2015 FINANCIAL REPORT

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

re · sil · ience

noun. The power or ability to recover; elasticity. The act of rebounding.

Facing record drought, Riverside Public Utilities created an ad campaign to boost customer awareness of water wise gardening.

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Administration

Girish Balachandran
Utilities General Manager

Kevin S. Milligan
Deputy General Manager

Michael J. Bacich
Assistant General Manager
Customer Relations/Marketing

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

Pat Hohl
Assistant General Manager
Energy Delivery

Todd Jorgenson
Assistant General Manager
Water

Reiko Kerr
Assistant General Manager
Resources

Established in 1895, Riverside Public Utilities is a department of the City of Riverside and owned with pride, by the customers it serves. We provide high quality, reliable services to over 109,000 metered electric customers and almost 65,000 metered water customers throughout the City of Riverside.

The Utility is committed to increased use of renewable energy resources and sustainable living practices that help reduce environmental impacts within the City of Riverside and the State of California.

In addition to maintaining some of the lowest water and electric rates in Southern California, Riverside Public Utilities is proud to offer its customers a variety of programs that provide valuable rebates and services. All are designed to serve the needs of our customers and help promote a thriving community in which to live and work.

RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

Board of Public Utilities

The City of Riverside is committed to providing high quality municipal service to ensure a safe, inclusive, and livable community. The City Council is elected to four-year terms and represent all seven wards within the City of Riverside. They entrust community members who volunteer their time to serve on community boards and commissions. Board members and Commissioners for the City oversee several areas of the municipal government, before final decisions are made by the City Council on behalf of the citizens. The City of Riverside has a Council/Manager form of government where the City Council is responsible for the legislative and policy making aspects of the City.

The Board of Public Utilities is comprised of nine volunteers who live in all seven wards of the City of Riverside. They are appointed by the City Council to four-year terms without compensation.

Board members oversee Riverside Public Utilities' policies, operations, revenues, expenditures, planning, and regulatory compliance.

In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources.

The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

CITY COUNCIL

Mike Gardner - Ward 1

Andy Melendrez - Ward 2

Mike Soubirous - Ward 3

Paul Davis - Ward 4

Chris Mac Arthur - Ward 5

Jim Perry - Ward 6

John Burnard - Ward 7

MAYOR

Rusty Bailey

BOARD OF PUBLIC UTILITIES

Darrell Ament - Ward 3

David Austin - Ward 4

Susan Cash - Ward 2

Ronald Cole - Ward 7

Nicolas Ferguson - Citywide

Jennifer O'Farrell - Ward 1

Justin Scott-Coe - Citywide

Andrew Walcker - Ward 5

Vacant - Ward 6

64,000
METERED WATER CUSTOMERS

109,000
METERED ELECTRIC CUSTOMERS

RiversidePublicUtilities.com

Riverside Public Utilities is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.

MISSION STATEMENT

10 YEAR
VISION STATEMENT

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

Core Values

- Safety
- Honesty and Integrity
- Teamwork
- Professionalism
- Quality Service
- Creativity and Innovation
- Inclusiveness and Mutual Respect
- Community Involvement
- Environmental Stewardship

Three-year Goals

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

Ten-year Goals

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

Long Range Implementation Plans

- Conservation/Efficiency Plan
- Electric Distribution System Master Plan & Infrastructure Roadmap
- Fiber Business Plan
- Integrated Power Resources Plan
- Integrated Water Management Plan
- Long Range Space Plan
- Recycled Water Plan
- Renewable Portfolio Standard Power Implementation Plan
- Riverside Transmission Reliability Project
- Strategic Technology Plan
- Ten Year Financial Pro-Forma
- Water Infrastructure Replacement Plan & Infrastructure Roadmap
- Workforce Development Plan

As always, RPU will balance prudent financial decisions and capture opportunities for growth, while putting the customer's needs first.

As water and energy flow through our lives, we recognize that together they are the foundation for any thriving city. It is our responsibility to the customers who own Riverside Public Utilities to deliver these precious assets to the community every day. We aim to provide the highest quality water and electric services, at the lowest rates to benefit Riverside. In fact, strong reliability, responsible financial management, affordable rates, and the benefits of local control are the hallmarks of our 120-year history. We are owned by the people we serve, not stockholders. The officials our owners voted into office continue to use foresight that consistently places us among the country's top public utililties.

Riverside is now California's 12th largest city. The community, along with the rest of Southern California after World War II, experienced unprecedented growth up through the millennium. As the baby boomer generation that spurred this growth has started to age, so has our water and energy delivery infrastructure. There will be many challenges ahead. We are embarking upon a new era driven by industry changes, the need for accelerated infrastructure improvement, and the fourth year of record drought. These challenges have sparked a year of extensive planning. The result has put us upon a clear path to build an even better and more resilient Riverside Public Utilities over the next ten years.

FISCAL MESSAGE

Our solid fiscal foundation will provide us with the level of investment required to move forward. We are poised to succeed and increase our value to the community by being prepared to embrace the technology-driven changes to the Utility industry. We have also set forth plans to secure our future water supply by investment in innovative ways to capture and secure our supply. The highest possible financial ratings for both water and energy utilities, along with healthy reserves, will ensure that we engage in accelerated infrastructure replacement and technological advancements while continuing to meet our future customer-owners' expectations as well as our service commitments. As always, Riverside Public Utilities will balance prudent financial decisions and capture opportunities for growth, while putting the customer's needs first.

Laura M Chavez-Nomura

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

Electric

$2.28
BILLION SYSTEM VALUE

Electric: Independent Auditor's Report

MGO Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's 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 fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2015 and 2014, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660

Emphasis of Matter – Financial Statement Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal 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.

Emphasis of Matter – Implementation of Accounting Standards

As discussed in Notes 1 and 11 to the financial statements, effective July 1, 2014, the Electric Utility adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 information, such as the mission statement, fiscal message, and supplementary Electric Utility information are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

Newport Beach, California
November 9, 2015

109,000

METERED ELECTRIC CUSTOMERS

Electric: Management's Discussion and Analysis

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2014-15 financial report for the periods ended June 30, 2015 and 2014 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 36 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2015, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. The Electric Utility also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. As of July 1, 2014, the Electric Utility restated beginning net position in the amount of $94,958 to record the beginning deferred pension contributions and net pension liability. For more information, refer to the Net Position section below, Note 1 and Note 10 of the accompanying financial statements. The Electric Utility did not restate the financial statements for the fiscal years ended June 30, 2014 and 2013 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented.
- Retail sales, net of uncollectibles/recovery were $ 299,607 and $295,214 for years ended June 30, 2015 and 2014, respectively. The increase in sales was primarily due to warmer weather patterns during the fall season as compared to prior year.
- In the current fiscal year, the Electric Utility received a reaffirmation of its 'AA-' long term credit rating. This rating is a result of strong liquidity position, stable financial performance, the City's improving economy and an evolving power resources portfolio which is well positioned to meet California's increasing environmental regulations. For additional information refer to the Credit Ratings section below.

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 41 to 75 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2015	2014	2013
Current and other assets	$ 489,995	$ 517,061	$ 537,570
Capital assets	702,409	691,416	679,047
Deferred outflows of resources	42,266	29,288	29,288
Total assets and deferred outflows of resources	1,234,670	1,237,765	1,245,905
Long-term debt outstanding	576,081	593,108	563,203
Other liabilities	239,169	160,682	213,430
Deferred inflows of resources	20,683	-	-
Total liabilities and deferred inflows of resources	835,933	753,790	776,633
Net investment in capital assets	190,271	196,771	201,765
Restricted	37,345	28,690	25,811
Unrestricted	171,121	258,514	241,696
Total net position	$ 398,737	[1] $ 483,975	$ 469,272

[1] As restated July 1, 2014, see Note 11 of the Financial Statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2015 compared to 2014 The Electric Utility's total assets and deferred outflows of resources were $1,234,670 reflecting a decrease of $3,095 (0.3%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net decrease of $27,067.
    - Unrestricted assets decreased by $4,304 primarily due to decreases of $6,629 in the regulatory assets of which $6,106 was related to the recognition of the expense of the replacement power associated with the shutdown of SONGS Units 2 and 3 and $11,450 write-off of the net pension asset as of July 1, 2014, due to the implementation of GASB 68. These decreases were offset by an increase of $16,496 in cash and cash equivalents due to positive operating results.
    - Restricted assets decreased by $22,763 primarily due a decrease of $31,663 in cash and investments at fiscal agent from the use of bond proceeds to fund capital projects such as substation upgrades, transmission system and technology upgrades. This decrease is offset by an increase of $6,832 in cash and cash equivalents primarily due to regulatory transactions and debt service requirements.
- Capital assets increased by $10,993, primarily due to technology upgrades used to improve service to the Electric Utility's customers, additions and improvements to the Electric system to serve customers, and continued improvements to the Electric Utility's distribution infrastructure system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- Deferred outflows of resources increased by $12,978 primarily due to an increase of $11,541 related to pension contributions made in the current year subsequent to the measurement date of the net pension liability, in accordance with GASB 71.

2014 compared to 2013 Total assets and deferred outflows of resources were $1,237,765, a net decrease of $8,140 (0.7%). Unrestricted assets increased by $11,910 due to increases of $13,106 in cash and cash equivalents from positive operating results and $3,515 in unamortized purchased power which is the prepayment of power supply costs related to the Salton Sea power purchase agreement and Hoover Uprating Project. These increases were offset by a decrease of $3,317 in accounts receivable and prepaid expenses. Restricted assets decreased by $32,419 due to the use of bond proceeds to fund capital projects such as substation upgrades, transmission system improvements and technology upgrades to improve service to the Electric Utility's customers. Capital assets increased by $12,369, due to technology upgrades used to improve service to the

Electric Utility's customers, additions and improvements to the Electric system to serve customers, and continued improvements to the Electric Utility's distribution system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2015 compared to 2014 The Electric Utility's total liabilities were $835,933, an increase of $82,143 (10.9%), due to the following:

- Long-term debt outstanding decreased by $17,027 primarily due to the principal payments of 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 $78,487 primarily due to the increase in net pension liability of $71,773 related to implementation of GASB 68 and an increase of $4,705 in accounts payable and other accruals, primarily due to an increase in SONGS decommissioning activity.
- Deferred inflows of resources increased by $20,683 due to the implementation of GASB 68. This deferred inflow represents the change in expected versus actual earnings on pension plan assets as determined by the plan actuary and are to be recognized over the next four years.

2014 compared to 2013 Total liabilities were $753,790, a decrease of $22,843 (2.9%). Long-term debt outstanding increased by $29,905 due to the issuance of the 2013 Electric Revenue Refunding Bonds (2013 Bonds), offset by related partial refunding of variable rate bonds and principal payments of revenue bonds, as well as the amortization of bond premiums. Other liabilities decreased by $52,748 due to the prepayment of the $42,661 loan payable for the acquisition of Clearwater power plant from proceeds of the 2013 Bonds, a reduction of $1,621 in negative fair value of the Electric Utility's derivative instruments, a decrease of $5,765 in current portion of long-term obligations, and a decrease of $1,662 in accounts payable and other accruals.

NET POSITION

2015 compared to 2014 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 $398,737, a decrease of $85,238 (17.6%) which is primarily attributed to the prior period adjustment of $94,958 as part of the implementation of GASB 68. Additional information can be found in Note 11 of the Financial Statements. The following represents the changes in components of Net Position:

- A portion of the Electric Utility's total net position, $190,271 (47.7%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion decreased by $6,500 primarily due to depreciation expense for the fiscal year offset by an increase in capital assets constructed or purchased during the year, net of related debt. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled $37,345 (9.4%), an increase of $8,655, 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 $171,121 (42.9%) a decrease of $87,393 (33.8%) from prior year, primarily attributable to the prior period adjustment of $94,958 to record the net pension liability as part of the implementation of GASB 68 and 71. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

2014 compared to 2013 The Electric Utility's net position, increased by $14,703 (3.1%), to a total of $483,975. Net investment in capital assets decreased by $4,994 due to depreciation expense for the fiscal year offset by an increase in capital assets constructed or purchased during the year, net of related debt. Restricted net position increased by $2,879 and the unrestricted portion increased by $16,818 primarily attributable to positive operating results.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF CHANGES IN POSITION

	2015	2014	2013
Revenues:			
Retail sales, net	$ 299,607	$ 295,214	$ 300,238
Wholesale sales	60	115	638
Transmission revenues	30,587	32,630	32,688
Investment income	3,821	6,041	3,060
Other revenues	12,030	10,649	8,590
Public Benefit Programs	8,699	8,577	8,924
Capital contributions	2,590	4,008	4,980
Total revenues	357,394	357,234	359,118
Expenses:			
Production and purchased power	145,312	138,822	131,461
Transmission	53,356	51,939	45,957
Distribution	49,319	50,374	49,579
Public Benefit Programs	6,870	7,933	7,868
Depreciation	29,328	27,260	28,728
Interest expenses and fiscal charges	25,311	27,499	27,623
Total expenses	309,496	303,827	291,216
Transfers to the City's general fund	(38,178)	(38,704)	(37,186)
Extraordinary item	-	-	(41,259)
Changes in net position	9,720	14,703	(10,543)
Net position, July 1, as previously reported	483,975	469,272	479,815
Less: Cumulative effect of change in accounting principle	(94,958)	-	-
Net position, beginning of year, as restated	389,017	469,272	479,815
Net position, June 30	$ 398,737	$ 483,975	$ 469,272


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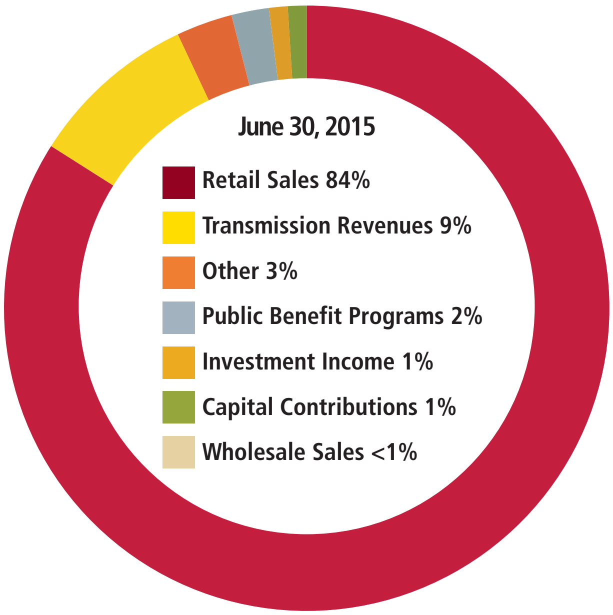
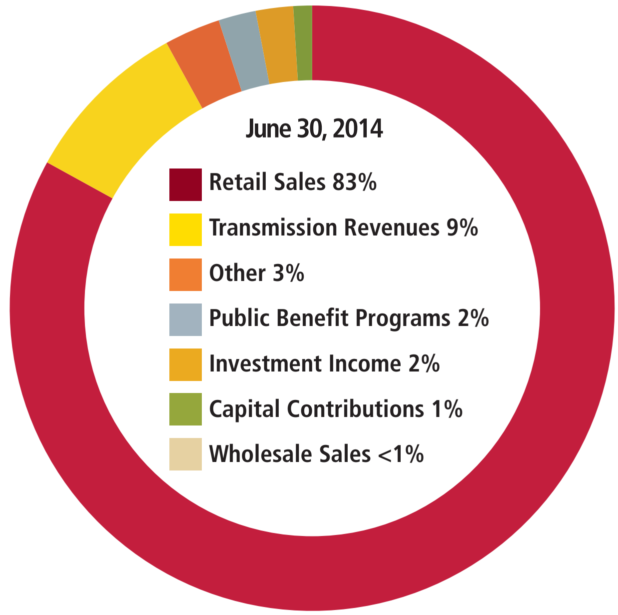
RIVERSIDE
PUBLIC UTILITIES

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES





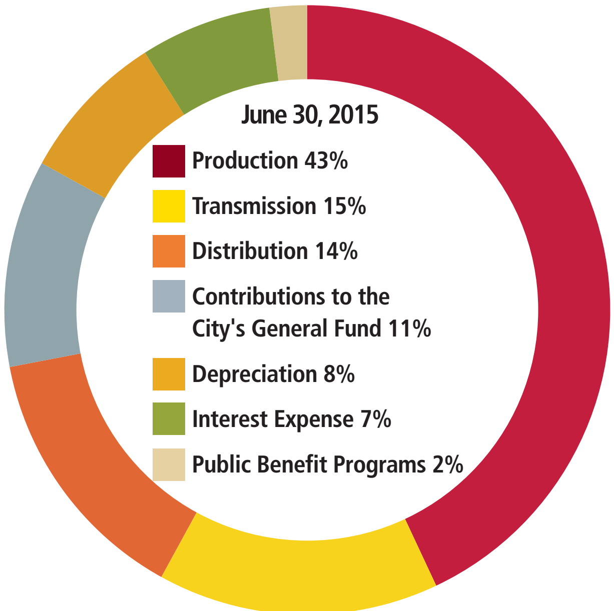
2015 compared to 2014 Total revenues of $357,394 was consistent with prior year.

