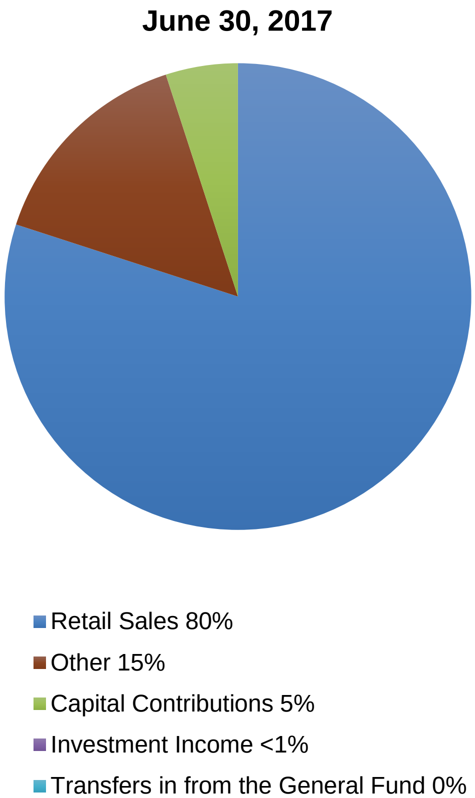
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

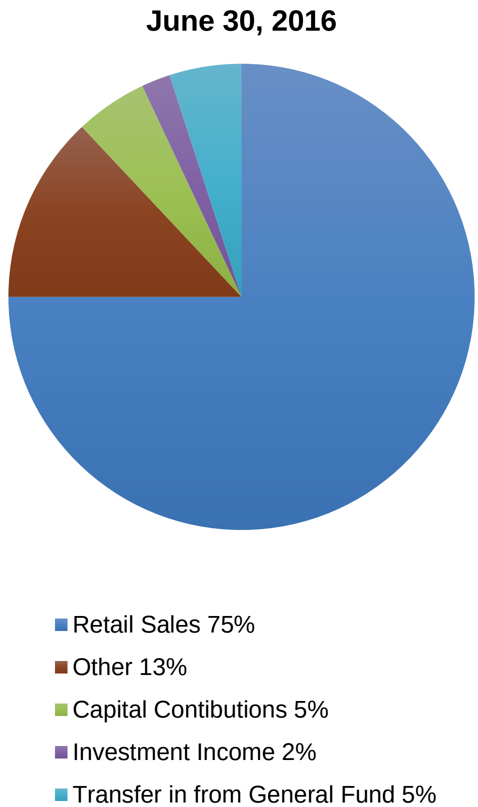
	2017	2016	2015
Revenues:			
Retail sales, net	$ 54,596	$ 50,195	$ 56,983
Other revenues	9,930	8,861	9,845
Investment income	17	1,075	749
Capital contributions	3,525	3,133	4,017
Total revenues	68,068	63,264	71,594
Expenses:			
Operations and maintenance	34,070	31,115	35,972
Purchased energy	5,136	4,664	5,248
Depreciation	14,320	13,510	13,088
Interest expenses and fiscal charges	8,663	8,352	8,350
Total expenses	62,189	57,641	62,658
Transfers:			
Transfers in from the City's general fund	-	3,333	3,333
Transfers to the City's general fund	(5,673)	(6,430)	(7,098)
Total transfers	(5,673)	(3,097)	(3,765)
Changes in net position	206	2,526	5,171
Net position, July 1, as previously reported	305,212	302,686	332,730
Less: Cumulative effect of change in accounting principle [1]	-	-	(35,215)
Net position, July 1, as restated	305,212	302,686	297,515
Net position, June 30	$ 305,418	$ 305,212	$ 302,686

[1] For the implementation of pension accounting standard, GASB Statement No. 68.

WATER ENERGY LIFE
CITY OF RIVERSIDE
PUBLIC UTILITIES

REVENUES BY SOURCES





2017 compared to 2016 The Water Utility's total revenues of $68,068 increased by $4,804 (7.6%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $54,596, an increase of $4,401 (8.8%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The increase in sales was primarily due to an 8.4% increase in retail consumption as a result of the lifting of water conservation mandates.

- Other revenues of $9,930 increased by $1,069 (12.1%) primarily due to an increase water conveyance revenue due to new contracts and an increase in wholesale water sales.

- Investment income of $17 decreased by $1,058 (98.4%) due to a decrease in the market value of investments and lower cash balances from the use of reserves to fund capital projects.

2016 compared to 2015 Total revenues of $63,264, excluding transfers in, decreased by $8,330 (11.6%) primarily due to the following changes:

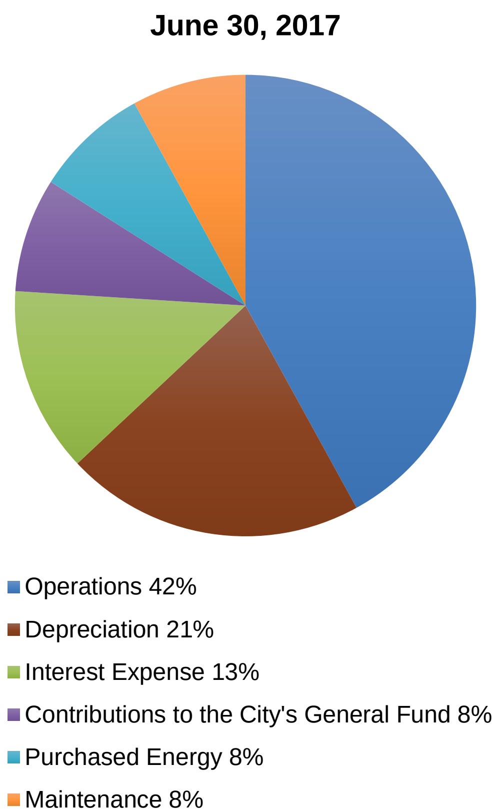
- Retail sales, net of uncollectibles/recovery, totaled $50,195, a decrease of $6,788 (11.9%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The decrease in sales was primarily due to a 15.2% decrease in retail consumption as a result of water conservation mandates due to drought conditions.

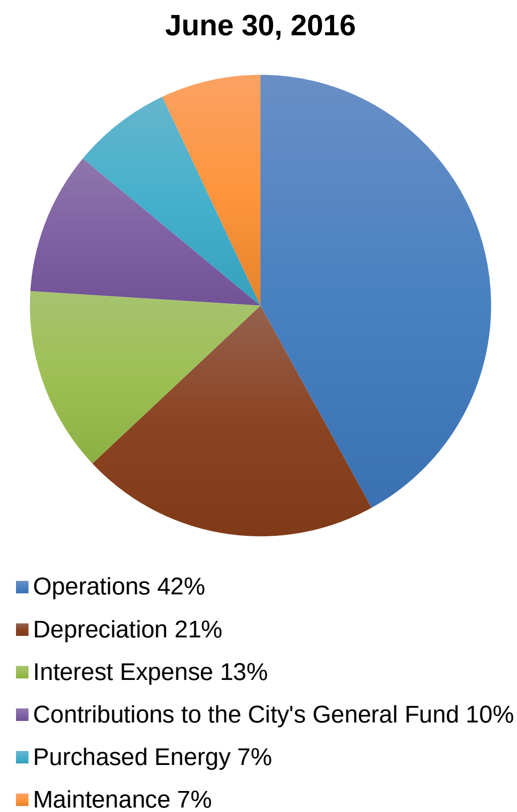
- Other revenues of $8,861 decreased by $984 (10.0%) reflecting a decrease in reimbursable costs due to the completion of the Water Conservation turf removal program in conjunction with Western Municipal Water District (WMWD), offset but an increase water conveyance revenue due to new contracts.

- Capital contributions of $3,133 decreased by $884 (22.0%), primarily due to a decrease of backup facility capacity charges paid by developers.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

EXPENSES BY SOURCES





2017 compared to 2016 The Water Utility's total expenses, excluding general fund transfer, were $62,189, an increase of $4,548 (7.9%). The increase was mainly due to a prior year non-cash pension expense credit of $1,806 as a result of pension accounting standards, an increase in production costs resulting from higher consumption and an increase in general operations and maintenance costs.

2016 compared to 2015 Total expenses, excluding general fund transfer, were $57,641, a decrease of $5,017 (8.0%). The decrease was primarily due to a reduction in general operations and maintenance costs as a result of reduced consumption from water conservation during the year and a decrease in Water Conversation Programs of $3,458 due to the completion of the turf removal reimbursement program.

TRANSFERS

Pursuant to the City's Charter, the Water 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 Water Utility transferred $5,673 and $6,430 for 2017 and 2016, respectively to the City's general fund. This represents a $757 decrease from prior fiscal year due to a decrease in retail sales as a result of water conservation.

In April 2013, the City settled a lawsuit challenging the transfer of Water 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. The final payment of $3,333 was received as of June 30, 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Water 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 Water Utility's capital assets, net of accumulated depreciation, as of June 30:

	2017	2016	2015
Source of supply	$ 45,671	$ 46,355	$ 40,222
Pumping	19,814	20,197	19,556
Treatment	30,679	31,746	32,822
Transmission and distribution	320,660	323,027	318,975
General	3,145	1,852	2,322
Land	20,484	20,484	20,484
Intangible	13,547	12,833	10,948
Construction in progress	13,973	6,655	12,028
Total capital assets	$ 467,973	$ 463,149	$ 457,357

The Water Utility continues to make 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 Water Utility has invested approximately $266 million in infrastructure improvements.

2017 compared to 2016 The Water Utility's investment in capital assets, net of accumulated depreciation, is $467,973 an increase of $4,824 (1.0%). The increase resulted mainly from the following significant capital projects, offset by current year depreciation:

- $6,804 for system expansion and improvements, meter replacements, and facilities rehabilitation including pump stations, booster stations and wells.

- $10,041 for continued pipeline replacement programs.

2016 compared to 2015 Investment in capital assets, net of accumulated depreciation, increased by $5,792 (1.3%) to $463,149. Major capital projects included $6,845 for system expansion and improvements, transmission mains, and facilities rehabilitation and $7,138 for continued pipeline replacement programs.

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:

	2017	2016	2015
Revenue bonds	$ 188,300	$ 193,480	$ 198,740
Unamortized bond premium	2,064	2,442	2,938
Contracts payable	937	938	942
Less: Current portion	(5,565)	(5,330)	(5,410)
Total	$ 185,736	$ 191,530	$ 197,210

The Water Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.04, 1.93, and 2.22 at June 30, 2017, 2016, and 2015, respectively. The debt is backed by the revenues of the Water Utility.

The Water Utility's long-term debt decreased by $5,794 (3.0%) and $5,680 (2.9%) for 2017 and 2016, respectively primarily due to principal payments.

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

CREDIT RATINGS

The Water Utility maintains credit ratings of "AAA", "AA+" and "Aa2" from Standard & Poor's (S&P), Fitch Ratings (Fitch) and Moody's, respectively.

In January 2017, S&P assigned its "AAA" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AAA" long-term rating on the existing Water revenue bonds.

In March 2017, Fitch affirmed its "AA+" long-term rating on the Water Utility's outstanding revenue bonds.

These affirmations and ratings reflect the Water Utility's strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among many other factors. The Water Utility has maintained these credit ratings since 2011.

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 Water Utility.

Due to the unprecedented drought conditions the State of California experienced starting in 2011, the Governor of California issued several Executive Orders to cope with the impacts of the drought to California's water supplies and its ability to meet all of the demands for water in the State. 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 Governor of California issued an Executive Order in April 2015 to increase water conservation efforts. In June 2015, the City approved emergency regulations and implemented Stage Three of the Water Conservation Ordinance to work towards achieving a revised mandatory water reduction of 28 percent, as set by California's State Water Resources Control Board, for the Water Utility for the period of June 2015 through February 2016. In June 2016, the State reduced its mandatory restrictions and the City reverted back to Stage One of the Water Conservation Ordinance. The latest executive order pertaining to conservation/drought directs certain State Agencies to develop improved state and local planning processes, which will prepare the State for more frequent and severe droughts.

The Water Utility is very fortunate as a water provider in California in that the Water Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Water Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Water Utility draws from are experiencing historic low levels. The Water 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.

The Water Utility's long range water supply planning includes significant contributions of both conservation and recycled water. The behavioral changes instituted through conservation and water use efficiency should have some permanent impact. Changes in landscape patterns and uses will have permanent and on-going impacts to water use. Continuing conservation measures could negatively impact the Water Utility revenues and has been addressed in the current cost of service analysis conducted by the Water Utility.