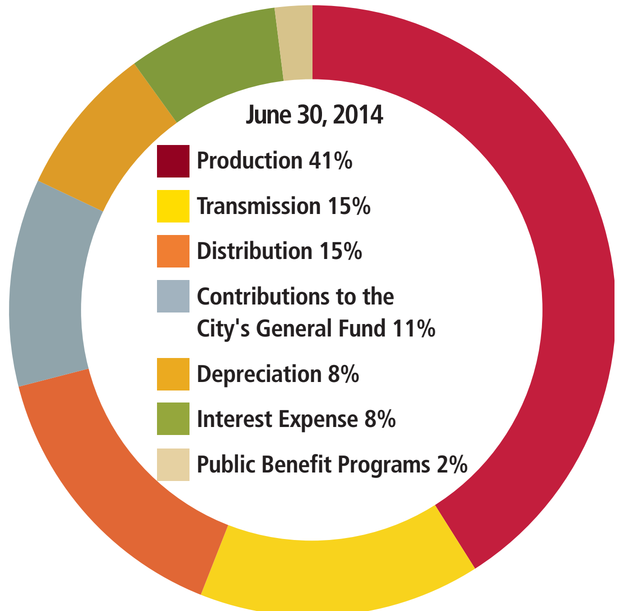
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $299,607, a $4,393 (1.5%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 83.8% of total revenues. The increase was due to a slight increase in retail load as a result of warmer than normal temperature.
- Investment income of $3,821 decreased by $2,220 (36.7%), due to a decrease in the market value of investments and a lower overall interest rate in the current fiscal year.
- Other revenues of $12,030 increased by $1,381 (13%), primarily due to regulatory transactions.
- Capital contributions of $2,590 decreased by $1,418 (35.4%), primarily due to a reduction in capital projects funded by other agencies and developers.

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

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

EXPENSES BY SOURCES





2015 compared to 2014 Total expenses, excluding general fund transfer, were $309,496, an increase of $5,669 (1.9%). The increase was primarily due to the following:

- Production and purchased power expenses of $145,312 increased by $6,490 (4.7%) due to the $6,106 write-off of the regulatory asset related to SONGS replacement power associated with the shutdown of SONGS Units 2 and 3.
- Transmission expenses of $53,356 increased by $1,417 (2.7%), mainly due to slight increases in the transmission access charge from the California Independent System Operator (CAISO).
- Distribution expenses of $49,319 decreased slightly, due to general operating expenses.
- Depreciation expense of $29,328 increased by $2,068 (7.6%), reflecting the completion of significant capital projects and their current year depreciation.

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

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

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 $38,178 and $38,704 for 2015 and 2014, 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:

	2015	2014	2013
Production	$ 205,316	$ 214,211	$ 222,757
Transmission	27,922	27,919	20,950
Distribution	349,980	346,030	329,634
General	37,590	32,583	33,641
Intangibles	13,560	200	229
Land	8,786	8,717	7,683
Intangibles, non-amortizable	10,651	10,651	10,651
Construction in progress	48,604	51,105	53,502
Total capital assets	$ 702,409	$ 691,416	$ 679,047

2015 compared to 2014 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $702,409, an increase of $10,993 (1.6%). The change resulted primarily from the following significant capital projects plus current year depreciation:

- $24,991 in additions and improvements to the Electric system, such as substations, underground conduit and conductors, neighborhood streetlights, and distribution line extensions to serve customers.
- $7,089 in technology upgrades to improve service to the Electric Utility's customers.
- $3,943 for the Riverside Transmission Reliability Project (RTRP) and related reliability improvements on the Electric Utility's Sub-Transmission Project (STP) for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid to serve future retail needs.

2014 compared to 2013 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $691,416, an increase of $12,369 (1.8%). The increase resulted from $21,809 in additions and improvements to the Electric system, $6,710 in technology upgrades, and $8,260 for RTRP and STP.

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

DEBT ADMINISTRATION

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

	2015	2014	2013
Revenue bonds	$ 582,660	$ 597,580	$ 576,430
Unamortized premium	9,231	10,434	7,189
Arbitrage liability	15	14	269
Less: Current portion	(15,825)	(14,920)	(20,685)
Total	$ 576,081	$ 593,108	$ 563,203

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 2.39, 2.16, and 2.73 at June 30, 2015, 2014 and 2013, respectively. This debt is backed by the revenues of the Electric Utility.

2015 compared to 2014 The Electric Utility's long-term debt decreased by $17,027 (2.9%) to $576,081 as a result of principal payments and amortization of bond premiums.

2014 compared to 2013 The Electric Utility's long-term debt increased by $29,905 (5.3%) to $593,108 due to the issuance of the 2013 Electric Revenue Refunding Bonds offset by 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

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

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

In June 2015, Fitch affirmed their "AA-" rating on the Electric Utility's Electric Revenue Series 2008D, 2009A, 2010A, 2010B, 2013 bonds, variable rate Electric Revenue Series 2008A and 2008C bonds. The underlying Fitch credit ratings of the Electric Utility remain "AA-". 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, the City's improving economy 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.

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

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

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

The Electric Utility has completed the RPS Procurement Plan and has received approval from City Council to implement the Plan. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources. To date, the Electric Utility has met the 20% target for the period of 2011-13 and has substantially completed the procurement of eligible renewable resources to meet the stated targets through 2020.

On April 29, 2015 the Governor of California issued Executive Order B-30-15 establishing a Greenhouse Gas (GHG) reduction target of 40% below 1990 levels by 2030. Subsequently, California legislators signed a new bill to further advance the renewable standards to even higher levels than required by SBX1-2. Passed on September 11, 2015, Senate Bill 350 (SB 350) requires renewable energy comprise 50% of total energy generated and sold to retail customers by December 31, 2030 and the Electric Utility is diligently working towards ensuring the new mandates of 50% are met by 2030.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ASSEMBLY BILL (AB) 32 – GLOBAL WARMING SOLUTIONS ACT OF 2006

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

AB 32 tasked the California Air Resources Board (CARB) to develop regulations for GHG which became effective January 1, 2012. Emission compliance obligations under the cap-and-trade regulation began on January 1, 2013. The Cap-and-Trade Program (Program) is implemented in phases with the first phase beginning January 1, 2013 to December 31, 2014. This phase has 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 IOUs and other POUs to affect the final rules and regulations with respect to AB 32 implementation.

The Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB provides 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.

On June 19, 2015 the Board of Public Utilities approved, and attested, the accuracy of the Electric Distribution Utility (EDU) Use of Allowance Form. Section 9582(e) requires EDUs to prepare an annual report to the Executive Officer describing the disposition of any auction proceeds and allowance value received in the prior calendar year. The Electric Utility did not use any allowances in 2014-2015.

SENATE BILL (SB) 1 – CALIFORNIA SOLAR INITIATIVE

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

The City has demonstrated leadership through its commitment to solar generations, with the construction of its first PV project in 2002, having a capacity of 150 kilowatts. The City is also leading in the procurement of local renewable energy, achieving success with the Electric Utility's popular solar energy rebate program for its customers and through the Electric Utility's long-term energy agreements with companies like SunPower, completing a 7.3 MW solar farm located on the City's former Tequesquite Landfill on September 30, 2015. This new solar farm pushed City's total solar generation past the 25 MW mark, five years ahead of the City's scheduled solar generation targets.

With completion of the solar farm project, the City is working towards fulfilling at least some of its distributed generation mandate and is also currently exploring opportunities to build smaller assets throughout its service territory.

REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

SENATE BILL (SB) 1368 – EMISSION PERFORMANCE STANDARD

The state legislature passed SB 1368 in 2006 which mandates that electric utilities are prohibited to make long term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed GHG emission 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 current 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. 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, 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 concluded that the current pricing of all commercially available technology outweighs the benefits that it might provide to our electrical system. The City intends to update this assessment annually, in order to determine if and when any energy storage procurement targets should be set. On March 3, 2015, City Council approved the Ice Bear Pilot program. 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.

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.

In 2015, the Electric Utility played a key role in the City's effort to create and adopt 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 RRG 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 2,800 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 2,800 other businesses in the State of California that have already committed to pursuing greener practices.

Beyond rates, the Electric Utility offers local businesses a number of water and energy conservation incentives that support the bottom line, including its Small Business Direct Installation Program, which has helped more than 5,000 participants save over $1.5 million in utility costs and conserve 9.6 million kilowatt hours (kWh).

Finally, the Electric Utility helps the City save 430,000 kWh each year with its LED streetlight pilot project while the Electric Utility's grant program helps local universities find new ways to advance energy technology and water conservation techniques.

These economic development, 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 businesses.

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: Financial Statements

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MEGAWATTS (PEAK DAY)

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2015 (in thousands)	June 30, 2014
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Notes 3)	$ 702,409	$ 691,416
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	144,686	176,349
Other non-current assets:		
Advances to other funds of the City	5,850	5,800
Net pension asset	-	11,450
Unamortized purchased power (Note 8)	5,047	3,143
Regulatory assets	10,822	17,451
Total other non-current assets	21,719	37,844
Total non-current assets	868,814	905,609
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	227,425	210,929
Accounts receivable, less allowance for doubtful accounts 2015 $809; 2014 $647	34,423	36,680
Advances to other funds of the City	610	914
Accrued interest receivable	885	1,127
Inventory	1,202	1,202
Prepaid expenses	20,831	22,827
Unamortized purchased power (Note 8)	496	372
Total unrestricted current assets	285,872	274,051
Restricted assets:		
Cash and cash equivalents (Note 2)	25,790	18,958
Public Benefit Programs - cash and cash equivalents (Note 2)	10,916	8,920
Public Benefit Programs receivable	936	939
Public Benefit Programs prepaids	76	-
Total restricted current assets	37,718	28,817
Total current assets	323,590	302,868
Total assets	1,192,404	1,208,477
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Contributions (Note 10)	11,541	-
Changes in derivative values	18,788	16,336
Loss on refunding	11,937	12,952
Total deferred outflows of resources	42,266	29,288
Total assets and deferred outflows of resources	$ 1,234,670	$ 1,237,765

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	June 30, 2015	June 30, 2014
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 190,271	$ 196,771
Restricted for:		
Regulatory requirements (Note 5)	7,432	3,150
Debt service (Note 5)	18,358	15,808
Public Benefit Programs	11,555	9,732
Unrestricted	171,121	258,514
Total net position	398,737	483,975
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	576,081	593,108
OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 4)	578	830
Net pension liability (Note 10)	71,773	-
Advances from other funds of the City - pension obligation (Note 4)	10,719	11,284
Nuclear decommissioning liability (Note 4)	67,573	75,299
Postemployment benefits payable (Note 4)	6,617	5,749
Derivative instruments (Note 4)	24,298	22,108
Capital leases payable (Note 4)	1,213	1,566
Total non-current liabilities	182,771	116,836
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable and other accruals	9,020	1,869
Accrued interest payable	5,623	5,770
Public Benefit Programs payable	394	154
Nuclear decommissioning liability (Note 4)	5,714	-
Current portion of long-term obligations (Note 4)	15,825	14,920
Total current liabilities payable from restricted assets	36,576	22,713
CURRENT LIABILITIES:		
Accounts payable and other accruals	14,842	17,289
Customer deposits	4,512	3,844
Unearned revenue	468	-
Total current liabilities	19,822	21,133
Total liabilities	815,250	753,790
DEFERRED INFLOWS OF RESOURCES:		
Net difference between projected and actual earnings on pension plan investments (Note 10)	20,683	-
Total deferred inflows of resources	20,683	-
Total net position, liabilities and deferred inflows of resources	$ 1,234,670	$ 1,237,765

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2015	2014
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 114,112	$ 111,880
Commercial sales	68,572	67,063
Industrial sales	112,283	111,260
Other sales	5,654	5,600
Wholesale sales	60	115
Transmission revenue	30,587	32,630
Other operating revenue	7,654	6,912
Public Benefit Programs	8,699	8,577
Total operating revenues before uncollectibles	347,621	344,037
Estimated uncollectibles, net of bad debt recovery	(1,014)	(589)
Total operating revenues, net of uncollectibles	346,607	343,448
OPERATING EXPENSES:		
Production and purchased power	145,312	138,822
Transmission	53,356	51,939
Distribution	49,319	50,374
Public Benefit Programs	6,870	7,933
Depreciation	29,328	27,260
Total operating expenses	284,185	276,328
Operating income	62,422	67,120
NON-OPERATING REVENUES (EXPENSES):		
Investment income	3,821	6,041
Interest expense and fiscal charges	(25,311)	(27,499)
Gain on sale of assets	343	293
Other	4,033	3,444
Total non-operating revenues (expenses)	(17,114)	(17,721)
Income before capital contributions and transfers out	45,308	49,399
Capital contributions	2,590	4,008
Transfers out - contributions to the City's general fund	(38,178)	(38,704)
Total capital contributions and transfers out	(35,588)	(34,696)
Increase in net position	9,720	14,703
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	483,975	469,272
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(94,958)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	389,017	469,272
NET POSITION, END OF YEAR	$ 398,737	$ 483,975

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2015 (in thousands)	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 349,091	$ 348,296
Cash paid to suppliers and employees	(247,170)	(255,926)
Other receipts	4,033	3,444
Net cash provided by operating activities	105,954	95,814
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(38,178)	(38,704)
Payment on advances from other funds of the City - pension obligation	(565)	(497)
Cash received on advances to other funds of the City	303	793
Net cash used by non-capital financing activities	(38,440)	(38,408)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(37,987)	(36,349)
Proceeds from the sale of utility plant	343	457
Proceeds from revenue bonds, for payment of interest	-	2,315
Principal paid on long-term obligations	(15,632)	(21,827)
Interest paid on long-term obligations	(27,101)	(29,400)
Capital contributions	2,509	2,774
Bond issuance costs	-	(454)
Net cash used by capital and related financing activities	(77,868)	(82,484)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	2,808	5,301
Income from investments	4,015	5,748
Net cash provided by investing activities	6,823	11,049
Net decrease in cash and cash equivalents	(3,531)	(14,029)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $110,127 and $137,262 at June 30, 2014 and June 30, 2013, respectively, reported in restricted accounts)**	321,056	335,085
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $90,100 and $110,127 at June 30, 2015 and June 30, 2014, respectively, reported in restricted accounts)**	$ 317,525	$ 321,056
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 62,422	$ 67,120
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	29,328	27,260
Decrease in deferred outflows related to pension	20	-
Decrease in deferred inflows related to pension	(5,171)	-
Increase in net pension liability	2,558	-
Amortization of net pension asset	-	504
Increase (decrease) in allowance for uncollectible accounts	162	(127)
Decrease in accounts receivable	1,652	4,501
Increase in inventory	-	(695)
Decrease (increase) in prepaid expenses	1,996	(958)
Increase in unamortized purchased power	(2,028)	(3,515)
Decrease in regulatory assets	6,106	-
Increase (decrease) in accounts payable and other accruals	4,897	(1,725)
(Decrease) increase in compensated absences	(252)	68
Increase in postemployment benefits payable	868	821
Increase (decrease) in Public Benefit Programs	240	(489)
Increase in unearned revenue	468	-
Increase in customer deposits	667	473
Decrease in decommissioning liability	(2,012)	(868)
Other receipts	4,033	3,444
Net cash provided by operating activities	$ 105,954	$ 95,814
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	451	1,118
Borrowing under capital lease	166	408
Decrease in fair value of investments	(1,067)	(80)
Proceeds of refunding debt placed into an irrevocable trust:		
Defeasance of bonds	-	37,575
Payment of loan payable	-	42,661

See accompanying notes to the financial statements

Electric: Notes to the Financial Statements

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. Effective July 1, 2012, the Electric Utility adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments issued on or before November 30, 1989 so that they derive from a single source. The accounting records of the 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.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2014, the accompanying financial statements reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

Effective July 1, 2014, the accompanying financial statements reflect the implementation of GASB Statement No. 71, *Pension Transitions for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. These Statements result in the recognition of the net position liability, related deferred inflows and outflows of resources, and the elimination of the net pension asset as of July 1, 2014, for further details on the prior period adjustment refer to Note 11.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $15,468 at June 30, 2015, and $15,128 at June 30, 2014.

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.

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

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

RESTRICTED ASSETS

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

In January 1998, the 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. 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 the provisions of the GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

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

City-wide information concerning cash and investments as of June 30, 2015, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the 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 Station (SONGS).

INTERNALLY RESTRICTED CASH RESERVES

The Electric Utility has several cash reserves established for strategic purposes, all of which are considered internally restricted assets. The balances as of June 30, 2015 and 2014 respectively are as follows: Regulatory Risk Reserve $15,000 and $15,000, Energy Risk Management Reserve $30,000 and $30,000, Operating Reserve $143,031 and $131,031, and Decommissioning Reserve $3,337 and $1,725, for a combined total of $191,368 and $177,756 and are 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, 2015 and 2014 are $6,460 and $6,714, 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $79,744 and $77,897 in cash investments with the trustee and $3,337 and $1,725 in an internally restricted decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2015 and 2014, respectively, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. With the recent retirement of SONGS Units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively decided to continue to set aside $1,581 per year in an internally restricted 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 fifteen capital lease agreements as a lessee for financing fifteen compressed natural gas heavy duty service trucks. All leases have seven year terms of monthly payments with interest rates ranging from 2.50% to 5.87%. The total gross value of all leases is $4,965 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2015 and 2014, the total liability was $1,720 and $2,266, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases are $543 in fiscal year ended June 30, 2016, $322 annually through fiscal year ended June 30, 2019, and $309 in the fiscal year ended June 30, 2020. Total outstanding lease payments are $1,819, with $1,720 representing the present value of the net minimum lease payments and $99 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, 2015 and 2014 was $4,512 and $3,844, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2015 and 2014. 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 $4,957 at June 30, 2015 and $4,442 at June 30, 2014.

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.

Our Power Supply is secure and poised to comply with California Senate Bill 350. We will replace our dependence on coal-fired power with renewable power contracts that reach 50% by 2030. This will ensure reliable, clean power transmission for the future environmental stewardship of Riverside.

50%

RENEWABLES BY 2030

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WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2015, may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2015 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 $609 and $786 for the years ended June 30, 2015 and 2014, 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.

PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Electric Utility's proportional share of the outstanding principal amount of the bonds was $10,719 and $11,284 as of June 30, 2015 and 2014, 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. As of June 30, 2014 the net pension asset was $11,450. With the implementation of GASB 68, the pension asset was written-off as part of the prior period adjustment to recognize the net pension liability as of July 1, 2014 (see Note 11). 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 "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2015.

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) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2015 and 2014 was $6,617 and $5,749, 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, 2015 can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Deferred outflows of resources consist of pension contributions made subsequent to the measurement date, differences between actual and expected experience, changes in derivative values, and loss on refunding.

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 the recognized differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS

In accordance with GASB 62, enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets relating to debt issuance costs and replacement power costs have been recorded by the Electric Utility. See Note 7 for further discussion of SONGS replacement power costs.