WATER STANDARDS

The Water Utility's supplies are, or may be impacted, by contaminants regulated by the State of California or the United States Environmental Protection Agency (USEPA). The development of new and increasingly stringent drinking water regulations by the California Environmental Protection Agency (CalEPA) and the 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 was equal to the 2007 perchlorate Public Health Goal (PHG). During this time, the Water Utility employed treatment technologies to remove perchlorate to below the drinking water standard. In 2015, 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 economic factors. CalEPA is required to reevaluate its drinking water standards during its five year review process and when PHGs are lowered. CalEPA initiated a review of the perchlorate standard in 2017 that proposes to implement two regulatory packages. The first package would lower the detection limit thereby increasing occurrence data that could be used to support the development of a revised standard if appropriate. The second regulation package would replace the 6 ppb perchlorate standard with a new standard as close to the PHG as is technologically and economically feasible. This review will likely occur over multiple years. A reduction in the perchlorate standard will impact the Water Utility's water supply costs, including potential costs to obtain replacement water.

In 2017, CalEPA issued a new regulation adopting a Maximum Contaminant Level (MCL) for 1,2,3-tricholoropropane (TCP) which would take effect in January 2018. TCP has been detected at and above the new MCL in a number of water supply sources. The adoption of this new MCL will impact the Water Utility's water supply costs, including potential costs to obtain replacement water.

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Water Utility's water supply costs and supplies 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 Water 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 Water 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 expanded the scope of federal jurisdiction in determining the waters of United States. In particular, the rule added jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defined tributaries too broadly that it included canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs. The draft rule was made final on August 28, 2015. However on October 9, 2015, the United States Court of Appeals issued a Stay causing the USEPA and the Army Corps to resume using the prior regulations defining the term "Waters of the United States." On February 28, 2017, the President of the United States issued an Executive Order directing the EPA and Department of the Army to review and rescind or revise the 2015 Rule.

The 2015 revised rule would have also impacted a 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 have been 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 2015 rule would have made these projects and others more difficult to complete and manage. The Water 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 Water 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.

WATER UTILITY:
FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2017 (in thousands)	June 30, 2016
UTILITY PLANT:		
Utility plant, net of accumulated depreciation (Note 3)	$ 467,973	$ 463,149
OTHER NON-CURRENT ASSETS:		
Regulatory assets	-	705
Total other non-current assets	-	705
Total non-current assets	467,973	463,854
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	63,503	73,541
Accounts receivable, less allowance for doubtful accounts 2017 $136; 2016 $170	10,061	9,088
Accrued interest receivable	231	182
Advances to other funds of the City	78	179
Prepaid expenses	164	168
Total unrestricted current assets	74,037	83,158
Restricted assets:		
Cash and cash equivalents (Note 2)	8,370	5,949
Water Conservation Programs - cash and cash equivalents (Note 2)	2,283	2,542
Water Conservation Programs receivable	111	102
Total restricted current assets	10,764	8,593
Total current assets	84,801	91,751
Total assets	552,774	555,605
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 8)	13,542	9,515
Changes in derivative values	3,881	7,346
Loss on refunding	6,674	7,162
Total deferred outflows of resources	24,097	24,023
Total assets and deferred outflows of resources	$ 576,871	$ 579,628

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	June 30, 2017	June 30, 2016
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 271,087	$ 260,468
Restricted for:		
Debt service (Note 5)	6,068	5,949
Water Conservation Programs	2,011	2,226
Unrestricted	26,252	36,569
Total net position	305,418	305,212
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	185,736	191,530
OTHER NON-CURRENT LIABILITIES:		
Advances from other funds of the City - pension obligation (Note 4)	4,439	4,338
Net other postemployment benefits payable	3,266	3,032
Net pension liability (Note 8)	34,465	28,257
Compensated absences (Note 4)	288	196
Derivative instrument (Note 4)	8,193	12,398
Capital lease payable (Note 4)	2,095	-
Note payable (Note 4)	12,927	13,764
Total other non-current liabilities	65,673	61,985
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,619	1,687
Water Conservation Programs payable	50	87
Current portion of long-term obligations (Note 4)	5,415	5,180
Total current liabilities payable from restricted assets	7,084	6,954
CURRENT LIABILITIES:		
Accounts payable and other accruals	4,415	3,677
Current portion of long-term obligations (Note 4)	150	150
Unearned revenue	185	-
Customer deposits	752	539
Note payable (Note 4)	837	802
Total current liabilities	6,339	5,168
Total liabilities	264,832	265,637
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 8)	6,510	8,779
Regulatory charges	111	-
Total deferred inflows of resources	6,621	8,779
Total net position, liabilities and deferred inflows of resources	$ 576,871	$ 579,628

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2017	2016
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 34,994	$ 32,061
Commercial sales	17,869	16,572
Other sales	1,764	1,690
Water conveyance revenue	4,385	3,944
Water Conservation Programs	1,120	1,289
Other operating revenue	2,526	1,694
Total operating revenues before uncollectibles	62,658	57,250
Estimated uncollectibles, net of bad debt recovery	(31)	(128)
Total operating revenues, net of uncollectibles	62,627	57,122
OPERATING EXPENSES:		
Operations	27,298	24,707
Maintenance	5,437	4,432
Purchased energy	5,136	4,664
Water Conservation Programs	1,335	1,976
Depreciation	14,320	13,510
Total operating expenses	53,526	49,289
Operating income	9,101	7,833
NON-OPERATING REVENUES (EXPENSES):		
Investment income	17	1,075
Interest expense and fiscal charges	(8,663)	(8,352)
Gain on sale of assets	61	132
Other	1,838	1,802
Total non-operating revenues (expenses)	(6,747)	(5,343)
Income before contributions and transfers	2,354	2,490
Capital contributions	3,525	3,133
Transfers in from the City's general fund	-	3,333
Transfers out - contributions to the City's general fund	(5,673)	(6,430)
Total capital contributions and transfers	(2,148)	36
Increase in net position	206	2,526
NET POSITION, BEGINNING OF YEAR	305,212	302,686
NET POSITION, END OF YEAR	$ 305,418	$ 305,212