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) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the 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, 2015 and 2014, $38,178 and $38,704, respectively was transferred representing 11.5 percent.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

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

BUDGET AND BUDGETARY ACCOUNTING

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2015 and 2014, consist of the following (in thousands):

	June 30, 2015	June 30, 2014
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 264,131	$ 238,807
Cash and investments at fiscal agent	144,686	176,349
Total cash and investments	$ 408,817	$ 415,156

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

	June 30, 2015	June 30, 2014
Unrestricted cash and cash equivalents	$ 227,425	$ 210,929
Restricted cash and cash equivalents	36,706	27,878
Restricted cash and investments at fiscal agent	144,686	176,349
Total cash and investments	$ 408,817	$ 415,156

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.

Cash and investments distribution by maturities as of June 30, 2015 and 2014, are as follows:

		Remaining Maturity (In Months)			
Investment Type	June 30, 2015 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	$ 7,752	$ 7,752	$ -	$ -	$ -
Federal agency securities	52,525	8,846	30,181	13,498	-
Investment contracts [1]	64,155	53,394	-	-	10,761
Corp medium term notes	20,254	2,017	14,237	4,000	-
City Treasurer's investment pool [2]					
Money market funds	15,278	15,278	-	-	-
Federal agency securities	20,849	6,515	8,212	6,122	-
US Treasury notes/bonds	131,871	7,324	59,227	65,320	-
Corp medium term notes	31,237	10,582	10,512	10,143	-
State investment pool	55,381	55,381	-	-	-
Negotiable certificate of deposit	9,515	3,711	3,180	2,624	-
Total	$ 408,817	$ 170,800	$ 125,549	$ 101,707	$ 10,761

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2015 and 2014 for each investment type:

Investment Type	June 30, 2015 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 7,752	$ 6,045	$ -	$ 1,663	$ 44
Federal agency securities	52,525	52,525	-	-	-
Investment contracts [1]	64,155	-	-	-	64,155
Corp medium term notes	20,254	-	2,017	18,237	-
City Treasurer's investment pool [2]					
Money market funds	15,278	591	720	13,967	-
Federal agency securities	20,849	20,849	-	-	-
US Treasury notes/bonds	131,871	131,871	-	-	-
Corp medium term notes	31,237	-	31,237	-	-
State investment pool	55,381	-	-	-	55,381
Neg certificate of deposit	9,515	-	-	-	9,515
Total	$ 408,817	$ 211,881	$ 33,974	$ 33,867	$ 129,095

Investment Type	June 30, 2014 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 5,462	$ 5,420	$ -	$ -	$ 42
Federal agency securities	53,165	53,165	-	-	-
Investment contracts [1]	97,040	-	-	-	97,040
Corp medium term notes	20,682	-	10,338	10,344	-
City Treasurer's investment pool [2]					
Money market funds	4,512	648	787	3,077	-
Federal agency securities	48,608	48,608	-	-	-
US Treasury notes/bonds	84,377	84,377	-	-	-
Corp medium term notes	33,275	-	27,014	6,261	-
State investment pool	60,633	-	-	-	60,633
Neg certificate of deposit	7,402	-	-	-	7,402
Total	$ 415,156	$ 192,218	$ 38,139	$ 19,682	$ 165,117

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

[2] Additional information on investment types and credit risk may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

NOTE 3. ELECTRIC UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2015 and 2014 (in thousands):

	Balance As of 6/30/2013	Additions	Retirements/ Transfers	Balance As of 6/30/2014	Additions	Retirements/ Transfers	Balance As of 6/30/2015
Production	$ 266,791	$ 361	$ -	$ 267,152	$ 45	$ -	$ 267,197
Transmission	35,176	7,787	-	42,963	1,025	(32)	43,956
Distribution	514,336	30,469	(3,424)	541,381	18,787	(1,732)	558,436
General	58,827	2,363	(590)	60,600	9,407	(193)	69,814
Intangibles	292	33	-	325	13,539	-	13,864
Depreciable utility plant	875,422	41,013	(4,014)	912,421	42,803	(1,957)	953,267
Less accumulated depreciation:							
Production	(44,034)	(8,907)	-	(52,941)	(8,940)	-	(61,881)
Transmission	(14,226)	(818)	-	(15,044)	(990)	-	(16,034)
Distribution	(184,702)	(14,073)	3,424	(195,351)	(14,819)	1,714	(208,456)
General	(25,186)	(3,400)	569	(28,017)	(4,400)	193	(32,224)
Intangibles	(63)	(62)	-	(125)	(179)	-	(304)
Accumulated depreciation	(268,211)	(27,260)	3,993	(291,478)	(29,328)	1,907	(318,899)
Net depreciable utility plant	607,211	13,753	(21)	620,943	13,475	(50)	634,368
Land	7,683	1,034	-	8,717	69	-	8,786
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	53,502	37,778	(40,175)	51,105	38,638	(41,139)	48,604
Nondepreciable utility plant	71,836	38,812	(40,175)	70,473	38,707	(41,139)	68,041
Total utility plant	$ 679,047	$ 52,565	$ (40,196)	$ 691,416	$ 52,182	$ (41,189)	$ 702,409

NOTE 4. LONG-TERM OBLIGATIONS

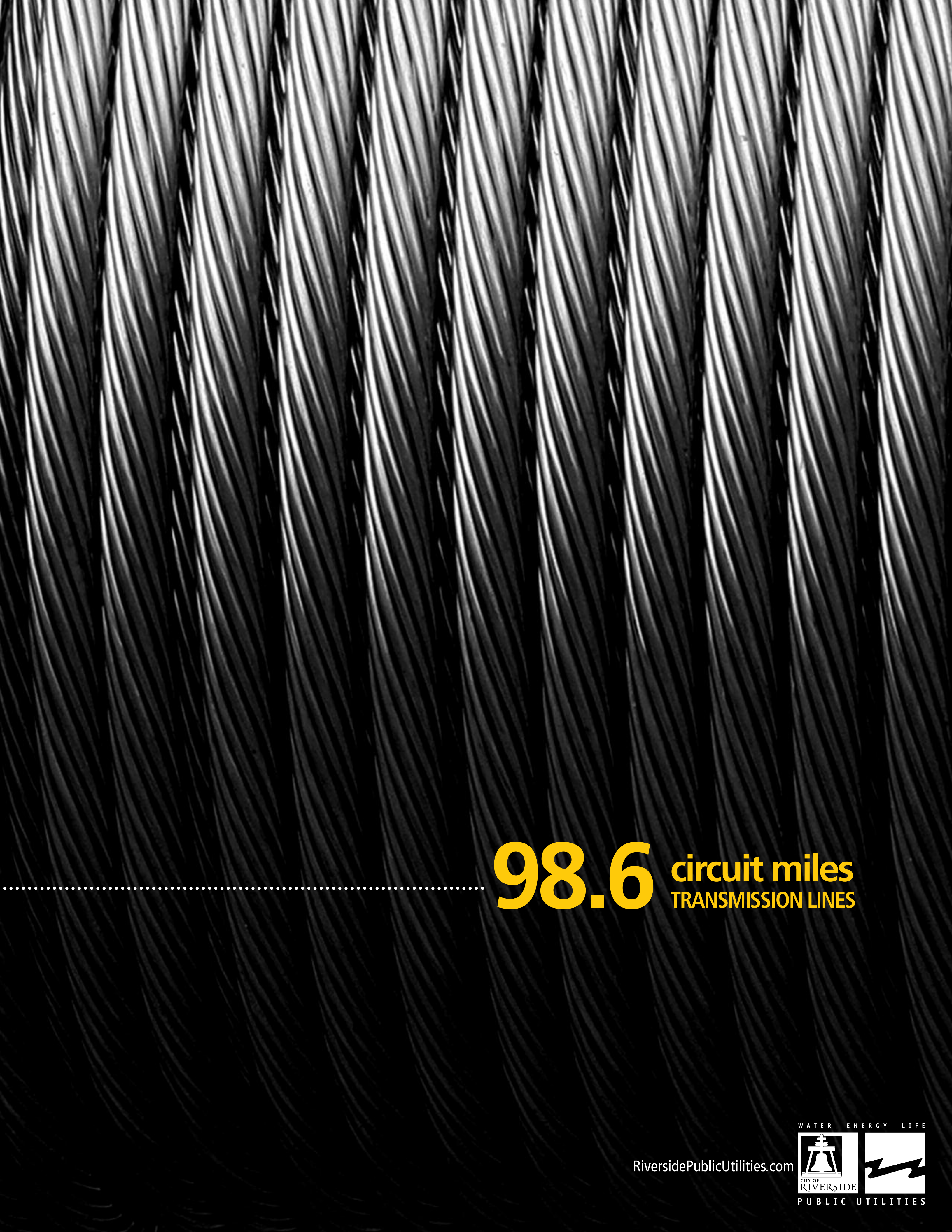
The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2015 and 2014 (in thousands):

	Balance As of 6/30/2013	Additions	Reductions	Balance As of 6/30/2014	Additions	Reductions	Balance As of 6/30/2015	Due Within One Year
Revenue bonds	$ 583,619	$ 84,841	$ (60,446)	$ 608,014	$ -	$ (16,123)	$ 591,891	$ 15,825
Arbitrage liability	269	-	(255)	14	1	-	15	-
Advances from other funds of the City-pension obligation	11,781	-	(497)	11,284	-	(565)	10,719	-
Postemployment benefits payable	4,928	821	-	5,749	868	-	6,617	-
Nuclear decommissioning liability	76,167	3,455	(4,323)	75,299	3,459	(5,471)	73,287	5,714
Capital leases	2,550	408	(692)	2,266	166	(712)	1,720	507
Loan payable	42,661	-	(42,661)	-	-	-	-	-
Compensated absences	4,359	3,629	(3,545)	4,443	4,439	(3,925)	4,957	4,379
Total long-term obligations	$ 726,334	$ 93,154	$ (112,419)	$ 707,069	$ 8,933	$ (26,796)	$ 689,206	$ 26,425

LOAN PAYABLE

The Electric Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of the Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 megawatts (MW). Following a "transition period" during which the Electric Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010


1,328 circuit miles
DISTRIBUTION LINES


98.6 circuit miles
TRANSMISSION LINES
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NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

and the Electric Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the Southern California Edison's (SCE) electrical distribution system to California's high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater was $45,569, and the related outstanding obligation of $42,661 as of June 30, 2013, was prepaid with a portion of the proceeds of the 2013 Electric Revenue Refunding Bonds issued on July 25, 2013.

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

REVENUE BONDS PAYABLE

	June 30, 2015	June 30, 2014
$27,500 2004 Electric Revenue Series A Bonds: serial bonds due in a final principal installment of $2,645 on October 1, 2014, interest of 5.0 percent	-	2,645
$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, 2015 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, 2015 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, from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent	209,740	209,740
$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $1,150 to $3,140 through October 1, 2018, interest from 4.0 to 5.0 percent	6,780	13,815
$140,380 2010 Electric Revenue Bonds:		
A - **$133,290 2010 Electric Revenue Series A Bonds:** fixed rate, federally taxable Build America Bonds due in annual principal installments from $2,300 to $33,725, from October 1, 2020 through October 1, 2040, interest from 3.9 to 4.9 percent	133,290	133,290
B - **$7,090 2010 Electric Revenue Series B Bonds:** fixed rate bonds due in annual principal installments from $95 to $2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 to 5.0 percent	7,090	7,090
$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from $725 to $5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2015 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 $12,685 through October 1, 2043, interest from 3.0 to 5.3 percent	71,320	76,560
Total electric revenue bonds payable	582,660	597,580
Unamortized bond premium	9,231	10,434
Total electric revenue bonds payable, including bond premium	591,891	608,014
Less current portion of revenue bonds payable	(15,825)	(14,920)
Total long-term electric revenue bonds payable	$ 576,066	$ 593,094

Revenue bonds annual debt service requirements to maturity as of June 30, 2015 are as follows (in thousands):

	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	2036-2040	2041-2045	Total
Principal	$ 15,825	$ 13,320	$ 13,795	$ 14,445	$ 14,995	$ 83,570	$ 101,790	$ 125,315	$ 156,110	$ 43,495	$ 582,660
Interest	$ 25,770	$ 25,114	$ 24,530	$ 23,887	$ 23,317	$ 107,300	$ 87,427	$ 62,865	$ 30,756	$ 1,841	$ 412,807
Total	$ 41,595	$ 38,434	$ 38,325	$ 38,332	$ 38,312	$ 190,870	$ 189,217	$ 188,180	$ 186,866	$ 45,336	$ 995,467

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 2.39 and 2.16 at June 30, 2015 and 2014, respectively. This debt (revenue bonds) is backed by the revenues of the Electric Utility.

2013 ELECTRIC REVENUE REFUNDING BONDS

On July 25, 2013, $79,080, including premium, of 2013 Electric Revenue Refunding Series A Bonds and $780 of Taxable Electric Revenue Series B Bonds were sold with an all-in true interest cost of 4.5%. The bond proceeds were deposited in escrow accounts to: prepay the outstanding obligation of $42,661 to the City of Corona related to the Clearwater Power Plant; refund $13,975 of the 2008 Electric Refunding/Revenue Series A Bonds, $11,775 of the 2008 Electric Refunding/Revenue Series C Bonds, and $11,825 of the 2011 Electric Revenue Series A Bonds; and to pay a portion of the termination cost associated with the interest rate swaps allocated or related to the refunded portions of the applicable bonds. This cost has been recorded on the Statements of Net Position as a deferred outflow of resources and will be amortized over the term of the new bonds. This refunding resulted in an increase in debt service payments of $10,962 over the next 30 years and an economic gain of $2,961. Interest on the 2013 Series A bonds is payable semi-annually on April 1 and October 1, commencing October 1, 2013. Principal is due in annual installments from $795 to $12,685 through October 1, 2043. The rate of interest varies from 3.0% to 5.3% per annum. 2013 Series B bonds, with an interest rate of 0.5%, were due and paid in one installment of $780 on October 1, 2013.

LETTERS OF CREDIT

The 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	2017	0.275%
2008 Electric Refunding/Revenue Bonds Series C	Bank of America, N.A.	2017	0.390%

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

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

The various indentures allow the 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

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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, 2015 is as follows:

	Notional Amount	Fair Value as of 6/30/2015	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 68,525	$ (9,097)	$ (252)
2008 Electric Refunding/Revenue Bonds Series C	$ 41,975	$ (7,614)	$ (969)
2011 Electric Refunding/Revenue Bonds Series A	$ 41,925	$ (7,587)	$ (969)

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% 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, 2015, rates were as follows:

Interest rate swap:	Terms	2008 Electric Refunding/Revenue Series A Bonds Rates	2008 Electric Refunding/Revenue Series C Bonds Rates	2011 Electric Refunding/Revenue Series A Bonds Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.39628%)	(0.39734%)	(0.24340%)
Net interest rate swap payments		2.71472%	2.80666%	2.95760%
Variable-rate bond coupon payments		0.30624%	0.30460%	0.12133%
Synthetic interest on bonds		3.02096%	3.11126%	3.07893%

Fair value: As of June 30, 2015, in connection with all swap agreements, the transactions had a total negative fair value of ($24,298). 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, 2015, 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 A- respectively by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2015, 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, 2015, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2016	$ -	$ 418	$ 4,734	$ 5,152
2017	-	418	4,734	5,152
2018	-	418	4,734	5,152
2019	6,375	405	4,593	11,373
2020	8,300	382	4,360	13,042
2021-2025	41,000	1,547	17,981	60,528
2026-2030	41,690	961	12,230	54,881
2031-2035	46,700	372	5,275	52,347
2036-2040	10,375	6	86	10,467
Total	$ 154,440	$ 4,927	$ 58,727	$ 218,094

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% 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


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consists of one representative from each of the members. During the 2014-15 and 2013-14 fiscal years, the Electric Utility paid approximately $20,242 and $17,440, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.

POWER AGENCY OF CALIFORNIA

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

NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS

The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County; however, on June 7, 2013, SCE announced, in a press release, its plan to retire Units 2 and 3 of SONGS permanently. Consequently, the units are no longer a source of supply for the 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).

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

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

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

In 2005, the California Public Utilities Commission (CPUC) authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. The 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.

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

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

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

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

Nuclear Decommissioning. As a result of SCE's decision to permanently retire SONGS Units 2 and 3, SCE has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations. The regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by SCE to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the announcement of retirement, SCE, as the operating licensee must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate (DCE). SCE submitted these regulatory filings to the NRC in September 2014. As of August 2015, the NRC concluded their regulatory review process and accepted the regulatory filings without revision. SCE has now obtained the required regulatory approvals from the NRC to begin the decommissioning process. According to the DCE document, 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, 2015, the Electric Utility has set aside $79,744 in cash investments with the trustee and $3,337 in an internally restricted 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. The Electric Utility is in the process of submitting the necessary documents to the trustee in accordance with the trust agreement to allow for the withdrawal of decommissioning trust funds to pay for the decommissioning costs as incurred.

The Electric Utility's decommissioning liability is equivalent to the total funds accumulated less $5,471 and $4,323 in decommissioning costs incurred for the fiscal years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, decommissioning liability balance was $73,287 and $75,299, respectively, with a portion reflected as current liabilities payable from restricted assets for fiscal year June 30, 2015.

Replacement Power Costs. During the outage, the Electric Utility had 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 $13,200 and were reflected as regulatory assets on the Statements of Net Position. During fiscal years June 30, 2014 and 2015, the Electric Utility paid for its share of ongoing operating costs and replacement power related to SONGS from current rate revenue. Additionally, in the current year, $6,106 of the regulatory asset was expensed as current rate 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 will 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 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 outage issued by Nuclear Electric Insurance Limited (NEIL), and SCE has notified NEIL of claims under the two policies. The City is a named insured on the SCE insurance policies covering SONGS and will assist SCE in pursuing claims recoveries from NEIL, but there is no assurance that the Electric Utility will recover all or any of its applicable costs under these arrangements. To the extent that any third-party recoveries are made, they will reduce cost to the Electric Utility. For updated information, see subsequent event disclosed at Note 12.