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2017	2016
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 62,443	$ 59,367
Cash paid to suppliers and employees	(38,177)	(39,646)
Other receipts	794	761
Net cash provided by operating activities	25,060	20,482
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(5,673)	(6,430)
Transfers in from the City's general fund	-	3,333
Cash received on advances to other funds of the City	101	82
Payment on advances to other funds of the City - pension obligation	(306)	(274)
Net cash used by non-capital financing activities	(5,878)	(3,289)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(18,634)	(15,042)
Proceeds from the sale of utility plant	92	148
Principal paid on long-term obligations	(5,180)	(5,263)
Interest paid on long-term obligations	(8,522)	(8,406)
Proceeds from capital lease payable	2,305	-
Capital contributions	2,913	2,271
Net cash used by capital and related financing activities	(27,026)	(26,292)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	(32)	1,204
Net cash (used) provided by investing activities	(32)	1,204
Net decrease in cash and cash equivalents	(7,876)	(7,895)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $8,491 and $6,063 at June 30, 2016 and June 30, 2015, respectively, reported in restricted accounts)**	82,032	89,927
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $10,653 and $8,491 at June 30, 2017 and June 30, 2016, respectively, reported in restricted accounts)**	$ 74,156	$ 82,032
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 9,101	$ 7,833
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,320	13,510
(Decrease) increase in allowance for uncollectible accounts	(34)	19
(Increase) decrease in accounts receivable	(549)	2,131
Decrease (increase) in prepaid expenses	4	(158)
Increase (decrease) in accounts payable and other accruals	529	(1,571)
Increase in postemployment benefits payable	234	245
Increase (decrease) in compensated absences	93	(113)
Decrease in Water Conservation Programs payable	(37)	(443)
Increase in unearned revenue	185	-
Increase in customer deposits	213	94
Increase in advance from other funds of the City - pension obligation	295	-
Changes in net pension liability and related deferred outflows and inflows of resources	(88)	(1,826)
Other receipts	794	761
Net cash provided by operating activities	$ 25,060	$ 20,482
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	212	888
Well relocation with note payable	-	3,082
Payment on note payable including interest, offset by rent credit	1,044	1,041

See accompanying notes to the financial statements

WATER UTILITY:
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Water 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 Water 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 Water Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Water 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. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

The Water 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 Water Utility are charges to customers for water sales and services. Operating expenses for the Water 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 Water 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 $3,329 at June 30, 2017, and $3,092 at June 30, 2016.

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.

WATER UTILITY PLANT AND DEPRECIATION

The Water 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.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2017 and 2016, the Water Utility capitalized net interest costs of $330 and $307, respectively. Total interest expense incurred by the Water Utility was $8,366 and $8,275, respectively.

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	5-15 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. Proceeds from lease purchase financing yet to be used for the acquisition of capital equipment are also classified as restricted assets because their use is legally restricted for a specific purposes. Generally, the Water Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

In June 2004, the Water 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 percent, 1.0 percent and 1.5 percent 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 percent surcharge effective for the next ten years. The programs and services offered include conservation, education, and water use efficiency programs; and research, development and demonstration programs to advance science and technology with respect to water conservation. 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 Water Utility policy, the Water 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. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Water 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 Water Utility values its cash and investments in accordance with provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation includes a hierarchy of inputs with three distinct levels. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Water Utility does not value any of its investments using level 1 and level 3 inputs.

City-wide information concerning cash and investments as of June 30, 2017, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

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

UNRESTRICTED DESIGNATED CASH RESERVES

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy which established several designated cash reserves in the Water Utility for strategic purposes. Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board of Public Utilities and City Council. Designated reserves may be held for capital or operating purposes.

Unrestricted designated cash reserve balances as of June 30, 2017 and 2016 were as follows: Property Reserve $17,281 and $26,004, Recycled Water Reserve $9,359 and $9,800, Customer Deposits $553 and $433, and Capital Repair and Replacement Reserve $1,484 and $750, respectively. The combined total for these reserves was $28,677 and $36,987 at June 30, 2017 and 2016, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

DERIVATIVES

The Water Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Water 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 Water 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 Water 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.

CAPITAL LEASES

In fiscal year ended June 30, 2017, the Water Utility participated in the City's lease purchase financing program for the acquisition of water system heavy vehicles and equipment. The heavy vehicles and equipment lease financing is for a ten-year term of annual payments with an interest rate of 2.36 percent. Gross proceeds of $2,305 were received for the financing. It is anticipated that the vehicles and equipment will be purchased in fiscal year ending June 30, 2018.

As of June 30, 2017, the total liability was $2,305, with the current portion included in accounts payable and other accruals. The annual lease payments for the life of the lease are $260 annually through fiscal year ending June 30, 2027. Total outstanding lease payments are $2,598, with $2,305 representing principal and $293 representing interest.

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 Water Utility's portion of these deposits as of June 30, 2017 and 2016 was $752 and $539, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2017 and 2016. The Water 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, 2017, and $1,598 at June 30, 2016.

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 Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water 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, 2017, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2017 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 Water Utility were $284 and $289 for the years ended June 30, 2017 and 2016, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 8.

PENSION OBLIGATION BONDS

The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Water Utility's proportional share of the outstanding principal amount of the bonds was $4,439 and $4,338 as of June 30, 2017 and 2016, respectively, and is shown on the Statements of Net Position as Advances from other funds of the City - pension obligation. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bonds issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2017.

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 CalPERS survivor annuity.

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

The Water 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) over a period not to exceed thirty years. The Water Utility's OPEB liability including Water Conservation Programs as of June 30, 2017 and 2016 was $3,266 and $3,032, 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, 2017 can be found in the notes to the City's financial statements in the City's CAFR.

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. Deferred outflows of resources consist of changes in derivative values, loss on refunding and deferred outflows related to pension which include pension contributions subsequent to the measurement date, difference between actual and actuarial determined contribution and net differences between projected and actual earnings on pension plan investments.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of regulatory charges and deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

In accordance with regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the Water Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges related to debt issuance costs have been recognized in the Statements of Net Position.

NET POSITION

The Water 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) 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 Water 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, 2017 and 2016, $5,673 and $6,430, respectively was transferred representing 11.5 percent.

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Water 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. As of June 30, 2016, the Water Utility received the final payment in the amount of $3,333.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Water Utility presents, and the City Council adopts, a biennial budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June biennially via resolution.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2017 and 2016, consist of the following (in thousands):

	June 30, 2017	June 30, 2016
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 74,156	$ 82,032
Total cash and investments	$ 74,156	$ 82,032

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

	June 30, 2017	June 30, 2016
Unrestricted cash and cash equivalents	$ 63,503	$ 73,541
Restricted cash and cash equivalents	10,653	8,491
Total cash and investments	$ 74,156	$ 82,032

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

The Water Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Water Utility has the following recurring fair value measurements as of June 30, 2017 and 2016:

Investment Type	June 30, 2017 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments not Subject to Fair Value Hierarchy
City Treasurer's investment pool [1]					
Money market funds	$ 11,347	$ -	$ 11,347	$ -	-
Federal agency securities	1,333	-	1,333	-	-
US Treasury notes/bonds	40,837	-	40,837	-	-
Corp medium term notes	2,271	-	2,271	-	-
State investment pool	16,898	-	-	-	16,898
Negotiable certificate of deposit	1,470	-	1,470	-	-
Total	$ 74,156	$ -	$ 57,258	$ -	$ 16,898