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and initiated a 90-day dispute resolution process under the purchase agreement. Such arbitration will be conducted before the International Court of Arbitration (the ICC). On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court. On July 24, 2013, MHI moved the lawsuit to the United States District Court for the Southern District of California, and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and SCE arising from the contract for the purchase and sale of the steam generators. In October 2013, after a prescribed 90-day waiting period from the service of an earlier notice of dispute, SCE initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against SCE. On March 14, 2014, the Federal District court granted MHI's motion to stay the City's proceeding, but ordered that the City participate in the SCE/MHI arbitration. SCE, SDGE, the City and MHI have all stipulated that the City and SDGE shall participate in the SCE/MHI arbitration before the ICC. The SCE/MHI arbitration is scheduled to commence In March of 2016 and is estimated to last six weeks.

As a result of the decision by SCE to permanently retire Units 2 and 3 of SONGS prior to the expiration of the NRC licenses, the Electric Utility expects to incur certain costs resulting from the early termination of long-term uranium fuel supply contracts. The Electric Utility is in the process of calculating those damages in preparation for the SCE/MHI arbitration and will seek recovery of all such damages in that venue.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

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 36 (SB 36) 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 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 terms of the agreement state the existing IPP generating plant will be retired and decommissioned upon commercial operation of the Repower Project. There are 36 participants in the IPP, and the Renewal Project requires unanimous approval of all 36 participants to proceed. The Renewal Power

NOTE 8. COMMITMENTS (CONTINUED)

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 the Repower Project for up to 5 percent of the Repower Project or approximately 60 MW. 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	5.4 percent	12.3 MW	2017	2030
Southern Transmission System	10.2 percent	244.0 MW	2027	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

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 Projects. The remaining projects have fixed interest rates which range from 0.20 percent to 6.13 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
2016	$ 16,505	$ 672	$ 8,128	$ 701	$ 269	$ 3,014	$ 29,289
2017	11,647	675	8,241	700	262	2,952	24,477
2018	16,972	679	8,077	699	258	2,910	29,595
2019	18,600	-	7,984	-	257	2,882	29,723
2020	18,095	-	7,001	-	254	2,859	28,209
2021-2025	37,315	-	36,655	-	189	2,136	76,295
2026-2030	-	-	9,799	-	-	-	9,799
Total	$ 119,134	$ 2,026	$ 85,885	$ 2,100	$ 1,489	$ 16,753	$ 227,387

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, 2015 and 2014, 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
2015	$ 23,426	$ 2,628	$ 2,731	$ 113	$ 145	$ 285	$ 29,328
2014	$ 24,466	$ 2,416	$ 3,296	$ 104	$ 50	$ 312	$ 30,644

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

HOOVER UPRATING PROJECT

In December 2011, the Hoover Power Allocation Act (the Hoover Act) was enacted into law. It provides for the extension of the existing Hoover contract for an additional 50 years from 2017 to 2067. The legislation required current Hoover Dam contractors to relinquish five percent of their for potential new Hoover contractors. The impact to the Electric Utility is a reduction of about 1.5 MW in capacity and associated energy. Under the Hoover Act, the new Hoover contractors would be required to pay their proportionate share of the cost associated with the Lower Colorado River Multi-Species Conservation Program and Uprating Program. Any capacity and energy not contracted for by new Hoover contractors will be reallocated to the existing contractors along with any refunds due associated with the Multi-Species Conservation Program. The Electric Utility is in discussions with Hoover contractors and is anticipating to seek approval of a new contract in late 2016.

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, 2015 and 2014, unamortized purchased power was $1,115 and $1,487, respectively, with amortization of $372 and $0, respectively.

POWER PURCHASE AGREEMENTS

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

NOTE 8. COMMITMENTS (CONTINUED)

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($375 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective March 13, 2015, the Act limits liability from third-party claims to approximately $13.0 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% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the 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% mandates from 2011-2013, and is expected to meet future mandates with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan. For calendar year 2014, renewable resources provided 18% 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% to 50% by December 31, 2030. SB 350 is expected to be signed by the Governor. 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 PPAs with various entities described below on a "take-and-pay" basis. The contracts in the following tables were executed as part of compliance with this standard.

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

Supplier	Type	Maximum Contract [1]	Contract Expiration	Estimated Annual Cost For 2016
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 26,709
Wintec	Wind	1.3 MW	12/30/2018	208
WKN Wagner	Wind	6.0 MW	12/22/2032	1,032
AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,063
Dominion Columbia II	Photovoltaic	11.1 MW	12/31/2034	2,320
Cabazon Wind	Wind	39.0 MW	1/1/2025	4,311
Total		123.4 MW		$ 38,643

Long-term renewable PPAs with expected delivery:

Supplier	Type	Maximum Contract [1]	Expected Delivery	Energy Delivery No Later Than	Contract Term In Years
CalEnergy	Geothermal	86.0 MW	2/11/2016	2/11/2016	25
FTP Solar					
Summer Solar	Photovoltaic	10.0 MW	6/30/2016	12/31/2016	25
Antelope Big Sky Ranch	Photovoltaic	10.0 MW	6/30/2016	12/31/2016	25
Antelope DSR Solar	Photovoltaic	25.0 MW	12/31/2016	6/30/2017	20
First Solar	Photovoltaic	14.0 MW	12/31/2015	6/30/2016	20
Solar Star	Photovoltaic	7.3 MW	9/30/2015	12/31/2015	25
Total		152.3 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 starting with 20 MW in 2016 and increasing to 40 MW in 2019 and 86 MW in 2020. The PPA is expected to provide 7.5%, 15% and 30% of the City's total power demand in 2016, 2019, and 2020, respectively. The price under the agreement will be $72.85 per MWh in calendar year 2016 and escalate at 1.5% 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% annually thereafter, reflecting the exchange of benefits for a substantial lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately $2.7 million per year for the agreement's remaining term. As of June 30, 2015 and 2014, the Electric Utility's prepayment of future contractual obligations was $4.4 million and $2.0 million, 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.

On November 10, 2006, the Electric Utility entered into a second renewable PPA with Wintec Energy, Ltd (Wintec) for wind generation capacity of up to 8.0 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer encountered challenges in finding suitable wind turbines to complete the project. Due to the delay of the proposed Wintec Facility II Wind Turbine Project, on February 7, 2012, Wintec entered into an assignment agreement with WKN Wagner, LLC (WKN) for the purpose of assigning to WKN all of Wintec's right, title, and interest in the renewable PPA dated November 10, 2006. The Electric Utility agreed to the assignment and entered into a new PPA with WKN under the same commercial terms and conditions as in the original agreement with Wintec, except that the term has been extended to 20 years, instead of 15. WKN completed the project development timely, and the project became commercially operational on December 22, 2012 and is expected to contribute 1% of the City's retail load requirements at a levelized cost of $73 per MWh. The Electric Utility does not expect to receive more than 1.3 MW from Wintec per the original contract which expires in December 2018.

On October 16, 2012, the 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.


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NOTE 8. COMMITMENTS (CONTINUED)

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 will have a 50% share of the output from each project through SCPPA. The projects were expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The Electric Utility's share from the two projects is 55,000 MWh of renewable energy per year. On April 1, 2014, the City Council approved the first amendment to the PPAs, which postponed the outside commercial operation date for each project from December 31, 2015 to December 31, 2016, with the most significant change being a reduction in a price for energy and environmental attributes from $95.30 per MWh to $71.25 per MWh over the term of the agreement.

On September 19, 2013, the 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 will have a 70% share of the output from the project through SCPPA. The project is expected to become commercially operational at the end of 2015, but no later than June 30, 2016. The 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. The Electric Utility will be receiving liquidated damages from the Clearwater Project as a result. 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% 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, the project has entered into new interconnection and generation agreements with the CAISO and SCE, and the developer has 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 and is expected to generate approximately 15,000 MWh of renewable energy per year. On September 5, 2014, SunPower, the parent company of Solar Star, requested an extension of the date of commercial operation to September 30, 2015. The project is expected to be fully commissioned and operational at that time. The all-in price for energy, capacity and environmental attributes is $81.30 per MWh, escalating at 1.5% annually.

On June 19, 2015, the Board of Public Utilities recommended the City Council to approve 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. On July 28, 2015, the City Council approved the PPA with the Electric Utility having a 50 percent share of the output of the project through SCPPA. The project is expected to become commercially operational at the end of 2016, but no later than June 30, 2017. 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. As of June 30, 2015 and 2014, the Electric Utility received $ 4,282 and $2,769, 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 cash reserve in the amount of $7,432 and $3,150 as of June 30, 2015 and 2014, respectively, to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. This reserve is included in restricted cash and cash equivalents on the Statements of Net Position. As of June 30, 2015, the Electric Utility also had purchased $1,202 in GHG allowances which can be used in future periods for GHG compliance regulations. No changes in allowances were made during the fiscal period. This amounts is recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2015, the Electric Utility had major commitments (encumbrances) of approximately $7,981 with respect to unfinished capital projects, all of which is expected to be funded by bonds.

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, 2015, the Electric Utility has net commitments for fiscal year 2016 and thereafter, of approximately $16,461, with a market value of $12,728.

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 IOUs and the California Attorney General, under which the Electric Utility was paid all of its unpaid receivables, plus interest, minus $1.27 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,

NOTE 9. LITIGATION (CONTINUED)

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. Subsequent to the mistrial, these six plaintiff dairies filed a motion for sanctions, including the request for a default judgment in favor of the six plaintiffs. SCPPA, LADWP, IPA and other defendants have filed an opposition to that motion, asserting that there is no basis for the requested remedy. Separate trials for two other plaintiff dairy groups have not yet commenced.

Because a mistrial was declared during the first trial, the claims of the Original Six Plaintiffs will need to be re-tried. The trial date for the re-trial has not been set and will not be set until the resolution of the appeal discussed above.

The Electric Utility believes that on the law and facts, defendants should prevail, and thus the Electric Utility does not expect that the Utah Dairy Case, or any similar claims, would have a material adverse effect on the Electric Utility. However, given, among other factors, that the court declined to dismiss the Original Six Plaintiffs' negligence claim and will allow it to be presented to a jury, and the unpredictable nature of a jury trial, the Electric Utility cannot predict the outcome of the plaintiffs' claims. In the event there is an adverse judgment in this litigation, the award of substantial damages from such claims could materially affect the costs of power from IPP, may affect the continued economic viability of IPP, and could impact the costs of operation.

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

NOTE 10. EMPLOYEE RETIREMENT PLAN

The implementation of GASB 68 and GASB 71 recognizes the net pension liability and related deferred outflows and inflows of resources on the face of the statements. Under previous guidance, GASB Statement No. 27 – *Accounting for Pensions by State and Local Governmental Employers* (GASB 27) and GASB Statement No. 50 – *Pension Disclosures* (GASB 50), employers that participate in single-employer and agent multiple-employer defined benefit pension plans (sole and agent employers) are required to measure and disclose an amount for annual pension cost on the accrual basis of accounting, regardless of the amount recognized as pension expenditures/expense on the modified accrual or accrual basis. Annual pension cost should be equal to the employer's annual required contributions (ARC) to the plan, unless the employer has a net pension obligation (NPO) for past under- or over-contributions. Should an entity meet their ARC for a given period no NPO would be recognized or disclosed. Under this previous guidance however, the true commitment made by the employer to its employees was never fully recognized as a liability within the reporting units of the governmental entity.

PLAN DESCRIPTIONS

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% 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% at age 55. The City pays the employee share (8%) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 4% in fiscal year 2014-15, with the City paying the remaining 4% of the employee share.
- 2nd Tier – The retirement formula is 2.7% at age 55, and:
    - SEIU employees hired on or after June 7, 2011 pay their share (8%) of contributions.
    - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7% to 8% 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.

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 each plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

At June 30, 2015, the following employees, City wide, were covered by the benefit terms of the Plan: Inactive employees or beneficiaries currently receiving benefits is 1,846 for the Plan. Inactive employees entitled to but not yet receiving benefits is 1,267 for the Plan. Active employees was 1,567 for the Plan.

NOTE 10. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.5%
Inflation	2.75%
Payroll growth	3.0%
Projected salary increase [1]	3.3% - 14.2%
Investment rate of return [2]	7.5%
Mortality [3]	

[1] Depending on age, service and type of employment

[2] Net of pension plan investment expenses, including inflation

[3] The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using scale AA published by the Society of Actuaries.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.50% for the Plan. 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 current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67, *Financial Reporting for Pension Plans – an amendment of GASB 25* as it relates to pension plans administered through trusts or equivalent arrangements and GASB 68 calculations through at least the 2017-18 fiscal year.

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	New Strategic Allocation	Real Return Years 1-10 [1]	Real Return Years 11+ [2]
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

[1] An expected inflation of 2.5% used for this period..

[2] An expected inflation of 3.0% used for this period..

NOTE 10. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY

The changes in the Electric Utility's proportionate share of the net pension liability as of June 30, 2015 (measurement date June 30, 2014) and 2014 (measurement date June 30, 2013) for the Plan are as follows:

	Net Pension Liabiltiy	Proportion of the Plan
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$ 71,773	31.14%
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	92,702	31.12%
Change - Decrease	$ (20,929)	-0.02%

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
The Electric Utility's proportionate share of the plan's net pension liability (asset)	$ 121,991	$ 71,773	$ 30,197

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 year ended June 30, 2015, the Electric Utility recognized pension expense of $6,118. At June 30, 2015, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,648	$ -
Differences between actual and expected experience	1,893	-
Net differences between projected and actual earnings on plan investments	-	(20,683)
Total	$ 11,541	$ (20,683)

$9,648 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, 2016.

$1,893 reported as deferred outflows of resources related to the differences between actual and expected experience will be recognized as an increase to net pension liability as shown in the table below. $20,683 reported as deferred inflows of resources related to the net differences between projected and actual earnings on plan investments will be recognized as pension expense as follows:

Year ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	$ 473	$ (5,171)
2017	473	(5,171)
2018	473	(5,171)
2019	474	(5,170)
2020	-	-
Thereafter	-	-

NOTE 11. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $94,958 was made to decrease the Electric Utility's beginning net position. The adjustment was made to reflect the prior period costs related to the establishment of a net pension liability due to the implementation of GASB 68 and GASB 71.

The restatement of beginning net position of the Electric Utility is summarized as follows:

	June 30, 2014 as previously presented	Restatement	July 1, 2014 as restated
Net pension asset	$ 11,450	$ (11,450)	$ -
Deferred outflows of resources related to pension	-	9,194	9,194
Net pension liability	-	(92,702)	(92,702)
Net position end of year	$ 483,975	$ (94,958)	$ 389,017

A restatement of fiscal year June 30, 2014 (July 1, 2013) financial statements was not made due to the information necessary to restate prior year's amounts not being readily available.

NOTE 12. SUBSEQUENT EVENT

On June 23, 2015, the City Council approved a purchase and sale agreement between the City and NNN Mission Square, LLC for the acquisition of the Mission Square office building, a six-story, 127,533 square foot office space located in downtown City of Riverside. The Electric Utility currently leases and occupies three floors of the building as office space. The total cost includes a purchase price of $37,950 and estimated closing costs of approximately $45 for an all-in cost of $37,995. Escrow closed on October 13, 2015.

On October 12, 2015, the owners of SONGS reached a $400,000 settlement with NEIL for the outages caused by the failures of replacement steam generators. The Electric Utility's allocation of the settlement will be approximately $7,160. The owners of SONGS will continue to seek additional damages for the defective steam generators supplied by MHI and Mitsubishi Nuclear Energy Systems. For further details regarding the closure of SONGS, refer to Note 7 above.

Electric: Key Historic Operating Data

65
SUBSTATION TRANSFORMERS

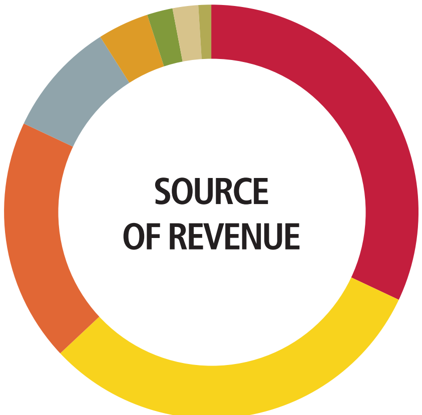
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2014/15	2013/14	2012/13	2011/12	2010/11
POWER SUPPLY (MWH)					
Nuclear					
San Onofre	0	0	0	191,900	284,900
Palo Verde	103,900	99,900	102,300	101,100	102,000
Coal					
Intermountain Power	744,200	802,100	754,900	799,700	895,600
Deseret	0	0	0	0	0
Hoover (Hydro)	30,900	33,200	32,500	35,300	32,900
Gas					
Springs	950	1,300	5,500	2,300	3,100
RERC	39,500	64,400	77,700	39,400	34,500
Clearwater	16,100	20,600	24,000	17,000	9,700
Renewable Resources	397,000	423,800	444,300	472,300	385,700
Market Purchases	1,029,350	899,200	937,500	620,000	464,200
Exchanges In	87,000	93,300	95,800	75,200	92,200
Exchanges Out	(131,800)	(158,300)	(134,900)	(133,500)	(176,100)
Total	2,317,100	2,279,500	2,339,600	2,220,700	2,128,700
System peak (MW)	604.4	577.9	591.7	581.2	579.7
ELECTRIC USE					
Number of meters as of year end					
Residential	97,603	96,820	96,207	95,988	95,676
Commercial	10,757	10,558	10,337	10,425	10,185
Industrial	888	898	894	822	908
Other	79	82	87	86	86
Total	109,327	108,358	107,525	107,321	106,855
Millions of kilowatt-hours sales					
Residential	711	700	726	688	666
Commercial	428	421	419	413	400
Industrial	995	997	1,003	969	912
Other	31	30	31	31	31
Subtotal	2,165	2,148	2,179	2,101	2,009
Wholesale	2	4	14	2	7
Total	2,167	2,152	2,193	2,103	2,016
ELECTRIC FACTS					
Average annual kWh per residential customer	7,334	7,239	7,547	7,208	7,006
Average price (cents/kWh) per residential customer	$16.05	$16.00	$16.27	$16.07	$16.17
Debt service coverage ratio (DSC)[2]	2.39	2.16	2.73	2.24	2.21
Operating income as a percent of operating revenues	18.0%	19.5%	24.0%	22.1%	18.9%
Employees[1]	465	463	460	453	449

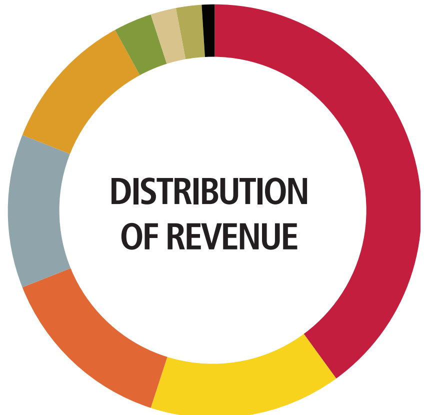
[1]Approved positions.

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

2014/2015 ELECTRIC REVENUE AND RESOURCES

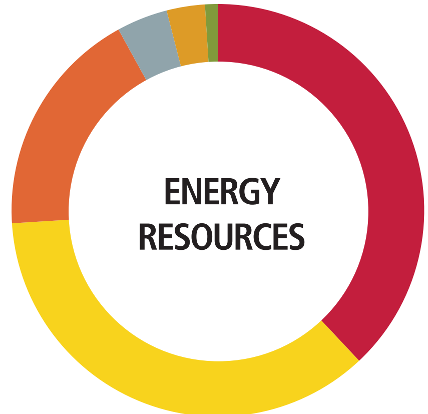


- Residential Sales 32¢
- Industrial Sales 31¢
- Commercial Sales 19¢
- Transmission Revenue 9¢
- Other Revenue 4¢
- Public Benefit Programs 2¢
- Other Sales 2¢
- Investment Income 1¢
- Wholesale Sales (less than 1¢)



- Production 40¢
- Transmission 15¢
- Distribution 14¢
- Debt Service 12¢
- Transfers to the City's General Fund* 11¢
- Additional Reserves 3¢
- Additions and Replacements to the System 2¢
- Public Benefits Programs 2¢
- Unamortized Purchased Power 1¢

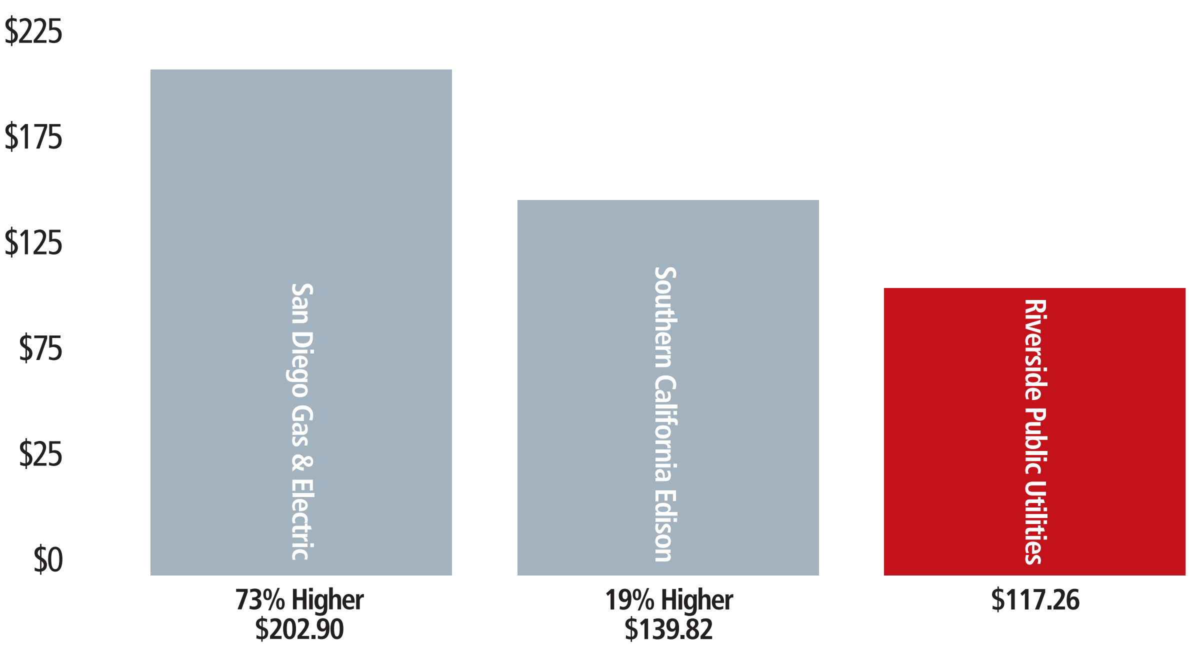
**Based on transfer of 11.5% of fiscal year 2013/2014 gross operating revenues including adjustments.*



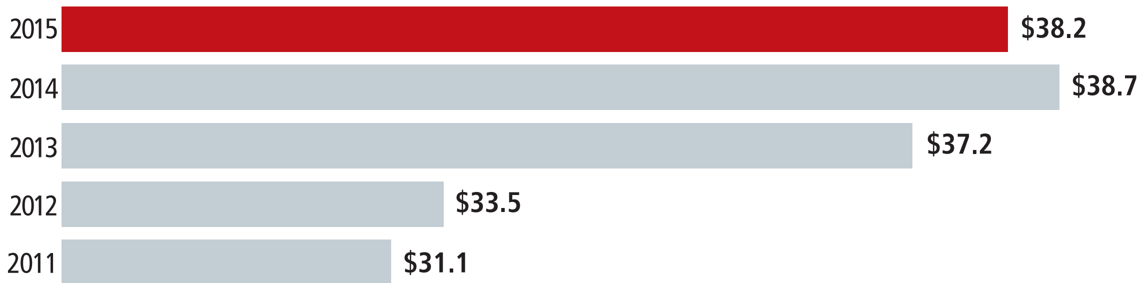
- Market Purchases 38%
- Coal 36%
- Renewables 18%
- Nuclear 4%
- Gas 3%
- Hydropower 1%

**Energy Resources are based on calendar year 2014 as filed with the California Energy Commission*

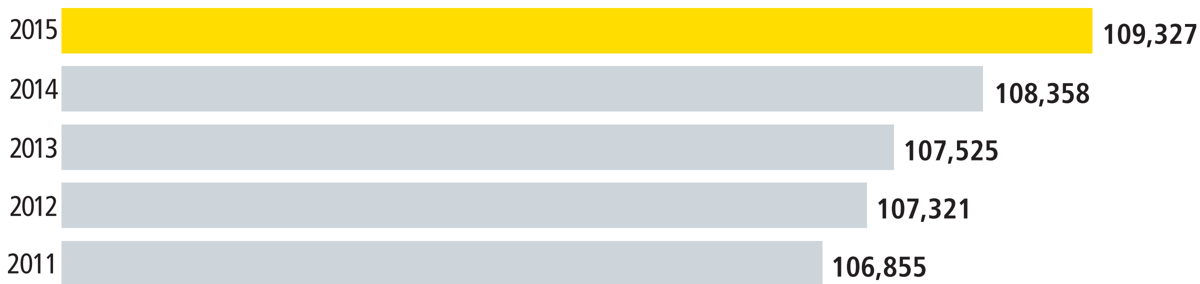
ELECTRIC RATE COMPARISON 750 KWH PER MONTH (AS OF JUNE 30, 2015)



GENERAL FUND TRANSFER (IN MILLIONS)

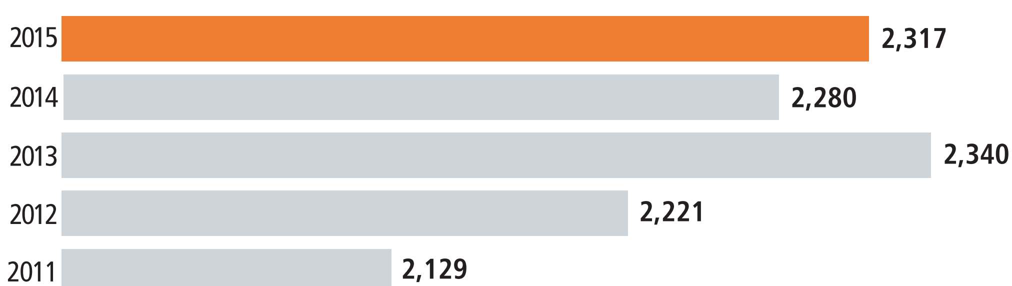


NUMBER OF METERS AT YEAR END

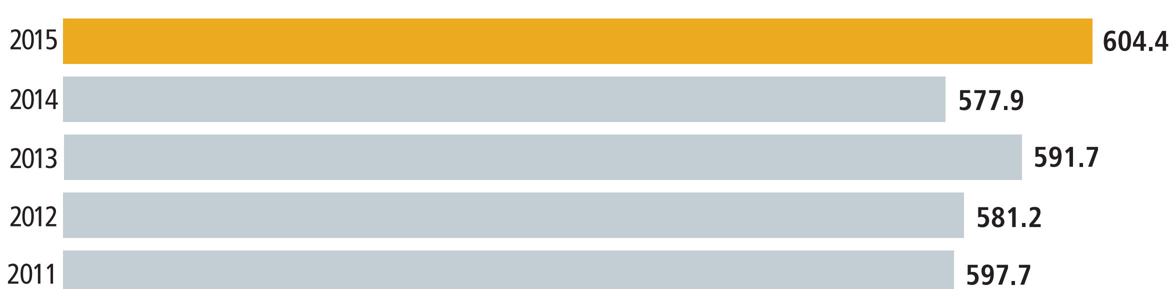


TOTAL OPERATING REVENUE (IN MILLIONS)

PRODUCTION (IN MILLION KILOWATT-HOURS)



PEAK DAY DEMAND (IN MEGAWATTS)



AA-

STANDARD & POOR'S RATING

Electric Facts and System Data

Established 1895

Service Area Population 317,248

Service Area Size (square miles) 81.5

System Data

Transmission lines (circuit miles) 98.6

Distribution lines (circuit miles) 1,328

Number of substations 14

2014-15 Peak Day (megawatts) 604

Highest single hourly use:
09/16/2014, 3 pm, 91 degrees

Historical peak (megawatts) 604

Highest single hourly use:
09/16/2014, 3 pm, 91 degrees

Bond Ratings

Fitch Ratings . . . . AA-

Standard & Poor's . . . . AA-

Debt Derivative Profile Score on Swap Portfolio 2
(1 representing the lowest and 4 representing the highest risk)

Water

$2.15
BILLION SYSTEM VALUE

Water: Independent Auditor's Report

mgo Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's 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 fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2015 and 2014, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660

Emphasis of Matter – Financial Statement Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal 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.

Emphasis of Matter – Implementation of Accounting Standards

As discussed in Notes 1 and 9 to the financial statements, effective July 1, 2014, the Water Utility adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 information, such as the mission statement, fiscal message, and supplementary Water Utility information are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

Newport Beach, California
November 9, 2015

57,869,257

DAILY AVERAGE PRODUCTION (GALLONS)

Water: Management's Discussion and Analysis

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2014-15 financial report for the period ended June 30, 2015 and 2014 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 100 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2015, the Water Utility implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. The Water Utility also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. As of July 1, 2014, the Water Utility restated beginning net position in the amount of $35,215 to record the beginning deferred pension contributions and net pension liability. For more information, refer to the Net Position section below, Note 1 and Note 8 of the accompanying financial statements. The Water Utility did not restate the financial statements for the fiscal years ended June 30, 2014 and 2013 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented.
- Retail sales, net of uncollectibles/recovery, were $56,983 and $62,762 for the fiscal years ended June 30, 2015 and 2014, respectively. The decrease in sales was primarily due to a decrease in retail consumption as a result of customer conservation efforts resulting from drought conditions.
- The Water Conservation Programs had an increase in revenues of $3,373 from the prior year due to reimbursement from Western Municipal Water District (WMWD) for its turf removal program. Additionally, Water Conservation Programs expenses increased from the prior year by $4,598, of which $3,532 were reimbursable from WMWD.
- During the fiscal year, the Water Utility received a reaffirmation of its AAA long-term credit rating due to the Water Utility's consistently strong financial performance, effective cost management, and competitive rates. For additional information regarding the Water Utility's credit ratings refer to the credit rating section below.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 105-127 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2015	2014	2013
Current and other assets	$ 105,788	$ 128,267	$ 134,052
Capital assets	457,357	442,845	422,278
Deferred outflows of resources	15,884	11,156	11,165
Total assets and deferred outflows of resources	579,029	582,268	567,495
Long-term debt outstanding	197,210	202,968	208,438
Other liabilities	68,299	39,903	26,358
Deferred inflows of resources	10,834	6,667	10,000
Total liabilities and deferred inflows of resources	276,343	249,538	244,796
Net investment in capital assets	252,615	245,731	244,937
Restricted	8,547	8,429	7,766
Unrestricted	41,524	78,570	69,996
Total net position	$ 302,686 [1]	$ 332,730	$ 322,699

[1] As restated July 1, 2014, see Note 9 of the Financial Statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2015 compared to 2014 The Water Utility's total assets and deferred outflows of resources were $579,029, reflecting a decrease of $3,239 (0.6%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by $22,479. This change reflects the use of $10,554 in bond proceeds to fund capital projects and the write-off of the net pension asset of $4,926 as a result of the implementation of GASB 68. A decrease of $3,333 in non-current receivables related to the general fund transfer settlement. The third and final settlement payment will be paid in the 2015-16 fiscal year. A decrease of $2,317 in unrestricted cash and cash equivalents due to the use of reserves to fund on-going capital projects. A decrease of $2,437 in Water Conservation Programs cash and cash equivalents primarily due to the timing of turf removal program costs incurred to be reimbursed by WMWD. These decreases from prior year are offset by an increase in Water Conservation Programs receivables of $2,906 due to turf removal program costs to be reimbursed by WMWD.
- Capital assets increased by $14,512 primarily due to $18,312 in completed transmission and distribution system assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- Deferred outflows of resources increased by $4,728 primarily due to $4,186 in deferred outflows of resources related to pension contributions made in the current fiscal year which is subsequent to the measurement date of the net pension liability, in accordance with GASB 71. Additionally, an increase of $1,067 in deferred changes in derivative values due to the increase in negative fair market value of the effective portion of the interest rate swap.

2014 compared to 2013 Total assets and deferred outflows of resources were $582,268, reflecting an increase of $14,773 (2.6%). Capital Assets increased by $20,567 primarily due to $5,426 in completed transmission and distribution system assets, $9,488 in purchase of land, and $5,653 increase in construction in progress. These increases were offset by a decrease of $5,785 in current and other assets.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2015 compared to 2014 The Water Utility's total liabilities and deferred inflows of resources were $276,343, a net increase of $26,806 (10.7%), mainly due to the following:

- Long-term debt outstanding decreased by $5,758 primarily due to principal payments.
- Other liabilities increased by $28,396 primarily due to the recording of the net pension liability of $26,032 due to implementation of GASB 68 and an increase in the note payable of $2,831 for a well relocation paid for by a developer.
- Deferred inflows of resources increased by $4,168 reflecting the recognition of $7,501 in deferred inflows of resources related to the implementation of GASB 68. This deferred inflow represents the change in expected versus actual earning pension plan assets as determined by the plan actuary and are to be recognized over the next four years. These increases are offset by the transfer-in from the general fund for the second of three $3,333 payments on the City's lawsuit settlement.

2014 compared to 2013 Total liabilities and deferred inflows of resources were $249,538, reflecting an increase of $4,742 (1.9%). The increase is primarily due to an increase of $13,545 in other liabilities due to a note payable of $9,482 for the purchase of land and an increase of $2,823 in accounts payable and other accruals. This increase is offset by decreases of $5,470 in long-term debt outstanding due to principal payments, $3,333 in deferred inflows of resources reflecting the recognition of the transfer-in from the general fund for the first of three payments on the City's lawsuit settlement.

NET POSITION

2015 compared to 2014 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 $302,686, a decrease of $30,044 (9.0%) which is primarily attributed to the prior period adjustment of $35,215 as part of the implementation of GASB 68. Additional information can be found in Note 9 to the financial statements.

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of $252,615 (83.5%), had an increase of $6,884 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 $8,547 (2.8%), a slight increase 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 $41,524 (13.7%) a decrease of $37,046 (47.2%) from prior year, primarily attributable to the prior period adjustment of $35,215 to record the net pension liability as part of the implementation of GASB 68 and 71. Unrestricted net position may be used to meet the Water Utility's ongoing operational needs and obligations to customers and creditors.

2014 compared to 2013 Total net position increased by $10,031 (3.1%) to $332,730. The increase is primarily due to increases of net investment in capital assets by $794, unrestricted portion of net position by $8,574, along with a slight increase in restricted portion of net position.