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

Investment Type	June 30, 2016 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments not Subject to Fair Value Hierarchy
City Treasurer's investment pool [1]					
Money market funds	$ 6,984	$ -	$ 6,984	$ -	-
Federal agency securities	1,669	-	1,669	-	-
US Treasury notes/bonds	49,385	-	49,385	-	-
Corp medium term notes	5,680	-	5,680	-	-
State investment pool	15,639	-	-	-	15,639
Negotiable certificate of deposit	2,675	-	2,675	-	-
Total	$ 82,032	$ -	$ 66,393	$ -	$ 15,639

Cash and investments distribution by maturities as of June 30, 2017 and 2016, are as follows:

Investment Type	June 30, 2017 Fair Value	Remaining Maturity (In Months) 12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool [1]				
Money market funds	$ 11,347	$ 11,347	$ -	$ -
Federal agency securities	1,333	1,333	-	-
US Treasury notes/bonds	40,837	6,031	13,043	21,763
Corp medium term notes	2,271	1,149	1,122	-
State investment pool	16,898	16,898	-	-
Negotiable certificate of deposit	1,470	490	588	392
Total	$ 74,156	$ 37,248	$ 14,753	$ 22,155

Investment Type	June 30, 2016 Fair Value	Remaining Maturity (In Months) 12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool [1]				
Money market funds	$ 6,984	$ 6,984	$ -	$ -
Federal agency securities	1,669	-	1,669	-
US Treasury notes/bonds	49,385	7,338	20,160	21,887
Corp medium term notes	5,680	2,937	1,384	1,359
State investment pool	15,639	15,639	-	-
Negotiable certificate of deposit	2,675	896	588	1,191
Total	$ 82,032	$ 33,794	$ 23,801	$ 24,437

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2017 and 2016 for each investment type:

Investment Type	June 30, 2017 Fair Value	Rating as of Year End AAA	AA	A	Unrated
City Treasurer's investment pool [1]					
Money market funds	$ 11,347	$ -	$ 10,677	$ 670	$ -
Federal agency securities	1,333	1,333	-	-	-
US Treasury notes/bonds	40,837	40,837	-	-	-
Corp medium term notes	2,271	464	1,570	237	-
State investment pool	16,898	-	-	-	16,898
Negotiable certificate of deposit	1,470	-	-	-	1,470
Total	$ 74,156	$ 42,634	$ 12,247	$ 907	$ 18,368

Investment Type	June 30, 2016 Fair Value	Rating as of Year End AAA	AA	A	Unrated
City Treasurer's investment pool [1]					
Money market funds	6,984	2,996	3,190	798	-
Federal agency securities	1,669	1,669	-	-	-
US Treasury notes/bonds	49,385	49,385	-	-	-
Corp medium term notes	5,680	-	5,395	285	-
State investment pool	15,639	-	-	-	15,639
Negotiable certificate of deposit	2,675	-	-	-	2,675
Total	$ 82,032	$ 54,050	$ 8,585	$ 1,083	$ 18,314

[1] Additional information on investment types, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2017 and 2016 (in thousands):

	Balance As of 6/30/2015	Additions	Retirements/ Transfers	Balance As of 6/30/2016	Additions	Retirements/ Transfers	Balance As of 6/30/2017
Source of supply	$ 54,903	7,380	-	$ 62,283	$ 777	$ -	$ 63,060
Pumping	30,439	1,306	-	31,745	302	-	32,047
Treatment	43,713	107	-	43,820	119	-	43,939
Transmission and distribution	461,895	13,929	(752)	475,072	7,787	(406)	482,453
General	14,281	-	(4)	14,277	1,697	(29)	15,945
Intangible	386	1,968	-	2,354	1,174	-	3,528
Depreciable utility plant	605,617	24,690	(756)	629,551	11,856	(435)	640,972
Less accumulated depreciation							
Source of supply	(14,681)	(1,247)	-	(15,928)	(1,461)	-	(17,389)
Pumping	(10,883)	(665)	-	(11,548)	(685)	-	(12,233)
Treatment	(10,891)	(1,183)	-	(12,074)	(1,186)	-	(13,260)
Transmission and distribution	(142,920)	(9,861)	736	(152,045)	(10,124)	376	(161,793)
General	(11,959)	(471)	5	(12,425)	(404)	29	(12,800)
Intangible	(279)	(83)	-	(362)	(460)	-	(822)
Accumulated depreciation	(191,613)	(13,510)	741	(204,382)	(14,320)	405	(218,297)
Net depreciable utility plant	414,004	11,180	(15)	425,169	(2,464)	(30)	422,675
Land	20,484	-	-	20,484	-	-	20,484
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841
Construction in progress	12,028	15,108	(20,481)	6,655	18,773	(11,455)	13,973
Nondepreciable utility plant	43,353	15,108	(20,481)	37,980	18,773	(11,455)	45,298
Total utility plant	$ 457,357	$ 26,288	$ (20,496)	$ 463,149	$ 16,309	$ (11,485)	$ 467,973

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2017 and 2016 (in thousands):

	Balance As of 6/30/2015	Additions	Reductions	Balance As of 6/30/2016	Additions	Reductions	Balance As of 6/30/2017	Due Within One Year
Revenue bonds	$201,678	$ -	$ (5,756)	$195,922	$ -	$ (5,558)	$ 190,364	$ 5,415
Water stock acquisition rights	942	-	(4)	938	-	(1)	937	150
Advances from other funds of the City pension obligation	4,612	-	(274)	4,338	407	(306)	4,439	-
Compensated absences	1,788	1,379	(1,569)	1,598	1,408	(1,324)	1,682	1,394
Note payable	12,313	3,082	(829)	14,566	-	(802)	13,764	837
Capital leases	-	-	-	-	2,305	-	2,305	210
Total long-term obligations	$221,333	$ 4,461	$ (8,432)	$217,362	$ 4,120	$ (7,991)	$ 213,491	$ 8,006

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

CONTRACTS PAYABLE

	June 30, 2017	June 30, 2016
Water Stock Acquisitions: Payable to various water companies	$ 937	$ 938
Total contracts payable	937	938