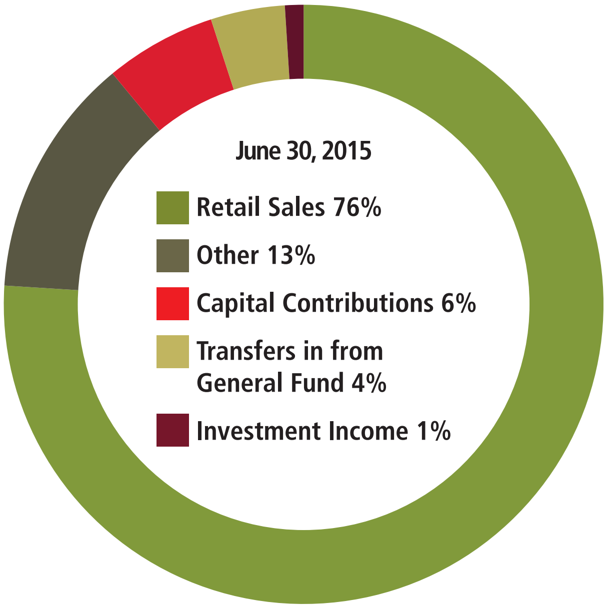
WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

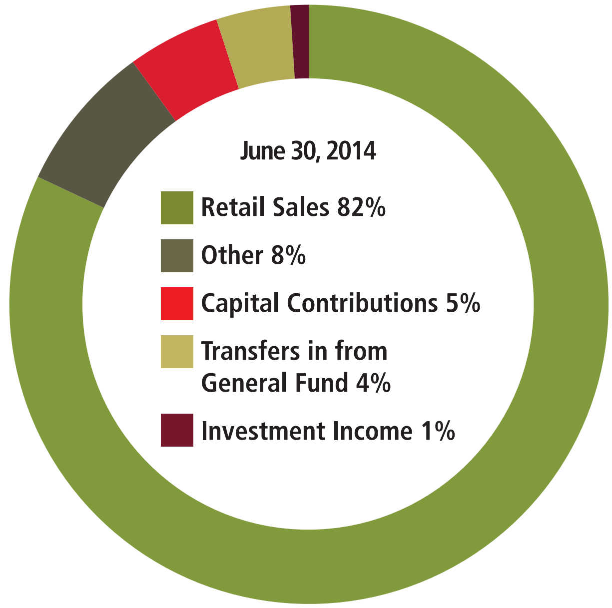
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2015	2014	2013
Revenues:			
Retail sales, net	$ 56,983	$ 62,762	$ 61,837
Other revenues	9,845	6,276	7,310
Investment income	749	1,049	503
Capital contributions	4,017	3,534	4,282
Total revenues	71,594	73,621	73,932
Expenses:			
Operations and maintenance	35,972	33,104	32,186
Purchased energy	5,248	5,430	4,832
Depreciation	13,088	12,799	12,698
Interest expenses and fiscal charges	8,350	8,599	8,877
Total expenses	62,658	59,932	58,593
Transfers:			
Transfers in from the City's general fund	3,333	3,333	-
Transfers to the City's general fund	(7,098)	(6,991)	(6,579)
Total transfers	(3,765)	(3,658)	(6,579)
Changes in net position	5,171	10,031	8,760
Net position, July 1, as previously reported	332,730	322,699	313,939
Less: Cumulative effect of change in accounting principle	(35,215)	-	-
Net position, July 1, as restated	297,515	-	-
Net position, June 30	$ 302,686	$ 332,730	$ 322,699

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES





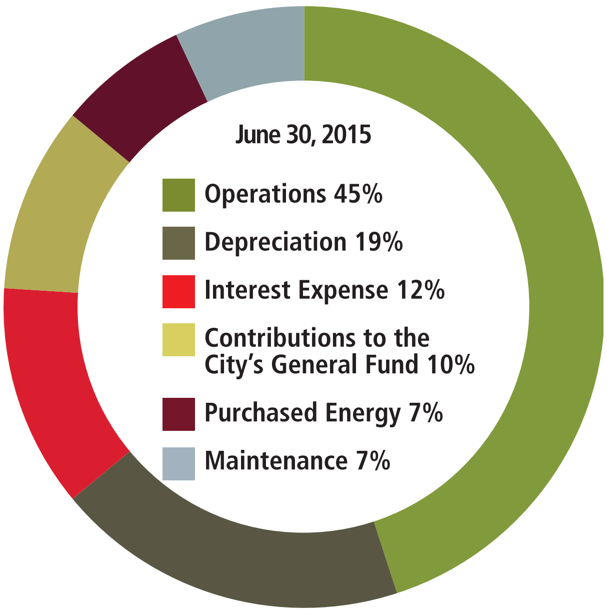
2015 compared to 2014 The Water Utility's total revenues of $71,594, excluding transfers in, decreased by $2,027 (2.8%) primarily due to the following changes:

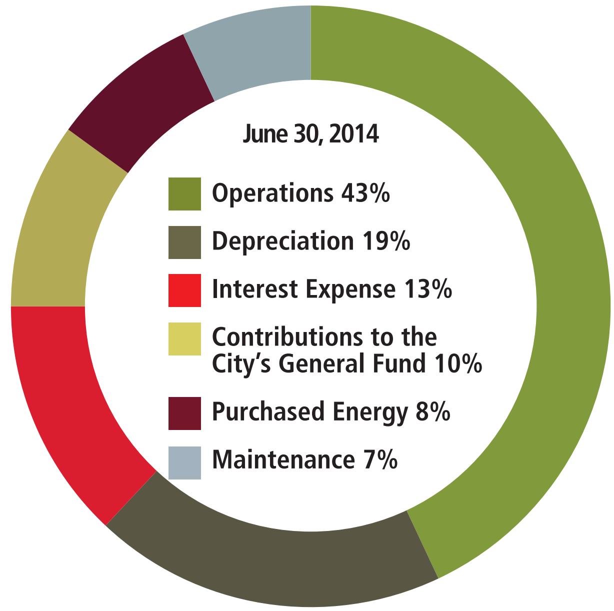
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $56,983, a decrease of $5,779 (9.2%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility accounting for 76% of total revenues. The decrease in sales was primarily due to a 10% decrease in retail consumption as a result of water conservation mandates due to drought conditions.
- Other revenues of $9,845 increased by $3,569 (56.9%) primarily due to an increase in Water Conservation Programs related to turf removal reimbursements from WMWD.
- Investment income of $749 reflects a decrease of $300 (28.6%), due to lower overall interest rates in the fiscal year.
- Capital contributions of $4,017 increased by $483 (13.7%), primarily due to an increase of $512 in backup facility capacity charges paid by developers adding new connections to the Water Utility system.

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

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

EXPENSES BY SOURCES





2015 compared to 2014 The Water Utility's total expenses, excluding general fund transfer, were $62,658, an increase of $2,726 (4.5%) primarily due to increases in Water Conservation Programs of $4,598 (550%) from prior year. Costs related to the turf removal program of $3,532 will ultimately be reimbursed by WMWD.

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

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 $7,098 and $6,991 for 2015 and 2014, respectively to the City's general fund. This represents a $107 and $412 increase, respectively.

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. As of June 30, 2015, the Water Utility received the second of three payments in the amount of $3,333.

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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

	2015	2014	2013
Source of supply	$ 40,222	$ 34,603	$ 32,793
Pumping	19,556	19,518	18,960
Treatment	32,822	33,989	35,172
Transmission and distribution	318,975	304,439	299,939
General	2,322	2,986	3,233
Land	20,484	20,484	10,996
Intangible	10,948	10,998	11,010
Construction in progress	12,028	15,828	10,175
Total capital assets	$ 457,357	$ 442,845	$ 422,278

The Water Utility continues to make significant progress in replacing its aging infrastructure since the adoption of the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. Since implementation, the Water Utility has invested approximately $232 million in infrastructure improvements.

2015 compared to 2014 The Water Utility's investment in capital assets is $457,357, an increase of $14,512 (3.3%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- $9,289 for system expansion and improvements, facilities rehabilitation, and reservoir construction.
- $12,420 for continued pipeline replacement programs.

2014 compared to 2013 Investment in capital assets (net of accumulated depreciation) increased by $20,567 (4.9%) to $442,845. Major capital projects included $12,961 for system expansion and improvements, facilities rehabilitation, and reservoir construction; $8,183 for continued pipeline replacement programs; and $9,488 in land acquisition.

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:

	2015	2014	2013
Revenue bonds	$ 198,740	$ 203,755	$ 208,115
Unamortized bond premium	2,938	3,436	3,888
Contracts payable	942	942	945
Less: Current portion	(5,410)	(5,165)	(4,510)
Total	$ 197,210	$ 202,968	$ 208,438

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 2.22, 2.56, and 2.61 at June 30, 2015, 2014, and 2013, respectively. The debt is backed by the revenues of the Water Utility.

The Water Utility's long-term debt decreased by $5,758 (2.8%) and $5,470 (2.6%) for 2015 and 2014, 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.

less water, more color

Drought tolerant doesn’t always mean brown.

Succulente Sedum Crassulaceae Bithinicum

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CITY OF RIVERSIDE

PUBLIC UTILITIES

CREDIT RATINGS

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

In April 2015, Fitch Ratings affirmed its "AA+" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AA+" rating on the Water Utility's outstanding debt.

In February 2015, Standard & Poor's affirmed its "A-1+" short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and its "AAA" long-term rating on the Water Utility's outstanding debt.

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.

The State of California has experienced unprecedented drought conditions over the last four years resulting in severe impacts 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, in which the Water Utility's mandatory water reduction target is 28 percent for the period of June 2015 through February 2016, to comply with the California State Water Resources Control Board's ordinances related to the drought.

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. In addition, the Water Utility has increased its drought messaging to its customers, increased community educational awareness and leveraged funding from The Metropolitan Water District of Southern California to dramatically increase incentive levels for water conservation programs such as turf removal.

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 will be addressed in the current cost of service analysis conducted by the Water Utility.

SANTA ANA SUCKER FISH

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

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

In June of 2015, the 9th Circuit decision upheld the FWS's designation of the Santa Ana River as critical habitat for the Santa Ana Sucker fish. The Water Utility will join in the filing of an appeal (through a petition for writ of certiorari) with the United States Supreme

Court to the 9th Circuit decision. Fifteen other water and/or public agencies have joined in the appeal. The appeal was filed in September of 2015, and the United States Supreme Court has not indicated if it will review the case.

WATER STANDARDS

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

In 2007, CalEPA set a drinking water standard for perchlorate at 6 ppb, which 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 2012, the CalEPA issued a revised PHG for perchlorate set at 1 ppb. Drinking water standards are required to be established as feasibly close to the PHG while taking into consideration technological and economical factors. CalEPA is required to reevaluate its drinking water standards during its five year review process and when PHGs are lowered. It is expected that the 6 ppb perchlorate standard will be reviewed in the next three to five years. A reduction in the perchlorate standard will impact the Water Utility's water supply costs.

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Water Utility's water supply costs due to the proposed levels and grouping of contaminants. In particular, the USEPA is developing a regulation that would group contaminants into one lower standard. Depending on the grouping, the 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 expands the scope of federal jurisdiction in determining the waters of United States. In particular, the rule adds jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defines tributaries too broadly that it includes canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs.

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

57,869,257

DAILY AVERAGE PRODUCTION (GALLONS)

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2015 (in thousands)	June 30, 2014
UTILITY PLANT:		
Utility plant, net of accumulated depreciation (Note 3)	$ 457,357	$ 442,845
RESTRICTED ASSETS:		
Cash and investments at fiscal agent (Note 2)	-	10,554
OTHER NON-CURRENT ASSETS:		
Net pension asset	-	4,926
Other non-current receivables	-	3,333
Regulatory assets	580	943
Total other non-current assets	580	9,202
Total non-current assets	457,937	462,601
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	83,864	86,181
Accounts receivable, less allowance for doubtful accounts 2015 $151; 2014 $132	8,332	9,664
Accrued interest receivable	311	429
Advances to other funds of the City	261	392
Prepaid expenses	2	17
Other receivables	3,333	3,333
Total unrestricted current assets	96,103	100,016
Restricted assets:		
Cash and cash equivalents (Note 2)	6,063	5,930
Water Conservation Programs - cash and cash equivalents (Note 2)	-	2,437
Water Conservation Programs receivable	3,034	128
Water Conservation Programs prepaid	8	-
Total restricted current assets	9,105	8,495
Total current assets	105,208	108,511
Total assets	563,145	571,112
DEFERRED OUTFLOWS OF RESOURCES:		
Pension contributions (Note 8)	4,186	-
Changes in derivative values	4,008	2,941
Loss on refunding	7,690	8,215
Total deferred outflows of resources	15,884	11,156
Total assets and deferred outflows of resources	$ 579,029	$ 582,268

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	June 30, 2015	June 30, 2014
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 252,615	$ 245,731
Restricted for:		
Debt service (Note 5)	6,063	5,930
Water Conservation Programs	2,484	2,499
Unrestricted	41,524	78,570
Total net position	302,686	332,730
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	197,210	202,968
OTHER NON-CURRENT LIABILITIES:		
Advances from other funds of the City - pension obligation (Note 4)	4,612	4,855
Postemployment benefits payable (Note 4)	2,787	2,422
Net pension liability (Note 8)	26,032	-
Compensated absences (Note 4)	309	333
Derivative instrument (Note 4)	8,861	8,083
Note payable (Note 4)	11,470	9,482
Total other non-current liabilities	54,071	25,175
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable and other accruals	-	1,290
Accrued interest payable	1,751	1,801
Water Conservation Programs payable	530	66
Current portion of long-term obligations (Note 4)	5,260	5,015
Total current liabilities payable from restricted assets	7,541	8,172
CURRENT LIABILITIES:		
Accounts payable and other accruals	5,249	5,471
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	445	935
Note payable (Note 4)	843	-
Total current liabilities	6,687	6,556
Total liabilities	265,509	242,871
DEFERRED INFLOWS OF RESOURCES:		
Net difference between projected and actual earnings on pension plan investments (Note 8)	7,501	-
Regulatory charges	3,333	6,667
Total deferred inflows of resources	10,834	6,667
Total net position, liabilities and deferred inflows of resources	$ 579,029	$ 582,268

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2015 (in thousands)	2014
OPERATING REVENUES:		
Residential sales	$ 36,266	$ 40,687
Commercial sales	18,932	20,227
Other sales	1,919	1,946
Water conveyance revenue	2,286	2,356
Water Conservation Programs	4,420	1,047
Other operating revenue	2,228	2,428
Total operating revenues before uncollectibles	66,051	68,691
Estimated uncollectibles, net of bad debt recovery	(134)	(98)
Total operating revenues, net of uncollectibles	65,917	68,593
OPERATING EXPENSES:		
Operations	25,793	27,600
Maintenance	4,745	4,668
Purchased energy	5,248	5,430
Water Conservation Programs	5,434	836
Depreciation	13,088	12,799
Total operating expenses	54,308	51,333
Operating income	11,609	17,260
NON-OPERATING REVENUES (EXPENSES):		
Investment income	749	1,049
Interest expense and fiscal charges	(8,350)	(8,599)
Gain (loss) on sale of assets	79	(253)
Other	832	698
Total non-operating revenues (expenses)	(6,690)	(7,105)
Income before contributions and transfers	4,919	10,155
Capital contributions	4,017	3,534
Transfers in from the City's general fund	3,333	3,333
Transfers out - contributions to the City's general fund	(7,098)	(6,991)
Total capital contributions and transfers	252	(124)
Increase in net position	5,171	10,031
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	332,730	322,699
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(35,215)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	297,515	322,699
NET POSITION, END OF YEAR	$ 302,686	$ 332,730

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2015 (in thousands)	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 63,708	$ 69,567
Cash paid to suppliers and employees	(42,995)	(34,922)
Other receipts	832	698
Net cash provided by operating activities	21,545	35,343
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(7,098)	(6,991)
Transfers in from the City's general fund	3,333	3,333
Cash received on advances to other funds of the City	131	364
Payment on advances to other funds of the City - pension obligation	(243)	(214)
Net cash used by non-capital financing activities	(3,877)	(3,508)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(23,288)	(22,648)
Proceeds from the sale of utility plant	148	126
Principal paid on long-term obligations	(5,017)	(4,363)
Interest paid on long-term obligations	(8,685)	(8,848)
Bond issuance costs	0	(19)
Capital contributions	3,132	2,154
Net cash used by capital and related financing activities	(33,710)	(33,598)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	867	1,004
Net cash provided by investing activities	867	1,004
Net decrease in cash and cash equivalents	(15,175)	(759)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $18,921 and $32,780 at June 30, 2014 and June 30, 2013, respectively, reported in restricted accounts)**	105,102	105,861
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $6,063 and $18,921 at June 30, 2015 and June 30, 2014, respectively, reported in restricted accounts)**	$ 89,927	$ 105,102
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 11,609	$ 17,260
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,088	12,799
Decrease in deferred outflows related to pension	6	-
Decrease in deferred inflows related to pension	(1,876)	-
Increase in net pension liability	928	-
Amortization of net pension asset	-	217
Increase in allowance for uncollectible accounts	19	14
(Increase) decrease in accounts receivable	(1,872)	684
Decrease in prepaid expenses	7	2
(Decrease) increase in accounts payable and other accruals	(1,511)	3,025
Increase in postemployment benefits payable	365	339
(Decrease) increase in compensated absences	(24)	132
Increase (decrease) in Water Conservation Programs payable	464	(4)
(Decrease) increase in customer deposits	(490)	177
Other receipts	832	698
Net cash provided by operating activities	$ 21,545	$ 35,343
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	1,164	1,256
Well relocation and purchase of land with note payable	2,980	9,482

See accompanying notes to the financial statements

Water: Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility 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. Effective July 1, 2012, the Water Utility adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments issued on or before November 30, 1989 so that they derive from a single source. The accounting records of the 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.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2014, the accompanying financial statements reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

Effective July 1, 2014, the accompanying financial statements reflect the implementation of GASB Statement No. 71, *Pension Transitions for Contributions made Subsequent to to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. These Statements result in the recognition of the net pension liability, related deferred inflows and outflows of resources, and the elimination of the net pension asset as of July 1, 2014, for further details on the prior period adjustment refer to Note 9.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $2,736 at June 30, 2015, and $3,397 at June 30, 2014.

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

UTILITY PLANT AND DEPRECIATION

The 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.

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

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

RESTRICTED ASSETS

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

In June 2004, the 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%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. On April 22, 2014, the City Council approved continuation of the 1.5% surcharge effective for the next ten years. The programs and services offered include conservation, education, and water use efficiency programs; 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. 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. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

City-wide information concerning cash and investments as of June 30, 2015, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

INTERNALLY RESTRICTED CASH RESERVES

The Water Utility has several cash reserves established for strategic purposes, all of which are considered internally restricted assets. The balances as of June 30, 2015 and 2014 respectively are as follows: Operating Reserve $30,435 and $35,435, Water Property Reserve $26,004 and $26,002, and Recycled Water Reserve $6,467 and $3,133, for a combined total of $62,906 and $64,570 and are 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.

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, 2015 and 2014 was $445 and $935, respectively.

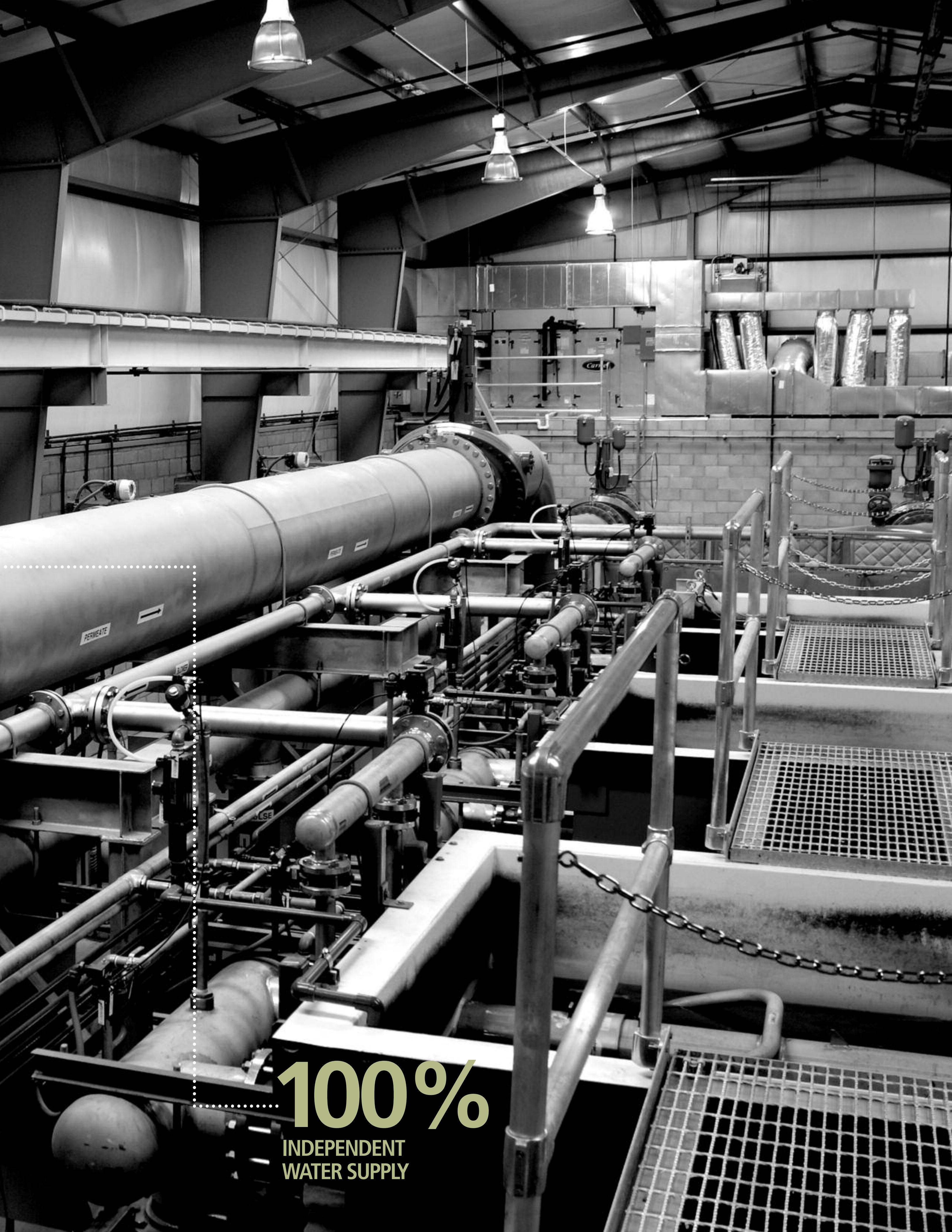
COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2015 and 2014. 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 $1,788 at June 30, 2015, and $1,682 at June 30, 2014.

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.

Riverside Public Utilities has been proactively planning water resource management for decades. The latest Integrated Water Resource Plan will insure that Riverside has an adequate independent water supply through 2035. The Plan will synchronize and synthesize potable, non-potable and recycled water projects that capture water to fill a projected 28,000 annual acre-foot water deficit by 2035. It outlines a comprehensive study of supply, production and distribution projections for the next 20 years, as well as a ten-year capital requirements outlook and Environmental Impact Reports for proposed projects.



100%

INDEPENDENT WATER SUPPLY

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2015 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 $328 and $515 for the years ended June 30, 2015 and 2014, 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.

PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Water Utility's proportional share of the outstanding principal amount of the bonds was $4,612 and $4,855 as of June 30, 2015 and 2014, 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. As of June 30, 2014, the net pension asset was $4,926. With the implementation of GASB 68, the net pension asset was written-off as part of the prior period adjustment to recognize the net pension liability as of July 1, 2014 (see Note 9). 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 "Comprehensive Annual Financial Report." for the fiscal year ended June 30, 2015.

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) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability including Water Conservation Programs as of June 30, 2015 and 2014 was $2,787 and $2,446, 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, 2015 can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Deferred outflows of resources consist of pension contributions subsequent to the measurement date, changes in derivative values, and loss on refunding.

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 the recognized differences between projected and actual earnings on pension plan assets and deferred regulatory charges.

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

In accordance with GASB 62, enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets related to debt issuance costs have been recognized in the Statements of Net Position and regulatory charges relating to a lawsuit settlement have been recognized as a deferred inflow of resources in the Statements of Net Position.

NET POSITION

The 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) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014, $7,098 and $6,991, 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. The settlement has been reflected as a receivable and a corresponding deferred regulatory charge under deferred inflows of resources on the Statements of Net Position. As of June 30, 2015, the Water Utility received the second of three payments 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.

BUDGETS AND BUDGETARY ACCOUNTING

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2015 and 2014, consist of the following (in thousands):

	June 30, 2015	June 30, 2014
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 89,927	$ 94,548
Cash and investments at fiscal agent	-	10,554
Total cash and investments	$ 89,927	$ 105,102

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

	June 30, 2015	June 30, 2014
Unrestricted cash and cash equivalents	$ 83,865	$ 86,181
Restricted cash and cash equivalents	6,062	8,367
Restricted cash and investments at fiscal agent	-	10,554
Total cash and investments	$ 89,927	$ 105,102

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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.

Cash and investments distribution by maturities as of June 30, 2015 and 2014, are as follows:

Investment Type	June 30, 2015 Fair Value	Remaining Maturity (In Months) 12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool [2]				
Money market funds	$ 5,202	$ 5,202	$ -	$ -
Federal agency securities	7,098	2,218	2,796	2,084
US Treasury notes/bonds	44,897	2,494	20,165	22,238
Corp medium term notes	10,635	3,603	3,579	3,453
State investment pool	18,855	18,855	-	-
Negotiable certificate of deposit	3,240	1,263	1,083	894
Total	$ 89,927	$ 33,635	$ 27,623	$ 28,669

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

Presented below is the actual rating as of June 30, 2015 and 2014 for each investment type:

Investment Type	June 30, 2015 Fair Value	Rating as of Year End AAA	AA	A	Unrated
City Treasurer's investment pool [2]					
Money market funds	$ 5,202	$ 202	$ 245	$ 4,755	$ -
Federal agency securities	7,098	7,098	-	-	-
US Treasury notes/bonds	44,897	44,897	-	-	-
Corp medium term notes	10,635	-	10,635	-	-
State investment pool	18,855	-	-	-	18,855
Negotiable certificate of deposit	3,240	-	-	-	3,240
Total	$ 89,927	$ 52,197	$ 10,880	$ 4,755	$ 22,095

Investment Type	June 30, 2014 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Commercial paper [1]	$ 10,554	$ -	$ -	$ 10,554	$ -
City Treasurer's investment pool [2]					
Money market funds	1,785	256	311	1,218	-
Federal agency securities	19,245	19,245	-	-	-
US Treasury notes/bonds	33,407	33,407	-	-	-
Corp medium term notes	13,174	-	10,694	2,480	-
State investment pool	24,006	-	-	-	24,006
Negotiable certificate of deposit	2,931	-	-	-	2,931
Total	$ 105,102	$ 52,908	$ 11,005	$ 14,252	$ 26,937

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

[2] Additional information on investment types and credit risk may be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2015 and 2014 (in thousands):

	Balance As of 6/30/2013	Additions	Retirements/ Transfers	Balance As of 6/30/2014	Additions	Retirements/ Transfers	Balance As of 6/30/2015
Source of supply	$ 46,254	$ 2,812	$ -	$ 49,066	$ 6,739	$ (902)	$ 54,903
Pumping	28,550	1,197	-	29,747	692	-	30,439
Treatment	43,697	-	-	43,697	16	-	43,713
Transmission and distribution	425,551	13,428	(458)	438,521	23,971	(597)	461,895
General	13,994	625	(250)	14,369	53	(141)	14,281
Intangible	353	33	-	386	-	-	386
Depreciable utility plant	558,399	18,095	(708)	575,786	31,471	(1,640)	605,617
Less accumulated depreciation							
Source of supply	(13,461)	(1,002)	-	(14,463)	(1,060)	842	(14,681)
Pumping	(9,590)	(639)	-	(10,229)	(654)	-	(10,883)
Treatment	(8,525)	(1,183)	-	(9,708)	(1,183)	-	(10,891)
Transmission and distribution	(125,612)	(9,069)	599	(134,082)	(9,425)	587	(142,920)
General	(10,761)	(862)	240	(11,383)	(717)	141	(11,959)
Intangible	(184)	(45)	-	(229)	(50)	-	(279)
Accumulated depreciation	(168,133)	(12,800)	839	(180,094)	(13,089)	1,570	(191,613)
Net depreciable utility plant	390,266	5,295	131	395,692	18,382	(70)	414,004
Land	10,996	9,488	-	20,484	-	-	20,484
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841
Construction in progress	10,175	22,733	(17,080)	15,828	23,215	(27,015)	12,028
Nondepreciable utility plant	32,012	32,221	(17,080)	47,153	23,215	(27,015)	43,353
Total utility plant	$ 422,278	$ 37,516	$ (16,949)	$ 442,845	$ 41,597	$ (27,085)	$ 457,357

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2015 and 2014 (in thousands):

	Balance As of 6/30/2013	Additions	Reductions	Balance As of 6/30/2014	Additions	Reductions	Balance As of 6/30/2015	Due Within One Year
Revenue bonds	$ 212,003	$ -	$ (4,812)	$ 207,191	$ -	$ (5,513)	$ 201,678	$ 5,260
Water stock acquisition rights	945	-	(3)	942	-	-	942	150
Advances from other funds - pension obligation of the City	5,069	-	(214)	4,855	-	(243)	4,612	-
Postemployment benefits payable	2,083	339	-	2,422	365	-	2,787	-
Compensated absences	1,478	1,388	(1,184)	1,682	1,494	(1,388)	1,788	1,479
Note payable	-	9,482	-	9,482	2,980	(149)	12,313	843
Total long-term obligations	$ 221,578	$ 11,209	$ (6,213)	$ 226,574	$ 4,839	$ (7,293)	$ 224,120	$ 7,732

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

	June 30, 2015	June 30, 2014
CONTRACTS PAYABLE		
Water Stock Acquisitions: Payable on demand to various water companies	$ 942	$ 942
Total contracts payable	942	942
REVENUE BONDS PAYABLE		
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual principal installments from $1,210 to $7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 to 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $2,360 to $4,335 through October 1, 2020, interest from 3.0 to 5.0 percent	17,065	21,205
$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual principal installments from $2,475 to $4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent	67,790	67,790
$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from $600 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2015 was 3.1 percent)	55,650	56,525
Total water revenue bonds payable	198,740	203,755
Total water revenue bonds and contracts payable	199,682	204,697
Unamortized bond premium	2,938	3,436
Total water revenue bonds and contracts payable, net of bond premium	202,620	208,133
Less current portion	(5,410)	(5,165)
Total long-term water revenue bonds and contracts payable	$ 197,210	$ 202,968

To ensure our water supplies will continue to serve our customers' needs for the next 100 years and allow RPU to remain water independent, we are working toward diversifying our water supply portfolio, developing area groundwater basins and increasing the use of recycled water by creating sources of direct delivery to offset potable supplies and recharge area groundwater basins.

1,000

MILES OF PIPELINE

Revenue bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2015, are as follows (in thousands):

	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	2036-2040	TOTAL
Principal	$ 5,410	$ 5,330	$ 5,565	$ 5,785	$ 6,015	$ 32,946	$ 39,555	$ 48,036	$ 51,040	$ 199,682
Interest	8,152	7,920	7,683	7,457	7,226	32,451	25,021	16,276	5,268	117,454
Total	$13,562	$13,250	$13,248	$13,242	$13,241	$ 65,397	$ 64,576	$ 64,312	$ 56,308	$ 317,136

The Water Utility's bond indentures require the Water Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Water Utility's debt service coverage ratio was 2.22 and 2.56 at June 30, 2015 and 2014, respectively. The debt (revenue bonds) is backed by the revenues of the Water Utility.

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, 2015 is as follows:

	Notional Amount	Fair Value as of 6/30/2015	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	$ 55,650	$ (8,861)	$ (778)

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% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $600 to $3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2015, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.24311%)
Net interest rate swap payments		2.95689%
Variable-rate bond coupon payments		0.14283%
Synthetic interest on bonds		3.09972%

Fair value: As of June 30, 2015, in connection with the swap agreement, the transactions had a total negative fair value of ($8,861). 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, 2015, 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, 2015, 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, 2015, 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.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2016	$ 925	$ 83	$ 1,721	$ 2,729
2017	600	82	1,699	2,381
2018	1,700	80	1,655	3,435
2019	1,475	78	1,606	3,159
2020	2,375	74	1,540	3,989
2021-2025	13,125	314	6,500	19,939
2026-2030	14,675	207	4,291	19,173
2031-2035	16,825	89	1,835	18,749
2036-2040	3,950	1	31	3,982
Total	$ 55,650	$ 1,008	$ 20,878	$ 77,536

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 are in the process of being relocated by Hillwood under the terms of the Well Relocation Agreement. The estimated cost of the well relocation is $6,100. The land purchase and the cost of the well relocation will be paid by the Water Utility through credits against future 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 $2,980, at which time Hillwood's rent obligation commenced. Monthly rent credits total $87, subject to price level changes according to the Consumer Price Index. The second well is expected

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

to be completed in December 2015. Estimated annual rent credits to be applied for the land purchase, at an interest rate of 1.65%, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2016	$ 843	$ 198	$ 1,041
2017	861	183	1,044
2018	896	169	1,065
2019	932	154	1,086
2020	970	138	1,108
2021-2025	5,449	432	5,881
2026-2030	2,362	39	2,401
Total	$ 12,313	$ 1,313	$ 13,626

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% 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, 2015, the Water Utility had major commitments (encumbrances) of approximately $3,994 with respect to unfinished capital projects of which $827 is expected to be funded by rates, $791 to be funded by capital contributions, and $2,376 to be funded by operating reserves or future bond proceeds.

NOTE 8. EMPLOYEE RETIREMENT PLAN

The implementation of GASB 68 and GASB 71 recognizes the net pension liability and related deferred outflows and inflows of resources on the face of the statements. Under previous guidance, GASB Statement No. 27 – *Accounting for Pensions by State and Local Governmental Employers* (GASB 27) and GASB Statement No. 50 – *Pension Disclosures* (GASB 50), employers that participate in single-employer and agent multiple-employer defined benefit pension plans (sole and agent employers) are required to measure and disclose an amount for annual pension cost on the accrual basis of accounting, regardless of the amount recognized as pension expenditures/expense on the modified accrual or accrual basis. Annual pension cost should be equal to

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PUBLIC UTILITIES

NOTE 8. EMPLOYEE RETIREMENT PLAN (CONTINUED)

the employer's annual required contributions (ARC) to the plan, unless the employer has a net pension obligation (NPO) for past under- or over-contributions. Should an entity meet their ARC for a given period no NPO would be recognized or disclosed. Under this previous guidance however, the true commitment made by the employer to its employees was never fully recognized as a liability within the reporting units of the governmental entity.

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 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% 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% at age 55. The City pays the employee share (8%) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 4% in fiscal year 2014/15, with the City paying the remaining 4% of the employee share.
- 2nd Tier – The retirement formula is 2.7% at age 55, and:
    - SEIU employees hired on or after June 7, 2011 pay their share (8%) of contributions.
    - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7% to 8% 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.

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 each plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

At June 30, 2015, the following employees, City-wide, were covered by the benefit terms of the Plan: Inactive employees or beneficiaries currently receiving benefits is 1,846 for the Plan. Inactive employees entitled to but not yet receiving benefits is 1,267 for the Plan. Active employees was 1,567 for the Plan.

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. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.5%
Inflation	2.75%
Payroll growth	3.0%
Projected salary increase [1]	3.3% - 14.2%
Investment rate of return [2]	7.5%
Mortality [3]	

[1] Depending on age, service and type of employment

[2] Net of pension plan investment expenses, including inflation

[3] The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include projected mortality improvement using Scale AA published by the Society of Actuaries.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.50% for the Plan. 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 current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are

assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67, Financial Reporting for Pension Plans – an amendment of GASB 25 as it relates to pension plans administered through trusts or equivalent arrangements and GASB 68 calculations through at least the 2017-18 fiscal year.