REVENUE BONDS PAYABLE

	June 30, 2017	June 30, 2016
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual principal installments from $1,210 to $7,505 through October 1, 2038, interest from 4.0 to 5.0 percent	56,625	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $2,270 to $2,625 through October 1, 2020, interest from 4.0 to 5.0 percent	9,760	12,730
$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 $1,475 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2017 was 3.2 percent)	54,125	54,725
Total water revenue bonds payable	188,300	193,480
Total water revenue bonds and contracts payable	189,237	194,418
Unamortized bond premium	2,064	2,442
Total water revenue bonds and contracts payable, including bond premium	191,301	196,860
Less current portion	(5,565)	(5,330)
Total long-term water revenue bonds and contracts payable	$ 185,736	$ 191,530

Revenue bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2017, are as follows (in thousands):

	2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2037	2038-2042	TOTAL
Principal	$ 5,565	$ 5,785	$ 6,015	$ 6,230	$ 6,470	$ 35,457	$ 42,730	$ 51,960	$ 29,025	$ 189,237
Interest	7,683	7,457	7,226	6,994	6,762	29,636	21,747	12,229	1,647	101,381
Total	$ 13,248	$ 13,242	$ 13,241	$ 13,224	$ 13,232	$ 65,093	$ 64,477	$ 64,189	$ 30,672	$ 290,618

The Water Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of water revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Water Utility capital improvement projects. For June 30, 2017 and 2016, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses)		Annual Debt Service Payments		Debt Service Coverage Ratio
June 30, 2017	Water revenues	$	27,818	$	13,610	2.04
June 30, 2016	Water revenues	$	26,245	$	13,596	1.93

INTEREST RATE SWAPS ON REVENUE BONDS

The Water 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, 2017 is as follows:

	Notional Amount		Fair Value as of 6/30/2017		Change in Fair Value for Fiscal Year	
2011 Water Refunding/Revenue Bonds Series A	$	54,125	$	(8,193)	$	4,205

***Objective*:** In order to lower borrowing costs as compared to fixed-rate bonds, the Water 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 Water Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent 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 $1,475 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, 2017, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.31124%)
Net interest rate swap payments		2.88876%
Variable-rate bond coupon payments		0.30060%
Synthetic interest on bonds		3.18936%

***Fair value*:** As of June 30, 2017, in connection with the swap agreement, the transactions had a total negative fair value of ($8,193). Because the coupons on the Water 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, 2017, the Water 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, 2017, there is no requirement for collateral posting for the outstanding swap.

***Basis risk*:** As noted above, the swap exposes the Water 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 Water Utility if the counterparty's credit quality falls below "BBB-" as issued by S&P. The Water 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 Water 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, 2017, 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.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2018	$ 1,700	$ 164	$ 1,571	$ 3,435
2019	1,475	159	1,525	3,159
2020	2,375	152	1,462	3,989
2021	2,475	144	1,389	4,008
2022	2,525	137	1,314	3,976
2023-2027	14,025	558	5,359	19,942
2028-2032	15,700	329	3,164	19,193
2033-2037	13,850	82	793	14,725
Total	$ 54,125	$ 1,725	$ 16,577	$ 72,427

NOTE PAYABLE

On September 30, 2013, the Water 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 Water 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 Water Utility. The Water Utility has two active wells located on the leased site that were relocated by Hillwood under the terms of the Well Relocation

Agreement. The total cost of the well relocation was $6,061. The land purchase and the cost of the well relocation are being paid by the Water Utility through credits against rent payments for the first 15 years under terms of the Ground Lease Agreement. Construction on the first well was completed in April 2015 for a total cost of $2,944, at which time Hillwood's rent obligation commenced. The second well relocation was completed in April 2016 for a total cost of $3,117. Monthly rent credits started at $87, subject to annual price level changes according to the Consumer Price Index. Estimated annual rent credits to be applied for the land purchase and well relocation, at an interest rate of 1.71 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2018	$ 837	$ 228	$ 1,065
2019	873	214	1,086
2020	910	198	1,108
2021	947	183	1,130
2022	987	166	1,153
2023-2027	5,559	560	6,119
2028-2032	3,652	92	3,744
Total	$ 13,764	$ 1,641	$ 15,405

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

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2017, the Water Utility had major commitments (encumbrances) of approximately $5,919 with respect to unfinished capital projects of which $550 is expected to be funded by other agencies and $5,369 to be funded by unrestricted cash reserves.

NOTE 8. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City contributes to CalPERS, an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. Benefit provisions and all other requirements are established by state statute and City ordinance. A copy of CalPERS' annual financial report may be obtained online at www.calpersca.gov. The Water Utility, including Water Conservation Programs, participates in the City's Miscellaneous (non-safety) Plan (the Plan).

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier - The retirement formula is 2.7 percent at age 55. The City pays the employee share (8 percent) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 6 percent for both fiscal years June 30 2017 and 2016, with the City paying the remaining 2 percent of the employee share.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
  - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
  - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Under the recently approved memorandums of understanding agreed to by all bargaining units, effective January 1, 2018, all employees in Tier 1 with the exception of the International Brotherhood of Electrical Workers (IBEW) bargaining unit will begin contributing 1 percent to 2 percent of additional annual earnings to a maximum 8 percent rate by January 1, 2020 or January 1, 2021, depending on the bargaining unit. IBEW Tier 1 employees will begin paying 2 percent per year starting November 1, 2017 and will contribute a total of 8 percent by November 1, 2020.

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

BENEFITS PROVIDED

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the

1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

At June 30, 2017 and 2016, the following employees, City-wide, were covered by the benefit terms of the Plan:

	June 30, 2017	June 30, 2016
Inactive employees or beneficiaries		
currently receiving benefits	2,040	1,889
Inactive employees entitled to but		
not yet receiving benefits	1,317	1,283
Active employees	1,536	1,550

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. For fiscal year June 30, 2016, the net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 8. EMPLOYEE RETIREMENT PLAN (CONTINUED)

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	**Miscellaneous - Prior Year**
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase (1)	3.30% - 14.20%	3.30% - 14.20%
Investment rate of return (2)	7.50%	7.50%
Mortality (3)	-	-

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

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

(3) The probabilities of mortaility are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.65 percent for both fiscal years June 30, 2017 and 2016. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website.

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

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

NOTE 8. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

Asset Class	Current Target Allocation	Real Return Years 1 - 10 [(1)]	Real Return Years 11 + [(2)]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

(1) An expected inflation of 2.50% used for this period.

(2) An expected inflation of 3.00% used for this period.

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability as of June 30, 2017 (measurement date June 30, 2016) and 2016 (measurement date June 30, 2015) for the Plan are as follows:

June 30, 2017	Net Pension Liabiltiy		Proportion of the Plan
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$	34,465	11.14%
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	$	28,257	11.59%
Change - Increase / (Decrease)	$	6,208	-0.45%
June 30, 2016			
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	$	28,257	11.59%
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$	26,032	11.30%
Change - Increase / (Decrease)	$	2,225	0.29%

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.65 percent for both fiscal years June 30, 2017 and 2016, as well as what the Water Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2017			June 30, 2016		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
The Water Utility's proportionate share of the Plan's net pension liability	$ 53,495	$ 34,465	$ 18,814	$ 47,488	$ 28,257	$ 12,443

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2017 and 2016, the Water Utility, including Water Conservation Programs, recognized pension expense of $3,200 and $1,853, respectively. At June 30, 2017 and 2016, the Water Utility, including Water Conservation Programs, reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,286	$ -	$ 3,680	$ -
Difference between actual and actuarial determined contribution	1,075	-	1,180	-
Changes in assumptions	-	(1,212)	-	(1,772)
Differences between expected and actual experience	-	(1,418)	-	(1,381)
Net differences between projected and actual earnings on plan investments	9,181	(3,880)	4,655	(5,626)
Total	$ 13,542	$ (6,510)	$ 9,515	$ (8,779)

$3,286 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	$ 2,981	$ (1,994)
2019	2,981	(1,994)
2020	2,981	(1,994)
2021	1,313	(528)
Total	$ 10,256	$ (6,510)

WATER UTILITY:
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2016/17	2015/16	2014/15	2013/14	2012/13
WATER SUPPLY (ACRE FEET)					
Pumping	59,712	58,057	65,259	72,647	72,480
Percentage pumped[1]	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons)	81,210,000	74,720,000	86,580,000	90,020,000	95,390,000
WATER USE					
Number of meters as of year end					
Residential	59,453	59,137	58,922	58,958	58,756
Commercial/Industrial	5,640	5,619	5,594	5,527	5,508
Other	335	338	355	344	327
Total	65,428	65,094	64,871	64,829	64,591
CCF* sales					
Residential	14,219,498	13,125,476	15,424,999	17,432,384	17,061,832
Commercial/Industrial	8,683,382	8,011,884	9,511,177	10,292,548	10,045,813
Other	844,041	764,125	895,876	960,694	869,807
Subtotal	23,746,921	21,901,485	25,832,052	28,685,626	27,977,452
Wholesale	1,593,808	627,978	175,438	201,678	208,726
Total	25,340,729	22,529,463	26,007,490	28,887,304	28,186,178

*(CCF equals 100 cubic feet)

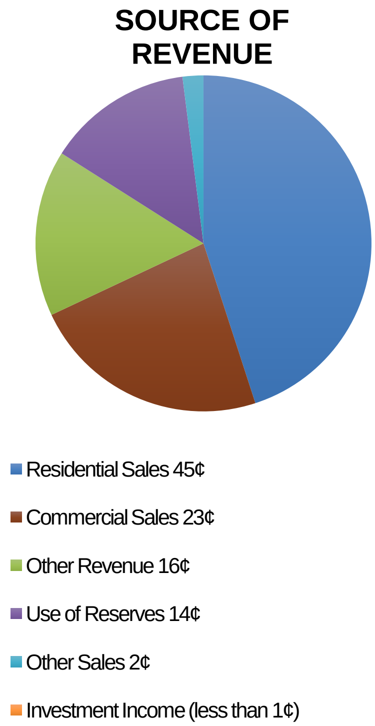
WATER FACTS					
Average annual CCF per residential customer	240	223	262	296	291
Average price ($/CCF) per residential customer	$2.46	$2.44	$2.35	$2.33	$2.36
Debt service coverage ratio (DSC)[2]	2.04	1.93	2.22	2.56	2.61
Employees[3]	174	181	181	182	181

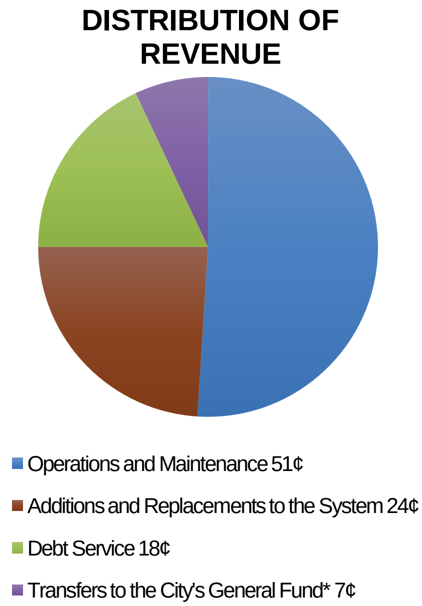
[1] No purchased water.

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

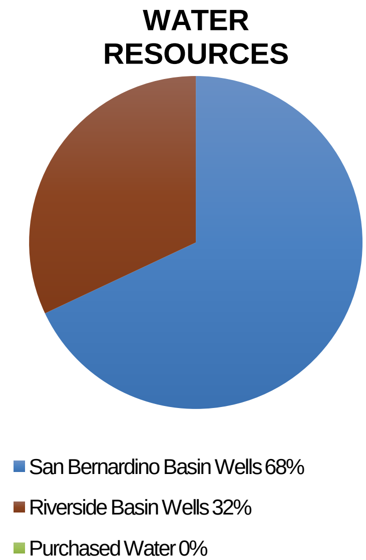
[3] Approved positions.

2016/2017 WATER REVENUE AND RESOURCES

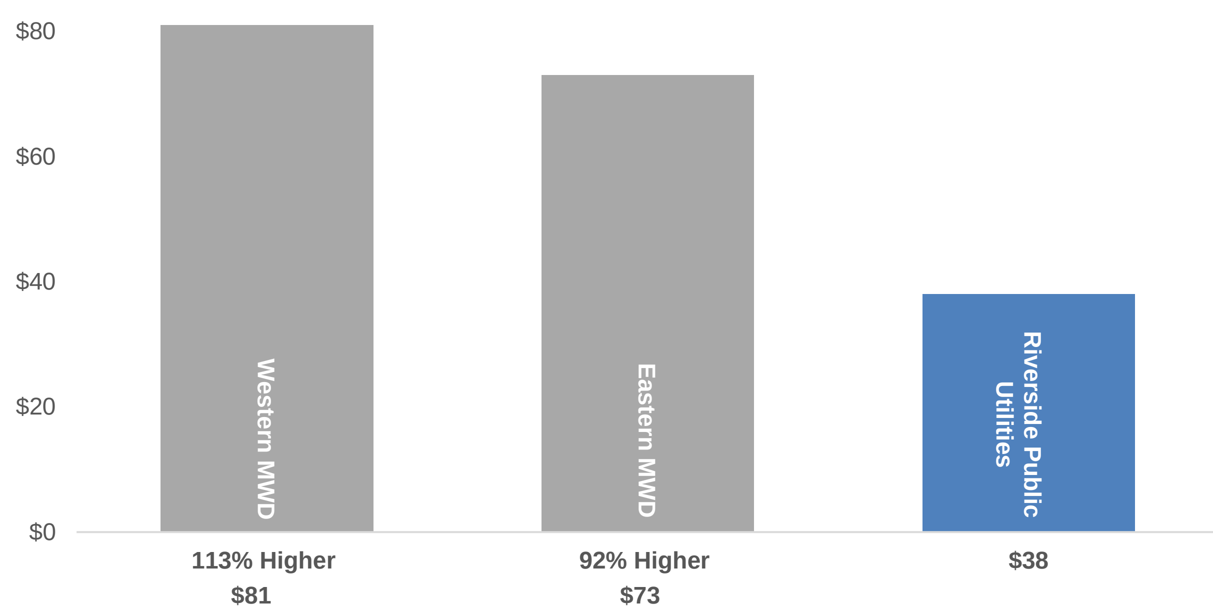




*Based on transfer of 11.5% of fiscal year 2015/2016 gross operating revenues including adjustments

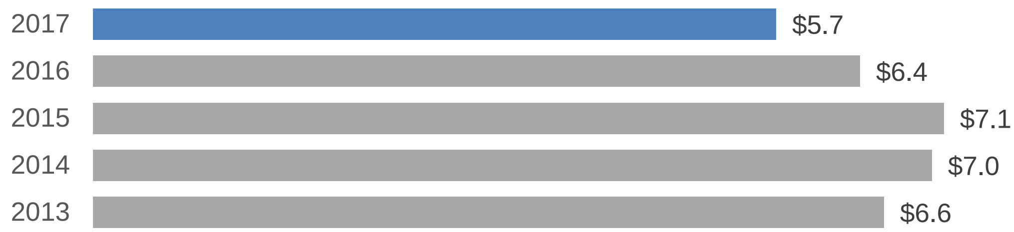


RESIDENTIAL WATER RATE COMPARISON 19 CCF PER MONTH (AS OF JUNE 30, 2017)

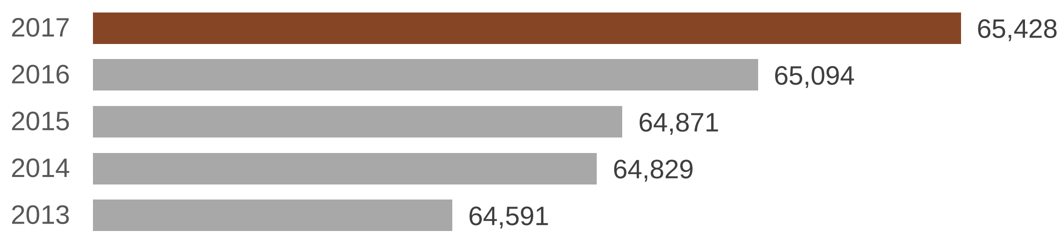


WATER KEY OPERATING INDICATORS

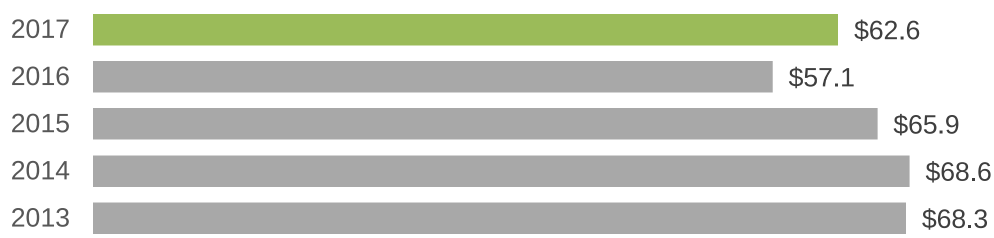
General Fund Transfer (In Millions)



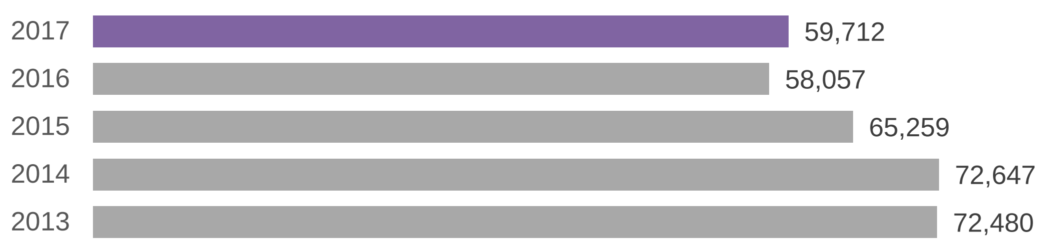
Number of Meters At Year End



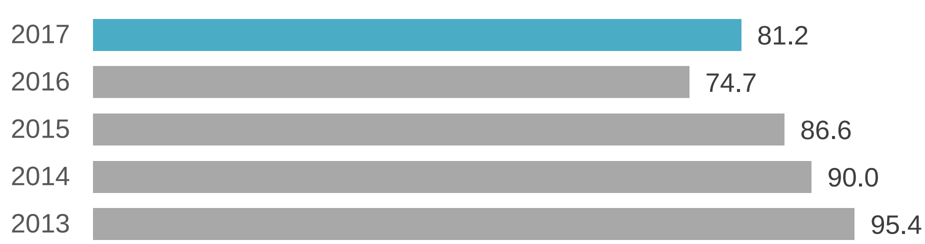
Total Operating Revenue (In Millions)



Production (In Acre Feet)



Peak Day Demand (In Millions of Gallons)



WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	326,733
Service Area Size (square miles)	74.20

System Data

Smallest Pipeline	2.0”
Largest Pipeline	72.0”
Miles of Pipeline	1,003
Number of Domestic Wells	56
Number of Active Reservoirs	16
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	7,952
Daily Average Production (gallons)	53,745,462
2016-2017 Peak Day (gallons)	81,210,000
07/22/16, 109 Degrees	
Historical Peak (gallons)	118,782,000
08/9/05, 99 Degrees	

Bond Ratings

Fitch Ratings	AA+
Moody’s	Aa2
Standard and Poor’s	AAA

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