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	New Strategic Allocation	Real Return Years 1-10 [1]	Real Return Years 11+ [2]
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

1 An expected inflation of 2.5% used for this period.

2 An expected inflation of 3.0% used for this period.

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's proportionate share of the net pension liability as of June 30, 2015 (measurement date June 30, 2014) and 2014 (measurement date June 30, 2013) for the Plan are as follows:

	Net Pension Liabiltiy	Proportion of the Plan
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	26,032	11.30%
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	33,623	11.29%
Change - Decrease	(7,591)	-0.01%

NOTE 8. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

The following presents the Water Utility's proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
The Water Utility's proportionate share of the plan's net pension liability (asset)	$ 44,245	$ 26,032	$ 10,952

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 year ended June 30, 2015, the Water Utility recognized pension expense of $2,187. At June 30, 2015, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,499	$ -
Differences between actual and expected experience	687	-
Net differences between projected and actual earnings on plan investments	-	(7,501)
Total	$ 4,186	$ (7,501)

$3,499 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, 2016.

$687 reported as deferred outflows of resources related to the differences between actual and expected experience will be recognized as an increase to net pension liability as shown in the table below. $7,501 reported as deferred inflows of resources related to the net difference between projected and actual earnings on plan investments will be recognized as pension expense as follows:

Year ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	$ 171	$ (1,876)
2017	171	(1,875)
2018	172	(1,875)
2019	172	(1,875)
2020	-	-
Thereafter	-	-

NOTE 9. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $35,215 was made to decrease the Water Utility's beginning net position. The adjustment was made to reflect the prior period costs related to the establishment of a net pension liability due to the implementation of GASB 68 and GASB 71.

The restatement of beginning net position of the Water Utility is summarized as follows:

	June 30, 2014 as previously presented	Restatement	July 1, 2014 as restated
Net pension asset	$ 4,926	$ (4,926)	$ -
Deferred outflows of resources related to pension	-	3,334	3,334
Net pension liability	-	(33,623)	(33,623)
Net position end of year	$ 332,730	$ (35,215)	$ 297,515

A restatement of fiscal year June 30, 2014 (July 1, 2013) financial statements was not made due to the information necessary to restate prior year amounts not being readily available.

Water: Key Historic Operating Data

16,000
WATER TESTS ANNUALLY

KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2014/15	2013/14	2012/13	2011/12	2010/11
WATER SUPPLY (ACRE FEET)					
Pumping	65,259	72,647	72,480	69,564	66,492
Percentage pumped[1]	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons)	86,580,000	90,020,000	95,390,000	88,370,000	90,556,000
WATER USE					
Number of meters as of year end					
Residential	58,922	58,958	58,756	58,506	58,460
Commercial/Industrial	5,594	5,527	5,508	5,504	5,482
Other	355	344	327	357	407
Total	64,871	64,829	64,591	64,367	64,349
*CCF sales					
Residential	15,424,999	17,432,384	17,061,832	16,288,918	15,698,321
Commercial/Industrial	9,511,177	10,292,548	10,045,813	9,703,162	9,219,913
Other	895,876	960,694	869,807	893,971	826,165
Subtotal	25,832,052	28,685,626	27,977,452	26,886,051	25,744,399
Wholesale	175,438	201,678	208,726	176,091	158,040
Total	26,007,490	28,887,304	28,186,178	27,062,142	25,902,439

*(CCF equals 100 cubic feet)

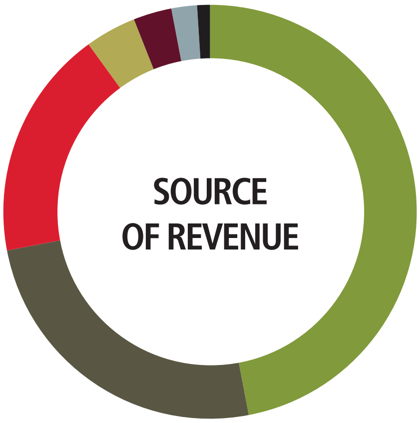
WATER FACTS	2014/15	2013/14	2012/13	2011/12	2010/11
Average annual CCF per residential customer	262	296	291	280	270
Average price ($/CCF) per residential customer	$2.35	$2.33	$2.36	$2.37	$2.28
Debt service coverage ratio (DSC)[2]	2.22	2.56	2.61	2.82	3.49
Employees[3]	181	182	181	181	180

1 No purchased water.

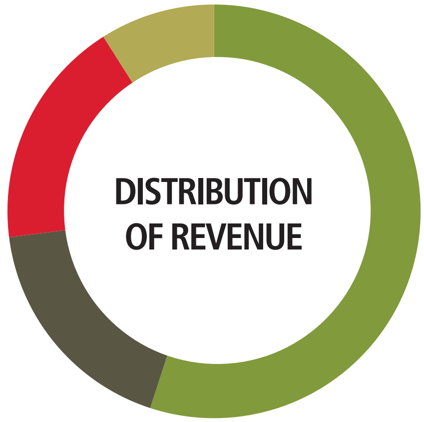
2 Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

3 Approved positions

2014/2015 WATER REVENUE AND RESOURCES

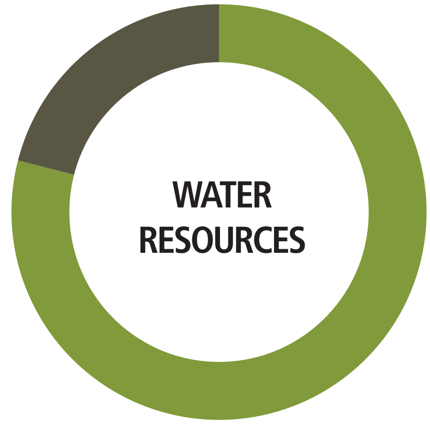


- Residential Sales 47¢
- Commercial Sales 25¢
- Other Revenue 18¢
- Transfer in from General Fund 4¢
- Use of Reserves 3¢
- Other Sales 2¢
- Investment Income 1¢



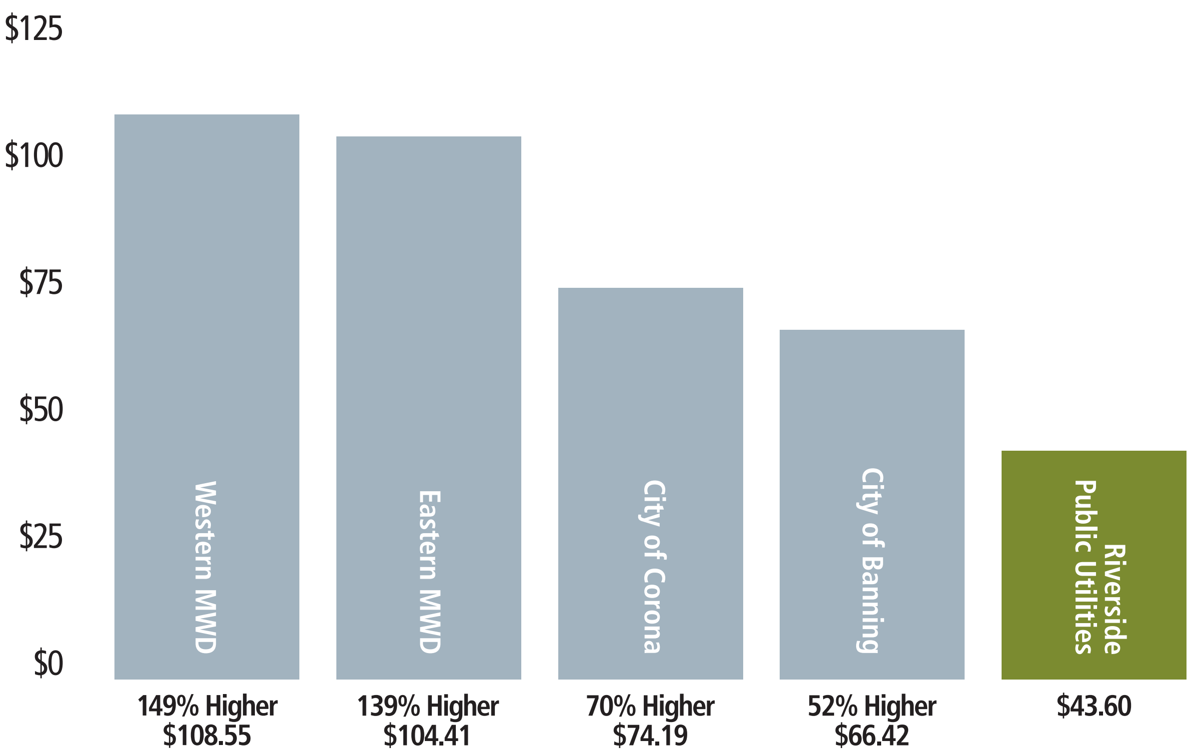
- Operations and Maintenance 55¢
- Debt Service 18¢
- Additions and Replacements to the System 18¢
- Transfers to the City's General Fund* 9¢

Based on transfer of 11.5% of fiscal year 2013/2014 gross operating revenues including adjustments.



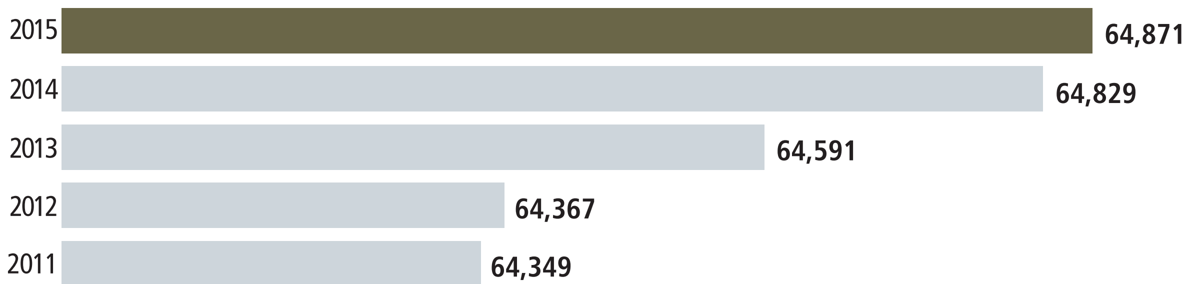
- San Bernardino Basin Wells 71%
- Riverside Basin Wells 29%
- Purchased Water 0%

RESIDENTIAL WATER RATE COMPARISON 22 CCF PER MONTH (AS OF JUNE 30, 2015)

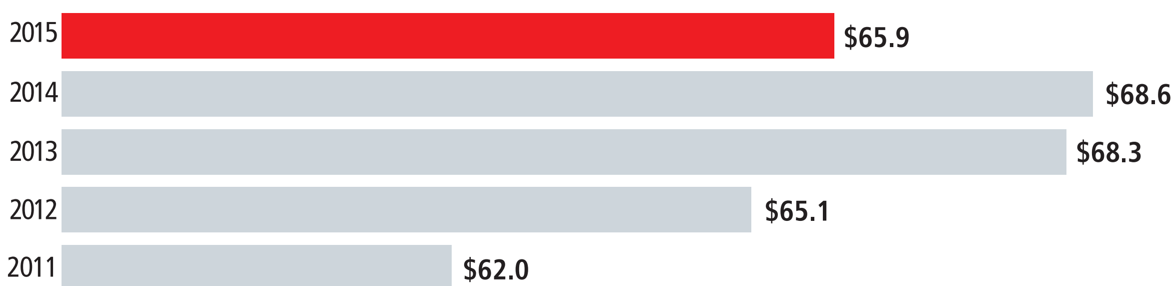


GENERAL FUND TRANSFER (IN MILLIONS)

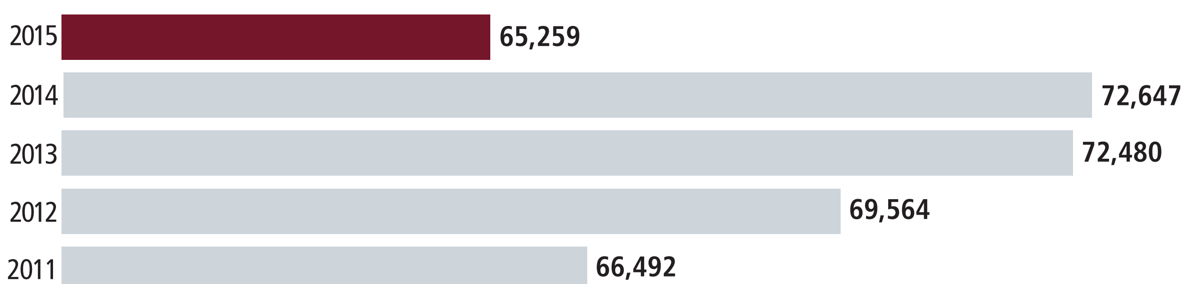
NUMBER OF METERS AT YEAR END



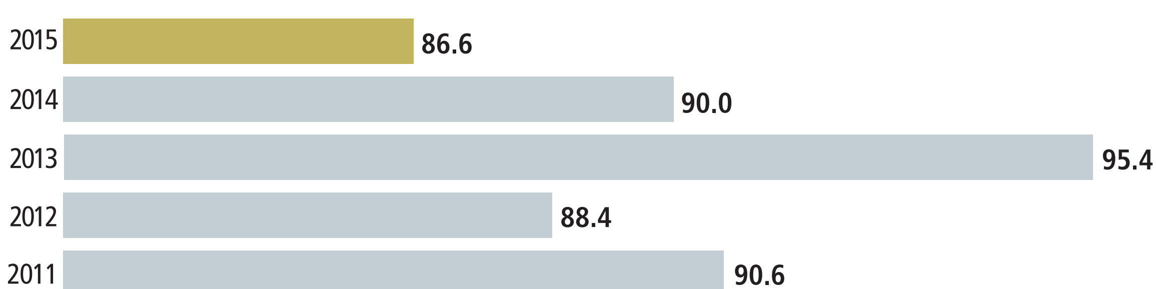
TOTAL OPERATING REVENUE (IN MILLIONS)

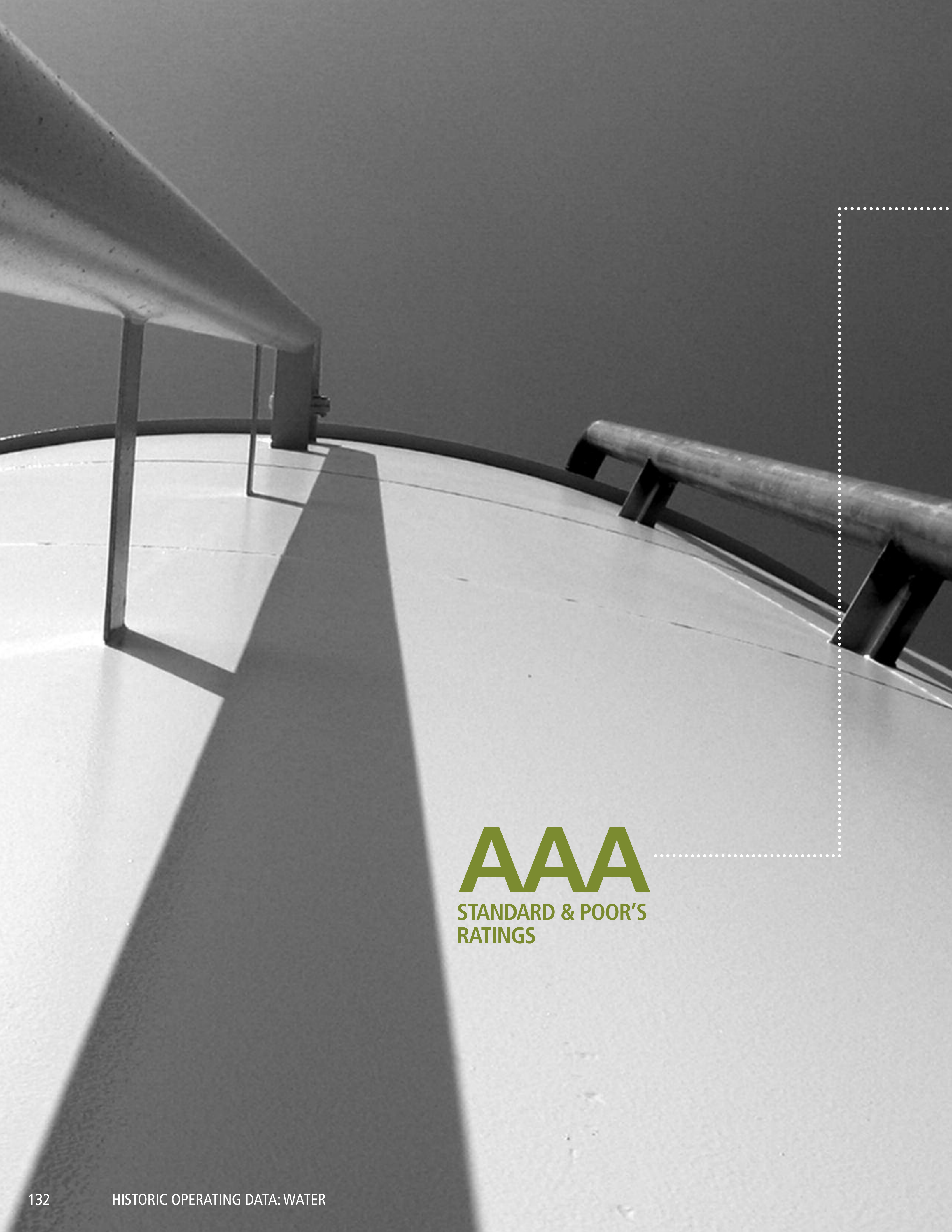


PRODUCTION (IN ACRE FEET)



PEAK DAY DEMAND (IN MILLION GALLONS)





AAA

STANDARD & POOR'S RATINGS

Water Facts and System Data

Established	1913
Service Area Population	317,248
Service Area Size (square miles)	74.20
System Data	
Smallest pipeline	2.0"
Largest pipeline	72.0"
Miles of pipeline	1,000
Number of domestic wells	55
Number of active reservoirs	15
Total reservoir capacity (gallons)	108,500,000
Number of treatment plants	6
Number of treatment vessels	84
Miles of canal	14
Number of fire hydrants	7,758
Daily average production (gallons)	57,869,257
2014-2015 Peak Day (gallons) 07/7/14, 105 degrees	86,580,000
Historical peak (gallons) 08/9/05, 99 degrees	118,782,000
Bond Ratings	
Fitch Ratings	AA+
Moody's	Aa2
Standard & Poor's	AAA

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WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES