

Arts & Innovation

QUARTERLY FINANCIAL REPORT

March 31, 2016

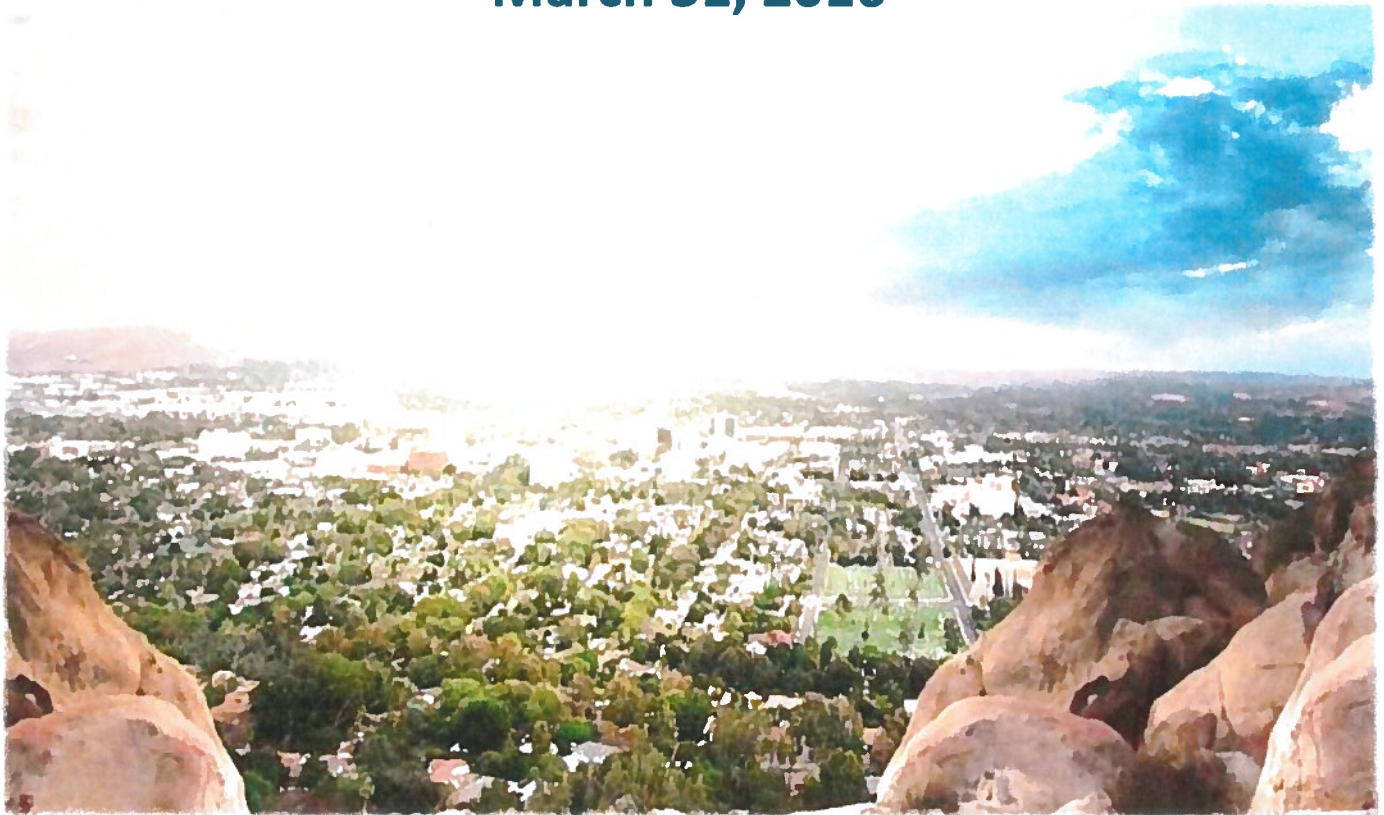


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MARCH FINANCIAL REPORT EXECUTIVE SUMMARY

BACKGROUND:

These financial statements provide the Public Utilities Board with information about the operating performance and financial condition of Riverside Public Utilities. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows are presented in the Annual Report format. The Income Statement Analysis schedule which displays the relationship between revenues, expenses and the budget is also included. Each quarter, this analysis compares current year activity to the budget and the prior year. Attached is a PowerPoint graphic presentation of the financial results for the nine months ended March 31, 2016.

Electric Utility: Comparison to prior year

Retail sales were \$235.5 million and were \$4.8 million (2.1%) higher than prior year due to a 1.0% increase in residential and commercial load due to weather, partially offset by a decrease industrial load. (Graphs A-2 and A-5)

Transmission revenue of \$24.2 million was \$1.2 million (5.2%) higher than prior year due to an increase in Riverside's high voltage utility specific rate per the annual filing with FERC, effective January 1, 2016, as well as a 1.0% increase in load. (Page 3 and 6)

Other non-operating revenues of \$12.8 million increased by \$10.6 million from prior year mainly due to the \$7.2 million SONGS insurance settlement, \$1.3 million Clearwater solar project settlement and a \$1.5 million insurance settlement related to the Harvey Lynn Substation. (Pages 3 and 6)

Capital contributions increased by \$5.4 million primarily due to a donated easement made by California Baptist University for general access to electrical system assets. (Pages 3 and 6)

Power supply costs of \$140.5 million were \$5.9 million (4.0%) lower than prior year primarily due to lower generation costs as a result of decreased market prices. The lower generation costs were offset by an increase in transmission costs as a result of an increase in the access charge rate applied by the California Independent System Operator (CAISO). (Graph A-3)

Distribution operating expenses of \$40.0 million are \$1.9 million (5.0%) higher than prior year primarily due to an increase in personnel costs, mainly as a result of an increase in benefit costs and overtime. (Graph A-4)

On March 22, 2016, the City Council adopted a new cash reserve policy providing a defined level on unrestricted designated and undesignated reserves. This policy provides a target minimum balance of \$126.2 million and a maximum of \$197.5 million in the undesignated reserve to migrate risk and maintain financial stability. Total cash balances of \$387.9 million decreased by \$33.3 million primarily due to the purchase of the Mission Square Building on October 13, 2015 for \$37.4 million as approved by the Board and City Council. The purchase was made with a combination of undesignated reserves and bond proceeds supported by the private versus public use of the building. In addition, there was an increase of \$4.1 million related to positive operating results and settlement recoveries offset by the funding of capital projects with bond proceeds. (Graph A-6)

Utility plant assets increased by \$47.3 million primarily due to the purchase of the Mission Square office building, as well as the completion of significant capital projects such as substation upgrades, electronic security monitoring and technology upgrades, offset by current year depreciation. (Page 4)

Regulatory assets decreased by \$6.6 million due to the recognition of SONGS replacement power as an expense as of June 30, 2015. (Page 4)

Total net position increased by \$34.8 million primarily due to positive operating results and settlement recoveries. (Page 5)

Long-term obligations, including the current portion, decreased by \$16.9 million primarily due to principal payments made and amortization of bond premiums. (Page 5)

Nuclear decommissioning liability, including the current portion, decreased by \$8.1 million due to the decommissioning related payments made on SONGS. (Page 5)

Electric Utility: Comparison to budget

Retail sales were slightly lower than budget because of a lower than anticipated load. (Graphs A-2 and A-5)

Power supply costs were \$18.3 million (11.5%) lower than budget primarily due to lower than anticipated market prices and load, offset by higher than anticipated CAISO transmission access charges. (Graph A-3)

Distribution operating expenses were \$10.5 million (20.7%) below budget mainly due to timing of certain expenditures and savings in personnel costs, professional services and other general operating expenses. (Graph A-4)

With 75% of the year completed, the Electric Utility spent 63% of its authorized operating budget. (Page 3)

Electric Utility: Overall financial condition

Comparative financial ratios are shown in Graphs A-8 through A-11. Overall, the Electric Utility financial metrics are stable and liquidity levels are strong.

Water Utility: Comparison to prior year

Retail sales of \$37.9 million were \$6.7 million (15.0%) lower than prior year due to a 16.5% decrease in consumption as a result of water conservation measures enacted due to current drought conditions. (Graphs A-13 and A-15)

Distribution operating expenses of \$25.9 million were slightly lower than prior year due to a reduction in professional services and expenses related to pumping and production associated with the lower consumption levels. (Graph A-14)

On March 22, 2016, the City Council adopted a new cash reserve policy providing a defined level on unrestricted designated and undesignated reserves. This policy provides a target minimum balance of \$32.9 million and a maximum balance of \$50.8 million in the undesignated reserve to migrate risk and maintain financial stability. Overall total cash balances of \$83.3 million decreased by \$13.3 million primarily due to the use of undesignated reserves for capital projects offset by an increase in recycled water reserve resulting from the receipt of \$3.3 million from the second of three payments from a settlement agreement with the City. (Graph A-16)

Utility plant assets increased by \$11.0 million due to the completion of transmission and distribution system assets, offset by current year depreciation. (Page 11)

Other receivables, including the current portion, decreased by \$3.3 million, reflecting the second of three annual payments received in June 2015 from the settlement agreement against the City. The funds received, reduced by related legal costs, have been set aside in an unrestricted designated account reserved for recycled water projects. The offsetting deferred regulatory charge also decreased by \$3.3 million. (Pages 11, 12 and 15)

Long-term obligations, less the current portion, decreased by \$5.8 million due to principal payments made on outstanding debt. (Page 12)

Notes payable, including the current portion, of \$11.7 million is the result of the purchase of land with a subsequent lease back to Hillwood Enterprises for their development of the land site and well relocations. (Page 12)

Water Utility: Comparison to budget

Retail sales were \$5.1 million (11.8%) lower than budget due to a lower-than-anticipated consumption as a result of conservation measures taken by customers. (Graphs A-13 and A-15)

Distribution operating expenses were \$7.2 million (21.7%) lower than anticipated levels due to savings in water pumping and production costs as a result of lower consumption levels and reducing controllable expenses resulting in savings in personnel costs, professional services and other general operating expenses. (Graph A-14)

With 75% of the year completed, the Water Utility spent 60% of its authorized operating budget. (Page 10)

Water Utility: Overall financial condition

Comparative financial ratios are shown in Graphs A-18 through A-21. The Water Utility financial metrics are stable and liquidity levels remain strong.

ELECTRIC UTILITY

**CITY OF RIVERSIDE
ELECTRIC UTILITY
INCOME STATEMENT ANALYSIS
FOR THE PERIOD ENDED MARCH 31, 2016
(75% of the year completed)**

	QUARTERLY (in thousands)					YEAR-TO-DATE (in thousands)		
	CURRENT Jan-Mar 2016	BUDGET Jan-Mar 2016	PRIOR Jan-Mar 2015	TOTAL BUDGET FY 15/16	CURRENT YTD AS % OF TOTAL BUDGET	CURRENT Mar 2016	BUDGET Mar 2016	PRIOR Mar 2015
OPERATING REVENUES:								
RESIDENTIAL SALES	\$ 24,523	\$ 25,742	\$ 24,042	\$ 116,283	80%	\$ 93,275	\$ 90,451	\$ 89,622
COMMERCIAL SALES	15,705	16,627	15,410	72,421	73%	53,171	54,537	52,041
INDUSTRIAL SALES	25,978	27,265	25,354	120,338	71%	85,512	90,704	84,843
OTHER SALES	1,175	1,179	1,307	4,761	75%	3,588	3,561	4,231
WHOLESALE SALES	2	-	-	-	0%	3	-	46
TRANSMISSION REVENUE	7,342	7,166	6,604	32,000	76%	24,221	24,483	23,019
OTHER OPERATING REVENUE	2,117	2,074	1,609	8,020	75%	6,021	6,141	5,967
PUBLIC BENEFIT PROGRAMS	1,958	2,025	1,924	8,973	76%	6,823	6,841	6,672
TOTAL OPERATING REVENUES, BEFORE UNCOLLECTIBLES	78,800	82,078	76,250	362,796	75%	272,614	276,718	266,441
ESTIMATED UNCOLLECTIBLES	(300)	(298)	(152)	(1,194)	75%	(894)	(895)	(899)
TOTAL OPERATING REVENUES, NET OF UNCOLLECTIBLES	78,500	81,780	76,098	361,602	75%	271,720	275,823	265,542
OPERATING EXPENSES:								
MANAGEMENT SERVICES	1,207	2,369	1,232	9,476	41%	3,890	7,107	3,711
UTILITY BUS SUPPORT	512	682	573	2,729	56%	1,532	2,047	1,447
BILLING SERVICES	118	197	33	787	44%	349	590	314
FIELD SERVICES	858	1,138	765	4,550	55%	2,495	3,413	2,444
CUSTOMER SERVICES	913	1,154	973	4,617	62%	2,880	3,463	2,941
MARKETING/COMMUNICATIONS	490	690	491	2,759	55%	1,531	2,069	1,566
PRODUCTION AND OPERATIONS	2,013	2,070	1,659	8,279	72%	5,972	6,209	5,327
FIELD OPERATIONS	3,267	4,010	3,008	16,040	59%	9,452	12,030	9,070
ENERGY DELIVERY ENGINEERING	1,728	2,001	1,460	8,005	63%	5,019	6,004	4,828
POWER RESOURCES	2,465	2,522	2,187	10,088	68%	6,907	7,566	6,476
PURCHASED POWER:								
TRANSMISSION	13,940	14,419	13,344	57,676	75%	43,182	43,257	39,137
GENERATION	28,573	37,692	29,208	156,201	62%	97,334	115,520	107,282
PUBLIC BENEFIT PROGRAMS	1,049	3,966	1,402	15,865	19%	3,081	11,899	3,717
DEPRECIATION	7,554	7,554	7,024	30,215	75%	22,661	22,661	21,065
TOTAL OPERATING EXPENSES	64,687	80,464	63,359	327,287	63%	206,285	243,835	209,325
OPERATING INCOME	13,813	1,316	12,739	34,315	191%	65,435	31,988	56,217
NON-OPERATING REVENUES (EXPENSES):								
INVESTMENT INCOME	1,041	1,032	1,113	4,127	66%	2,730	3,095	3,238
INTEREST EXPENSE	(6,532)	(7,148)	(6,733)	(28,591)	69%	(19,612)	(21,443)	(19,978)
GENERAL FUND CONTRIBUTIONS	(9,105)	(9,590)	(9,545)	(38,360)	75%	(28,770)	(28,770)	(28,634)
GAIN ON SALE OF ASSETS	91	138	14	553	65%	361	415	160
OTHER	3,038	1,392	668	5,569	230%	12,801	4,177	2,238
TOTAL NON-OPERATING EXPENSES	(11,467)	(14,176)	(14,483)	(56,702)	57%	(32,490)	(42,526)	(42,976)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,346	(12,860)	(1,744)	(22,387)	-147%	32,945	(10,538)	13,241
CAPITAL CONTRIBUTIONS	551	1,608	529	6,430	107%	6,870	4,823	1,458
NET INCOME (LOSS)	\$ 2,897	\$ (11,252)	\$ (1,215)	\$ (15,957)	-250%	\$ 39,815	\$ (5,715)	\$ 14,699

City of Riverside Electric Utility

STATEMENTS OF NET POSITION

	March 31	
	2016	2015
	(in thousands)	
Assets and deferred outflows of resources		
Noncurrent assets:		
Utility plant:	\$ 989,357	\$ 914,573
Less accumulated depreciation	(341,560)	(312,428)
	647,797	602,145
Land	17,012	8,717
Intangibles	10,651	10,651
Construction in progress	65,625	72,226
Total utility plant	741,085	693,739
Restricted assets:		
Cash and investments at fiscal agent	99,140	152,536
Other non-current assets:		
Advances to other funds of the City	5,131	5,800
Unamortized purchased power	6,443	4,441
Regulatory assets	10,639	17,254
Total other non-current assets	22,213	27,495
Total non-current assets	862,438	873,770
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	244,642	230,014
Accounts receivable, less allowance for doubtful accounts		
2016 \$1,010; 2015 \$829	31,265	32,958
Advances to other funds of the City	247	765
Accrued interest receivable	1,102	874
Inventory	1,097	1,202
Prepaid expenses	18,599	19,035
Unamortized purchased power	496	496
Total unrestricted current assets	297,448	285,344
Restricted assets:		
Cash and cash equivalents	29,618	26,835
Public Benefit Programs - cash and cash equivalents	14,516	11,774
Public Benefit Programs receivable	918	887
Total restricted current assets	45,052	39,496
Total current assets	342,500	324,840
Total assets	1,204,938	1,198,610
Deferred outflows of resources:		
Pension contributions	11,541	11,560
Changes in derivative values	26,128	23,913
Loss on refunding	11,076	12,191
Total deferred outflows of resources	48,745	47,664
Total assets and deferred outflows of resources	\$ 1,253,683	\$ 1,246,274

City of Riverside Electric Utility

STATEMENTS OF NET POSITION

	March 31	
	2016	2015
	(in thousands)	
Net position and liabilities		
Net position:		
Net investment in capital assets	\$ 198,655	\$ 189,296
Restricted for :		
Regulatory requirements	10,794	6,377
Debt service	18,823	20,457
Public Benefit Programs	15,293	12,683
Unrestricted	194,987	174,903
Total net position	438,552	403,716
Long-term obligations, less current portion	561,997	576,381
Other non-current liabilities:		
Compensated absences	578	830
Net pension liability	71,773	69,216
Capital leases payable	677	973
Derivative instruments	31,639	29,685
Nuclear decommissioning liability	63,799	77,623
Advances from other funds of the City-pension obligation	10,084	10,719
Postemployment benefits payable	6,617	5,749
Total other non-current liabilities	185,167	194,795
Current liabilities payable from restricted assets:		
Accrued interest payable	10,109	12,120
Public Benefit Programs payable	158	-
Nuclear decommissioning liability	5,714	-
Current portion of long-term obligations	13,320	15,825
Total current liabilities payable from restricted assets	29,301	27,945
Current liabilities:		
Accounts payable and other accruals	12,437	12,671
Customer deposits	5,209	4,445
Unearned revenue	337	468
Total current liabilities	17,983	17,584
Total liabilities	794,448	816,705
Deferred inflows of resources:		
Net difference between projected and actual earnings on pension plan investments	20,683	25,853
Total deferred inflows of resources	20,683	25,853
Total net position and liabilities	\$ 1,253,683	\$ 1,246,274

City of Riverside Electric Utility

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Nine Months Ended**

	March 31	
	2016	2015
	(in thousands)	
Operating revenues:		
Residential sales	\$ 93,275	\$ 89,622
Commercial sales	53,171	52,041
Industrial sales	85,512	84,843
Other sales	3,588	4,231
Wholesale sales	3	46
Transmission revenue	24,221	23,019
Other operating revenue	6,021	5,967
Public Benefit Programs	6,823	6,672
Total operating revenues before uncollectibles	272,614	266,441
Estimated uncollectibles, net of bad debt recovery	(894)	(899)
Total operating revenues net of uncollectibles	271,720	265,542
Operating expenses:		
Production and purchased power	98,790	108,165
Transmission	43,182	39,137
Distribution	38,571	37,241
Public Benefit Programs	3,081	3,717
Depreciation	22,661	21,065
Total operating expenses	206,285	209,325
Operating income	65,435	56,217
Non-operating revenues (expenses):		
Investment income	2,730	3,238
Interest expense and fiscal charges	(19,612)	(19,978)
Gain on sale of assets	361	160
Other	12,801	2,238
Total non-operating expenses	(3,720)	(14,342)
Income before capital contributions and transfers out	61,715	41,875
Capital contributions	6,870	1,458
Transfers out - contributions to the City's general fund	(28,770)	(28,634)
Total capital contributions and transfers out	(21,900)	(27,176)
Increase in net position	39,815	14,699
Net position, July 1	398,737	389,017
Net position, March 31	\$ 438,552	\$ 403,716

City of Riverside Electric Utility

STATEMENTS OF CASH FLOWS
For the Nine Months Ended

	March 31	
	2016	2015 (in thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 275,712	\$ 269,668
Cash paid to suppliers and employees	(198,250)	(189,741)
Other receipts	12,801	2,238
Net cash provided by operating activities	<u>90,263</u>	<u>82,165</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(28,770)	(28,634)
Payment on advances from other funds of the City - pension obligation	(635)	(565)
Cash received on advances to other funds of the City	1,082	149
Net cash used by non-capital financing activities	<u>(28,323)</u>	<u>(29,050)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(56,337)	(23,389)
Proceeds from the sale of utility plant	361	160
Principal paid on long-term obligations	(16,361)	(15,513)
Interest paid on long-term obligations	(14,846)	(13,572)
Capital contributions	1,828	1,707
Net cash used by capital and related financing activities	<u>(85,355)</u>	<u>(50,607)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(828)	2,584
Income from investments	2,513	3,491
Net cash provided by investing activities	<u>1,685</u>	<u>6,075</u>
Net (decrease) increase in cash and cash equivalents	(21,730)	8,583
CASH AND CASH EQUIVALENTS, JULY 1	<u>317,525</u>	<u>321,057</u>
CASH AND CASH EQUIVALENTS, MARCH 31	<u><u>\$ 295,795</u></u>	<u><u>329,640</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 65,435	\$ 56,217
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,661	21,065
Increase in allowance for uncollectible accounts	201	182
Decrease in accounts receivable	3,094	3,343
Decrease in inventory	105	-
Decrease in prepaid expenses	2,232	3,792
Increase in unamortized purchased power	(1,396)	(1,422)
Decrease in accounts payable and other accruals	(11,426)	(6,488)
Decrease in Public Benefit Programs payable	(236)	(154)
(Decrease) increase in unearned revenue	(131)	468
Increase in customer deposits	697	600
(Decrease) increase in decommissioning liability	(3,774)	2,324
Other receipts	12,801	2,238
Net cash provided by operating activities	<u><u>\$ 90,263</u></u>	<u><u>82,165</u></u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	5,000	-

SCHEDULES OF CASH AND CASH EQUIVALENTS

	March 31	
	2016	2015
	(in thousands)	
Unrestricted cash and cash equivalents:		
Operating cash	\$ -	\$ 51,051
Undesignated reserve	190,348	-
Regulatory risk reserve	-	15,000
Energy risk reserve	-	30,000
Customer deposits reserve	3,569	-
Capital repair and replacement reserve	2,000	-
Electric reliability fund reserve	43,939	-
Mission Square improvement fund reserve	240	-
Operating reserve	-	131,031
Additional decommissioning liability reserve	4,546	2,932
	<u>244,642</u>	<u>230,014</u>
Total unrestricted cash and cash equivalents		
	<u>244,642</u>	<u>230,014</u>
Legally restricted cash and cash equivalents:		
Reserved for debt service	18,823	20,457
Reserved for bond construction	7,020	61,018
Reserved for regulatory requirements	10,794	6,377
Reserved for Public Benefit Programs	14,516	11,774
	<u>51,153</u>	<u>99,626</u>
Total legally restricted cash and cash equivalents		
	<u>51,153</u>	<u>99,626</u>
Total cash and cash equivalents	<u>295,795</u>	<u>329,640</u>
Cash and investments at fiscal agent:		
Reserved for decommissioning liability	79,289	79,162
Reserved for other cash at fiscal agent	2,025	1,548
Reserved for debt service	10,805	10,808
	<u>92,119</u>	<u>91,518</u>
Total cash and investments at fiscal agent		
	<u>92,119</u>	<u>91,518</u>
Total unrestricted and restricted cash	<u>\$ 387,914</u>	<u>\$ 421,158</u>

TABLE I
CITY OF RIVERSIDE - ELECTRIC UTILITY
FINANCIAL PERFORMANCE INDICATORS

	Industry Median*	3/31/16	3/31/15	6/30/15	6/30/14	6/30/13	6/30/12	6/30/11
Operating Ratio	71.2%	67.6%	70.9%	73.5%	72.5%	67.7%	69.6%	72.3%
Debt Ratio	60.5%	65.0%	67.6%	67.7%	60.9%	62.3%	62.6%	63.7%
Unrestricted Current Ratio **	2.1	16.5	16.2	14.4	13.0	10.9	10.8	11.0
Debt Service Coverage	1.85	3.14	2.51	2.39	2.16	2.73	2.24	2.21

* Industry median obtained from the APPA Survey published in November 2015 (based on customer size class of more than 100,000)

** Includes Unrestricted Cash Reserves.

WATER UTILITY

**CITY OF RIVERSIDE
WATER UTILITY
INCOME STATEMENT ANALYSIS
FOR THE PERIOD ENDED March 31, 2016
(75% of the year completed)**

	QUARTERLY (in thousands)			TOTAL BUDGET FY 15/16	CURRENT YTD AS % OF TOTAL BUDGET	YEAR-TO-DATE (in thousands)		
	CURRENT Jan-Mar 2016	BUDGET Jan-Mar 2016	PRIOR Jan-Mar 2015			CURRENT Mar 2016	BUDGET Mar 2016	PRIOR Mar 2015
OPERATING REVENUES:								
RESIDENTIAL SALES	\$ 6,203	\$ 6,481	\$ 6,751	\$ 35,102	68%	\$ 23,993	\$ 26,573	\$ 28,403
COMMERCIAL SALES	3,153	3,387	3,524	19,293	66%	12,643	14,844	14,745
OTHER SALES	342	405	367	2,101	61%	1,273	1,581	1,436
WATER CONVEYANCE REVENUE	960	720	704	2,881	97%	2,804	2,161	1,356
WATER CONSERVATION PROGRAMS	152	387	419	1,548	70%	1,079	1,161	1,199
OTHER OPERATING REVENUE	398	440	653	1,762	89%	1,575	1,321	1,750
TOTAL OPERATING REVENUES, BEFORE UNCOLLECTIBLES	11,208	11,820	12,418	62,687	69%	43,367	47,641	48,889
ESTIMATED UNCOLLECTIBLES	(53)	(52)	(46)	(210)	74%	(156)	(157)	(158)
TOTAL OPERATING REVENUES, NET OF UNCOLLECTIBLES	11,155	11,768	12,372	62,477	69%	43,211	47,484	48,731
OPERATING EXPENSES:								
FIELD OPERATIONS	3,449	4,070	3,412	16,280	63%	10,217	12,210	9,820
PRODUCTION AND OPERATIONS	2,700	4,279	3,021	19,067	54%	10,387	14,012	10,862
ENGINEERING	1,857	2,279	2,124	9,115	58%	5,281	6,836	6,052
WATER CONSERVATION PROGRAMS	174	1,216	458	4,865	35%	1,688	3,649	1,284
DEPRECIATION	3,343	3,343	3,227	13,374	75%	10,030	10,030	9,680
TOTAL OPERATING EXPENSES	11,523	15,187	12,242	62,701	60%	37,603	46,737	37,698
OPERATING INCOME	(368)	(3,419)	130	(224)	-2504%	5,608	747	11,033
NON-OPERATING REVENUES (EXPENSES):								
INVESTMENT INCOME	156	149	246	596	83%	497	447	514
INTEREST EXPENSE	(2,208)	(2,913)	(2,226)	(11,654)	55%	(6,410)	(8,740)	(6,445)
GENERAL FUND CONTRIBUTIONS	(1,570)	(1,607)	(1,775)	(6,430)	75%	(4,822)	(4,822)	(5,324)
GAIN ON SALE OF ASSETS	28	18	71	71	114%	81	53	82
OTHER	517	415	145	1,661	80%	1,337	1,246	428
TOTAL NON-OPERATING EXPENSES	(3,077)	(3,938)	(3,539)	(15,756)	59%	(9,317)	(11,816)	(10,745)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(3,445)	(7,357)	(3,409)	(15,980)	23%	(3,709)	(11,069)	288
CAPITAL CONTRIBUTIONS	487	420	861	1,643	116%	1,911	1,268	2,147
NET INCOME (LOSS)	\$ (2,958)	\$ (6,937)	\$ (2,548)	\$ (14,337)	13%	\$ (1,798)	\$ (9,801)	\$ 2,435

City of Riverside Water Utility

STATEMENTS OF NET POSITION

	March 31	
	2016	2015
	(in thousands)	
Assets and deferred outflows of resources		
Noncurrent assets:		
Utility plant	\$ 607,088	\$ 583,813
Less accumulated depreciation	<u>(201,643)</u>	<u>(189,633)</u>
	405,445	394,180
Land	20,484	20,484
Construction in progress	22,361	22,661
Intangibles	<u>10,841</u>	<u>10,841</u>
Total utility plant	<u>459,131</u>	<u>448,166</u>
Restricted assets:		
Cash and investments at fiscal agent	<u>-</u>	<u>629</u>
Other non-current assets:		
Other non-current receivables	-	3,333
Regulatory assets	<u>525</u>	<u>887</u>
Total other non-current assets	<u>525</u>	<u>4,220</u>
Total non-current assets	<u>459,656</u>	<u>453,015</u>
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	73,469	86,001
Accounts receivable, less allowance for doubtful accounts 2016 \$204; 2015 \$193	7,420	7,663
Accrued interest receivable	329	313
Advances to other funds of the City	106	328
Prepaid expenses	-	15
Other receivables	<u>3,333</u>	<u>3,333</u>
Total unrestricted current assets	<u>84,657</u>	<u>97,653</u>
Restricted assets:		
Cash and cash equivalents	6,555	6,700
Water Conservation Programs -cash and cash equivalents	3,315	3,280
Water Conservation Programs receivable	<u>101</u>	<u>161</u>
Total restricted current assets	<u>9,971</u>	<u>10,141</u>
Total current assets	<u>94,628</u>	<u>107,794</u>
Total assets	<u>554,284</u>	<u>560,809</u>
Deferred outflows of resources:		
Pension contributions	4,186	4,193
Changes in derivative values	6,614	5,668
Loss on refunding	<u>7,294</u>	<u>7,822</u>
Total deferred outflows of resources	<u>18,094</u>	<u>17,683</u>
Total assets and deferred outflows of resources	<u>\$ 572,378</u>	<u>\$ 578,492</u>

City of Riverside Water Utility

STATEMENTS OF NET POSITION

	March 31	
	2016	2015
	(in thousands)	
Net position, liabilities and deferred inflows of resources		
Net position:		
Net investment in capital assets	\$ 259,358	\$ 246,065
Restricted for:		
Debt service	6,555	6,700
Water Conservation Programs	3,375	3,413
Unrestricted	31,600	43,772
Total net position	300,888	299,950
Long-term obligations, less current portion	191,657	197,335
Other non-current liabilities:		
Advances from other funds of the City - pension obligation	4,338	4,612
Postemployment benefits payable	2,787	2,445
Net pension liability	26,032	25,105
Compensated absences	308	333
Derivative instrument	11,467	10,810
Note payable	10,839	9,482
Total other non-current liabilities	55,771	52,787
Current liabilities payable from restricted assets:		
Accrued interest payable	3,801	3,905
Water Conservation Programs payable	13	5
Current portion of long-term obligations	5,180	5,260
Total current liabilities payable from restricted assets	8,994	9,170
Current liabilities:		
Accounts payable and other accruals	2,694	2,632
Current portion of long-term obligations	150	150
Customer deposits	547	424
Note payable	843	-
Total current liabilities	4,234	3,206
Total liabilities	260,656	262,498
Deferred inflows of resources:		
Net difference between projected and actual earnings on pension plan investments	7,501	9,377
Regulatory charges	3,333	6,667
Total deferred inflows of resources	10,834	16,044
Total net position, liabilities and deferred inflows of resources	\$ 572,378	\$ 578,492

City of Riverside Water Utility

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Nine Months Ended**

	March 31	
	2016	2015
	(in thousands)	
Operating revenues:		
Residential sales	\$ 23,993	\$ 28,403
Commercial sales	12,643	14,745
Other sales	1,273	1,436
Water conveyance revenue	2,804	1,356
Water Conservation Programs	1,079	1,199
Other operating revenue	1,575	1,750
Total operating revenues before uncollectibles	43,367	48,889
Estimated uncollectibles, net of bad debt recovery	(156)	(158)
Total operating revenues, net of uncollectibles	43,211	48,731
Operating expenses:		
Operations	19,373	19,564
Maintenance	3,179	3,520
Purchased energy	3,333	3,650
Water Conservation Programs	1,688	1,284
Depreciation	10,030	9,680
Total operating expenses	37,603	37,698
Operating income	5,608	11,033
Non-operating revenues (expenses):		
Investment income	497	514
Interest expense and fiscal charges	(6,410)	(6,445)
Gain on sale of assets	81	82
Other	1,337	428
Total non-operating revenues (expenses)	(4,495)	(5,421)
Income before capital contributions and transfers	1,113	5,612
Capital contributions	1,911	2,147
Transfers out - contributions to the City's general fund	(4,822)	(5,324)
Total capital contributions and transfers	(2,911)	(3,177)
(Decrease) Increase in net position	(1,798)	2,435
Net position, July 1	302,686	297,515
Net position, March 31	\$ 300,888	\$ 299,950

City of Riverside Water Utility

STATEMENTS OF CASH FLOWS
For the Nine Months Ended

	March 31	
	2016	2015
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 47,239	\$ 49,919
Cash paid to suppliers and employees	(30,791)	(32,341)
Other receipts	557	428
Net cash provided by operating activities	<u>17,005</u>	<u>18,006</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(4,822)	(5,324)
Cash received on advances to other funds of the City	155	64
Payment on advances from other funds of the City-pension obligation	(274)	(243)
Net cash used for non-capital financing activities	<u>(4,941)</u>	<u>(5,503)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(11,805)	(15,001)
Proceeds from the sale of utility plant	81	82
Principal paid on long-term obligations	(5,261)	(5,015)
Interest paid on long-term obligations	(4,132)	(4,265)
Capital contributions	1,986	2,574
Net cash used for capital and related financing activities	<u>(19,131)</u>	<u>(21,625)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	479	630
Net cash provided by investing activities	<u>479</u>	<u>630</u>
Net decrease in cash and cash equivalents	(6,588)	(8,492)
CASH AND CASH EQUIVALENTS, JULY 1	89,927	105,102
CASH AND CASH EQUIVALENTS, MARCH 31	<u>\$ 83,339</u>	<u>\$ 96,610</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 5,608	\$ 11,033
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,030	9,680
Increase in allowance for uncollectible accounts	53	61
Decrease in accounts receivable	3,717	1,480
Decrease in prepaid expenses	2	2
Decrease in accounts payable and other accruals	(2,555)	(4,129)
Decrease in Water Conservation Programs payable	(517)	(38)
Decrease in Water Conservation Programs prepaid expenses	8	-
Increase (decrease) in customer deposits	102	(511)
Other receipts	557	428
Net cash provided by operating activities	<u>\$ 17,005</u>	<u>\$ 18,006</u>

City of Riverside Water Utility

SCHEDULES OF CASH AND CASH EQUIVALENTS

	March 31	
	2016	2015
	(in thousands)	
Unrestricted cash and cash equivalents :		
Operating cash	\$ -	\$ 21,431
Undesignated reserve	39,927	-
Operating cash reserve	-	35,435
Recycled water cash reserve	6,467	3,133
Property reserve	26,004	26,002
Customer deposits reserve	321	-
Capital repair and replacement reserve	750	-
	<hr/>	<hr/>
Total unrestricted cash and cash equivalents	73,469	86,001
	<hr/>	<hr/>
Legally restricted cash and cash equivalents:		
Reserved for debt service	6,555	6,700
Reserved for bond construction	-	629
Water Conservation Programs	3,315	3,280
	<hr/>	<hr/>
Total legally restricted cash and cash equivalents	9,870	10,609
	<hr/>	<hr/>
Total unrestricted and restricted cash	<u>\$ 83,339</u>	<u>\$ 96,610</u>

TABLE I
CITY OF RIVERSIDE - WATER UTILITY
FINANCIAL PERFORMANCE INDICATORS

	Industry Median*	3/31/16	3/31/15	6/30/15	6/30/14	6/30/13	6/30/12	6/30/11
Operating Ratio	77.8%	63.8%	57.5%	62.5%	56.2%	54.2%	55.7%	58.1%
Debt Ratio	38.4%	47.4%	48.1%	47.7%	42.9%	43.1%	44.0%	43.7%
Unrestricted Current Ratio **	1.6	20.0	30.5	14.4	15.3	18.1	12.6	11.4
Debt Service Coverage	2.30	1.87	2.33	2.22	2.56	2.61	2.82	3.49

* Industry median for California water utilities obtained from the most recent data from Moody's Investor Services.

** Includes Unrestricted Cash Reserves.

GRAPHICS

Electric Utility
Flow of Funds - Actual
(For the Nine Months Ended March 31, 2016)

BEGINNING CASH BALANCES - \$317.5M



SOURCES - \$293.4M

Cash Sales - \$275.7M
Investment Income - \$1.7M
Other - \$14.2M
Capital Contributions - \$1.8M



**OPERATING EXPENSES, PURCHASED
POWER, & OTHER PAYMENTS - \$(198.2)M**



BALANCE - \$95.2 M



DEBT SERVICE - \$(31.8)M



CAPITAL/EQUIPMENT - \$(56.3)M

Bonds \$(41.4)M
Cash \$(14.9)M



GENERAL FUND TRANSFER - \$(28.8)M



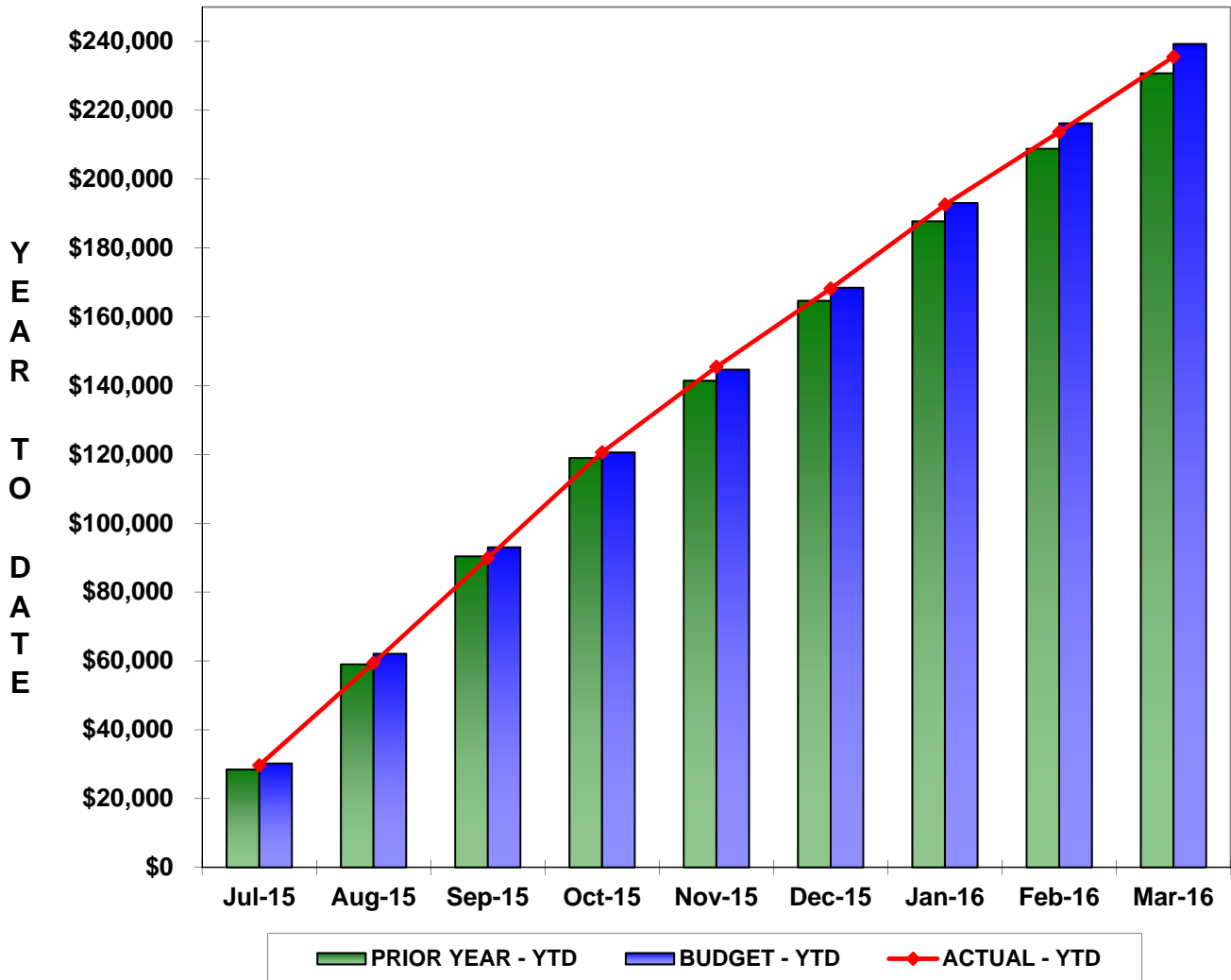
NET DECREASE TO CASH BALANCES - (\$21.7)

Unrestricted - \$17.2M
*Restricted - \$(33.9)M

ENDING CASH BALANCES - \$295.8M

*Excludes legally restricted cash and investments at fiscal agent of \$92.1M

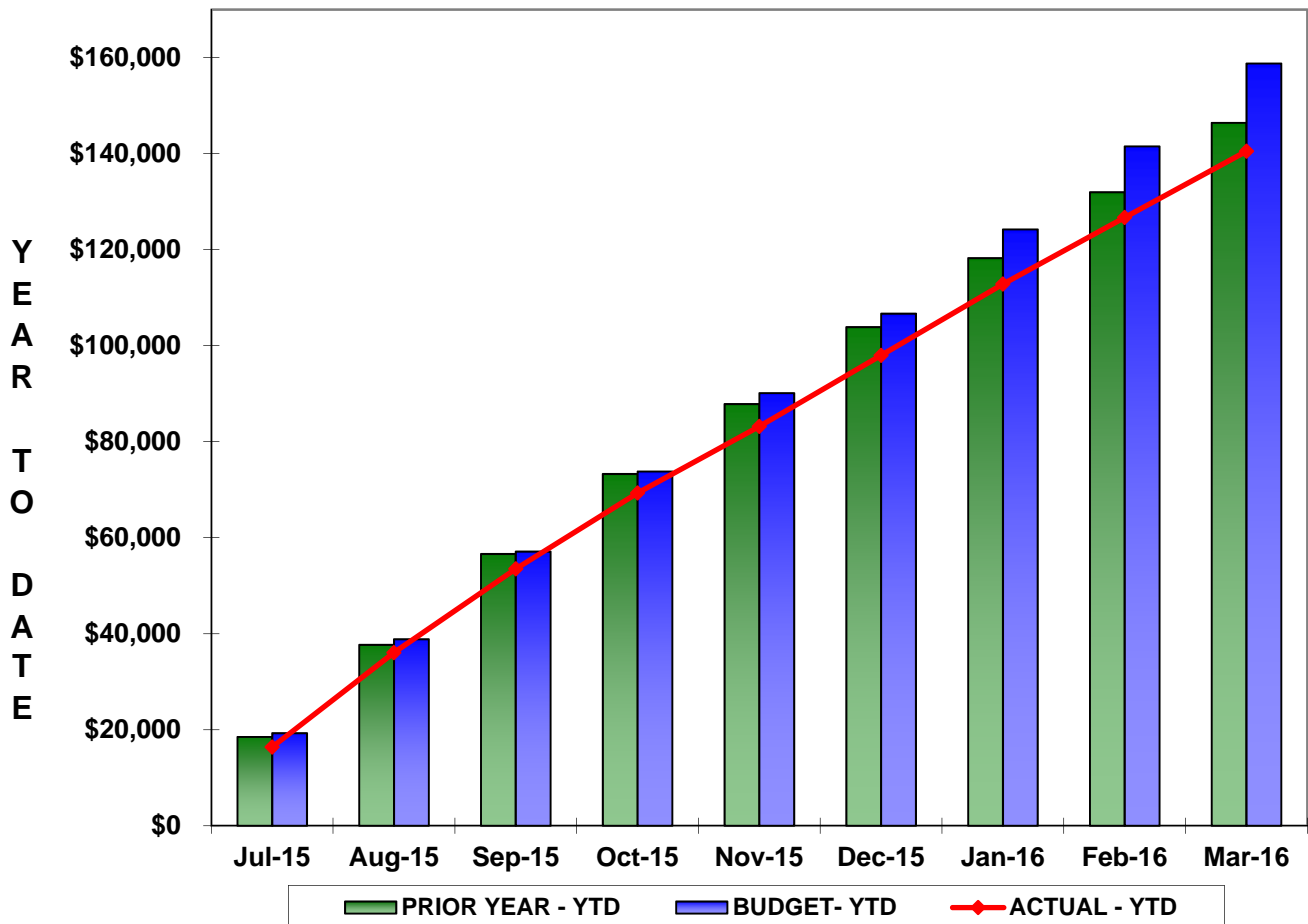
ELECTRIC UTILITY RETAIL SALES REVENUE FOR THE PERIOD ENDED MARCH 31, 2016 (In Thousands)



Actual to Prior: Year-to-date retail sales are \$235.5M and are \$4.8M (2.1%) higher than prior year due to a 1.0% increase in load.

Actual to Budget: Year-to-date actual retail sales are \$3.7M (1.6%) lower than budget due to lower than expected load.

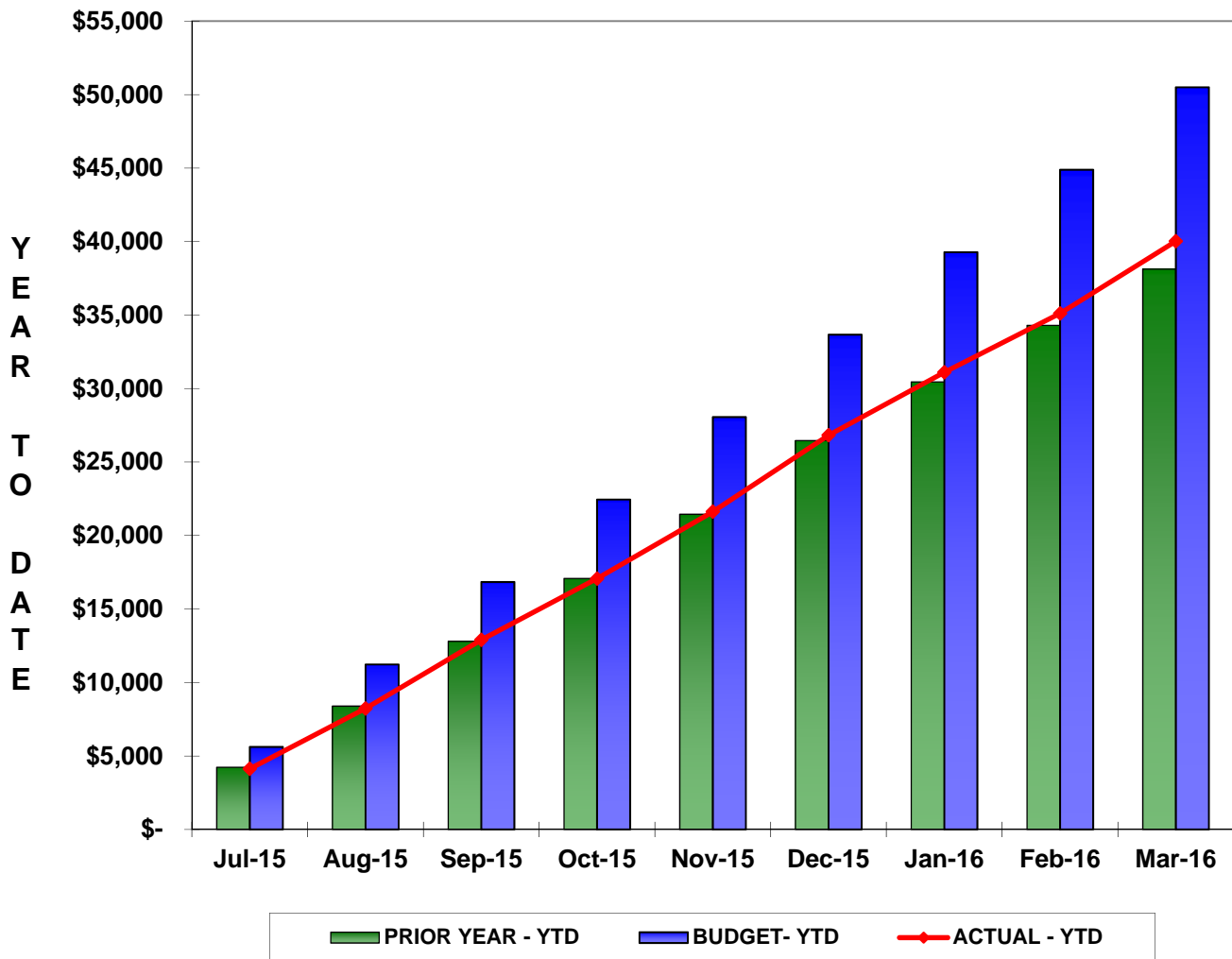
ELECTRIC UTILITY POWER SUPPLY EXPENSES FOR THE PERIOD ENDED MARCH 31, 2016 (In Thousands)



Actual to Prior: Year-to-date power supply costs of \$140.5M are \$5.9M (4.0%) lower than prior year primarily due to decreased market prices, offset by increased transmission charges.

Actual to Budget: Year-to-date power supply costs are \$18.3M (11.5%) lower than budget primarily due to lower than anticipated market prices and load, offset by increased transmission charges.

ELECTRIC UTILITY DISTRIBUTION OPERATING EXPENSES FOR THE PERIOD ENDED MARCH 31, 2016 (In Thousands)

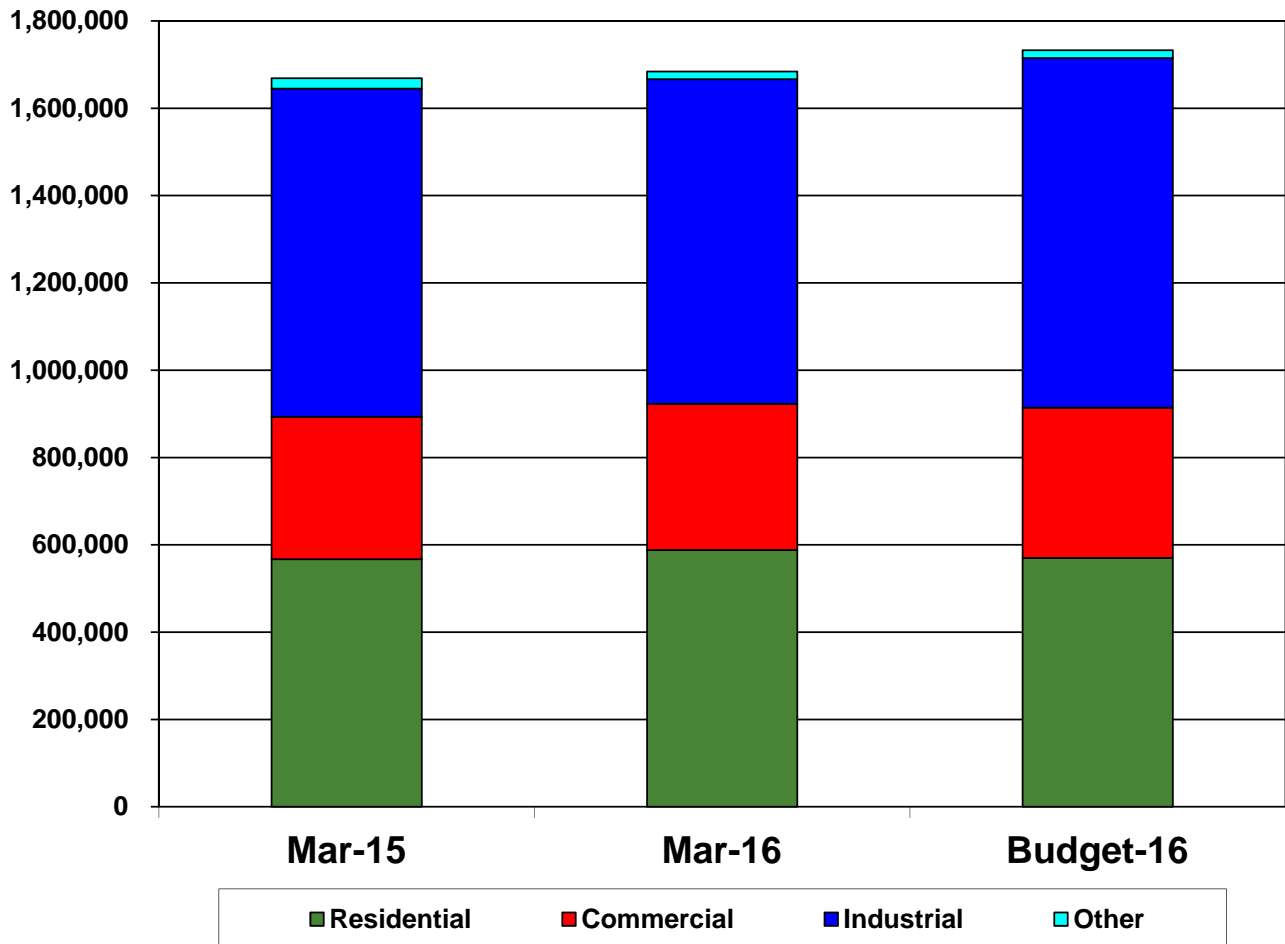


Actual to Prior: Year-to-date distribution operating expenses of \$40.0M are \$1.9M (5.0%) higher than prior year primarily due to an increase in personnel costs, mainly as a result of an increase in benefit costs and overtime.

Actual to Budget: Year-to-date operating expenses are \$10.5M (20.7%) below anticipated levels primarily due to timing of certain expenditures and savings in personnel costs, professional services, and other general operating expenses.

***ELECTRIC UTILITY
RETAIL KWH SALES (In Thousands)
FOR THE PERIOD ENDED MARCH 31, 2016***

Total - YTD	<u>1,668,839</u>	<u>1,684,204</u>	<u>1,732,811</u>
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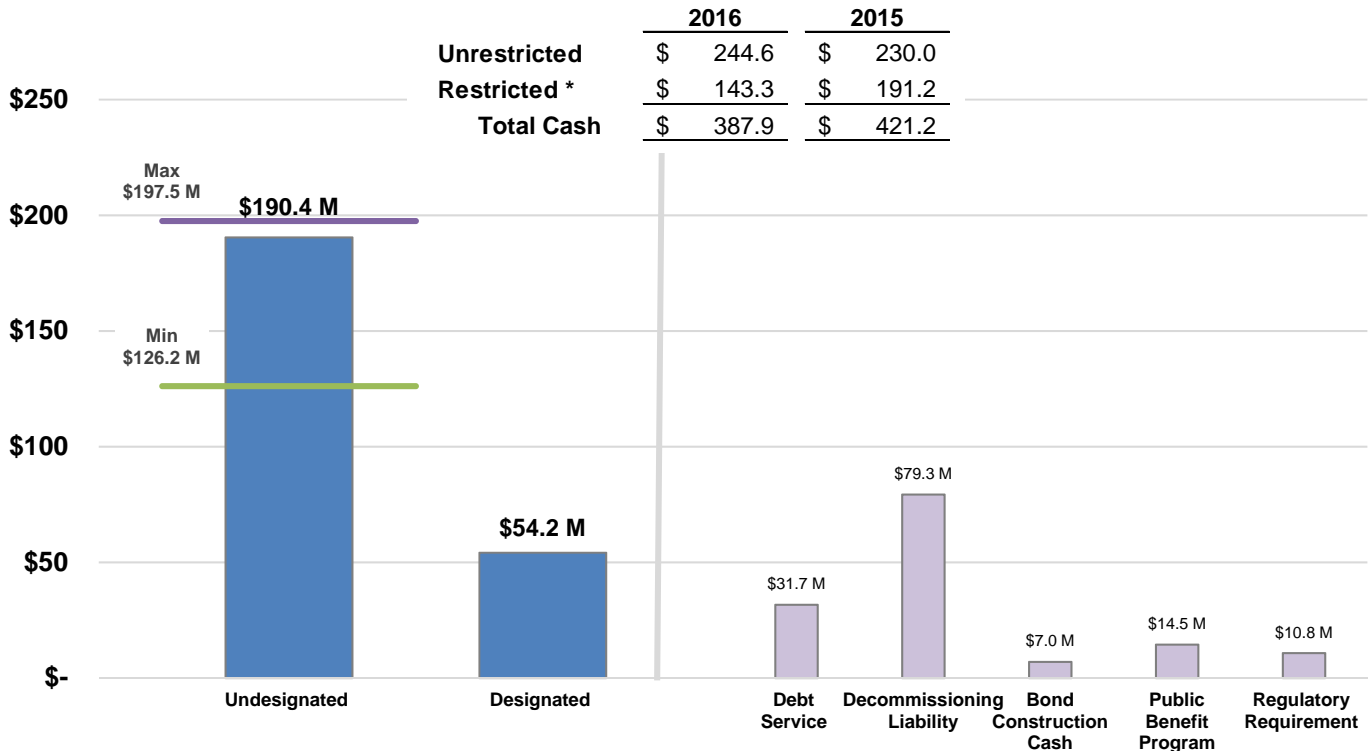


Actual to Prior: Retail kWh sales are 1.0% higher than prior year due to an increase in consumption in residential and commercial classes.

Actual to Budget: Retail kWh sales are 2.8% below budget primarily due to lower than anticipated industrial and commercial consumption.

ELECTRIC UTILITY CASH BALANCE MARCH 31, 2016 (In Millions)

Total Cash as of March 31 :



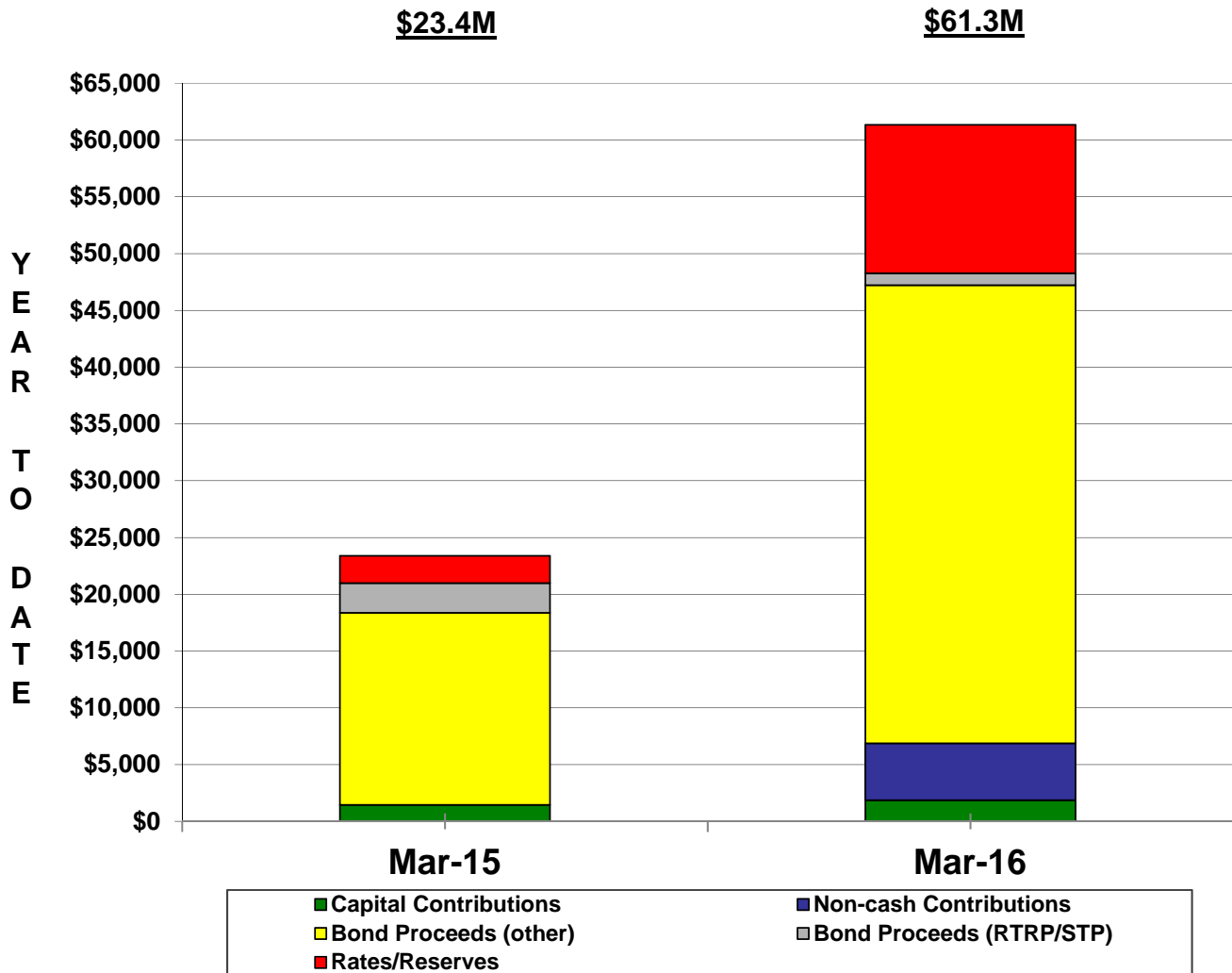
* Legally restricted for specific purposes.

The components of Unrestricted Designated Reserves are:

	FY 15/16
Electric Reliability Fund	\$ 43.9
Add'l Decommissioning Liability Reserve	\$ 4.5
Customer Deposits Reserve	\$ 3.6
Capital Repair/Replacement Reserve	\$ 2.0
Mission Square Improvement Fund	\$ 0.2
Total Designated Reserves	\$ 54.2

On March 22, 2016, the City Council approved a new cash reserve policy. Prior year amounts are not comparable in specific categories due to the new unrestricted designated and undesignated reserve structure. Overall cash balances are \$33.3M lower than prior year primarily due to the purchase of the Mission Square Building on October 13, 2015 for \$37.4M as approved by the Board and City Council. The purchase was made with a combination of undesignated reserves and bond proceeds supported by the private versus public use of the building.. In addition, there was an increase of \$4.1 million related to positive operating results and settlement recoveries offset by the funding of capital projects with bond proceeds

ELECTRIC UTILITY CAPITAL/EQUIPMENT FUNDING MARCH 31, 2015 AND 2016 (In Thousands)

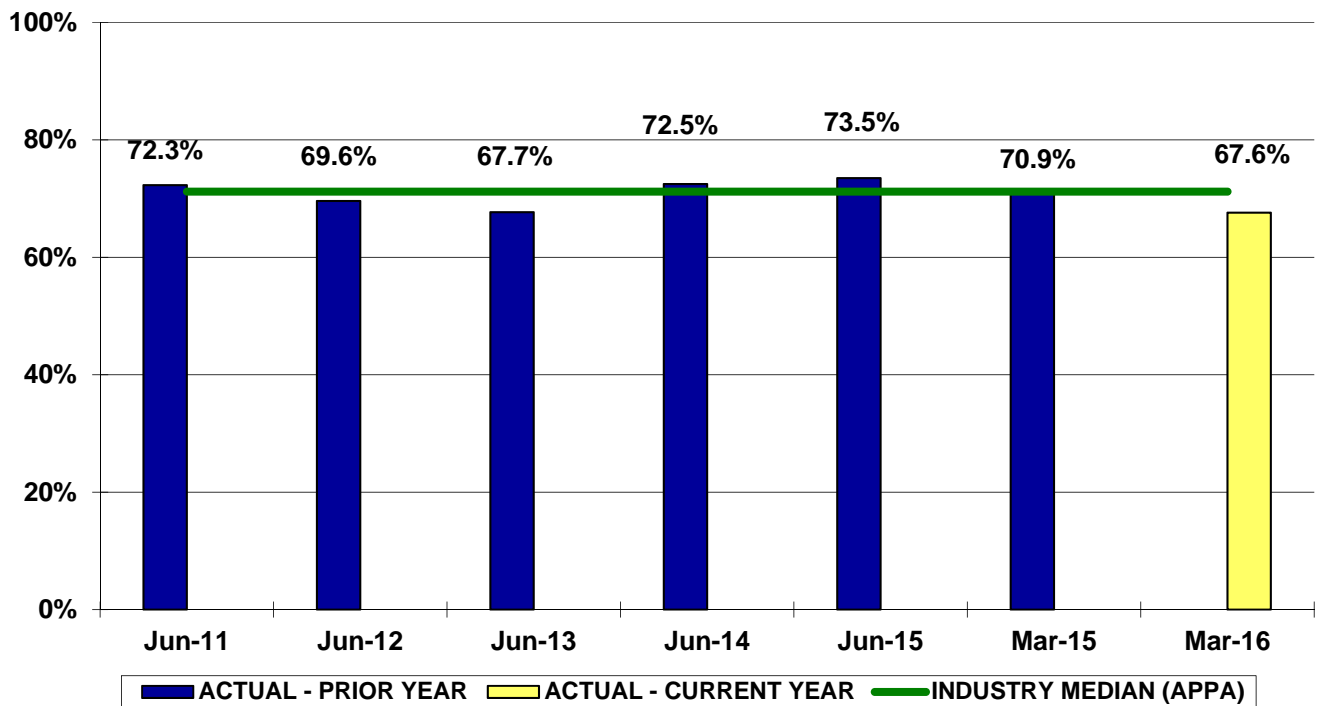


Current year capital expenses (projects + equipment) of \$61.3M are \$37.9M higher than prior year primarily due to the \$38M acquisition of the Mission Square building in October 2015.

In November 2015, the Electric Utility received a \$5M easement donation from California Baptist University, recognized as a non-cash contribution, for general access to electric system assets.

ELECTRIC UTILITY OPERATING RATIO

The Operating Ratio reflects the Utility's Operating and Maintenance costs to operating revenues. A lower ratio indicates positive results.
Industry Median = 71.2%

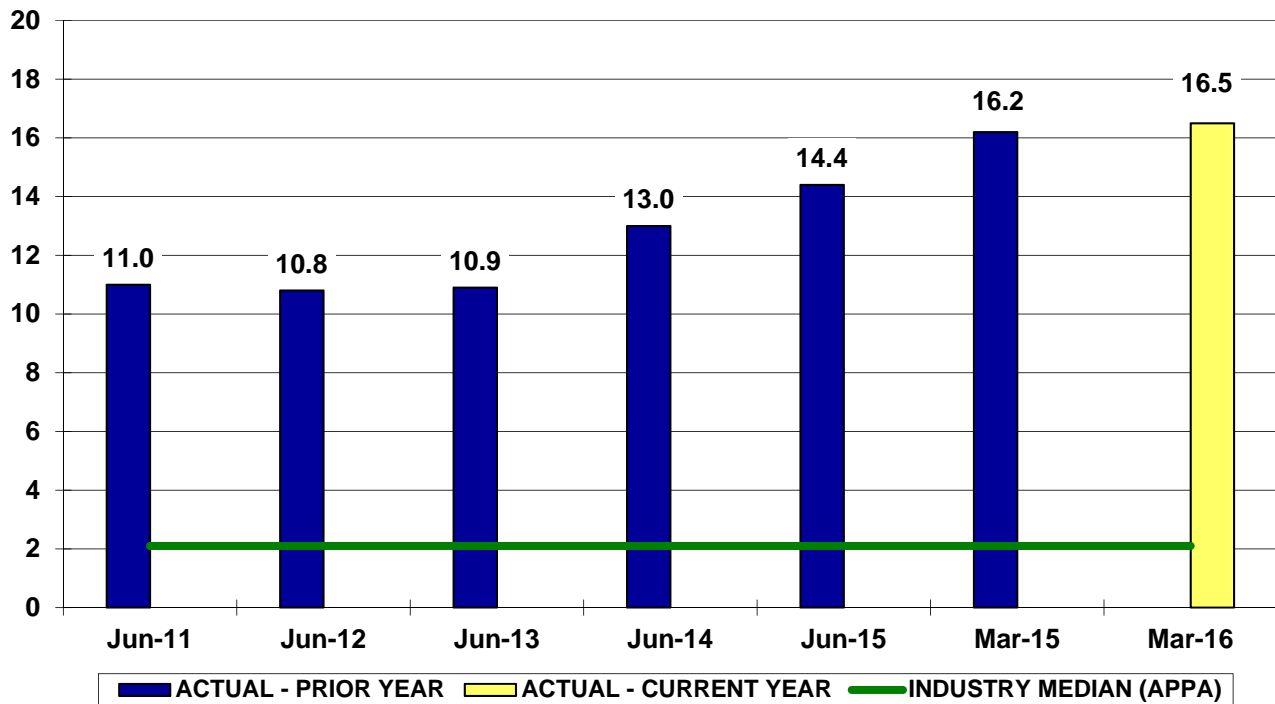


The Utility's Operating Ratio shows a 6.0 point (favorable) change from last fiscal year-end. This ratio also reflects a 3.3 point (favorable) change from prior year primarily due to lower power supply costs and an increase in retail revenues.

The Operating Ratio of 67.6% is 3.6 points lower (favorable) than the industry median of 71.2%.

ELECTRIC UTILITY UNRESTRICTED CURRENT RATIO

The Unrestricted Current Ratio indicates the Utility's ability to meet short-term liabilities. A higher ratio indicates positive results.
Industry Median = 2.1

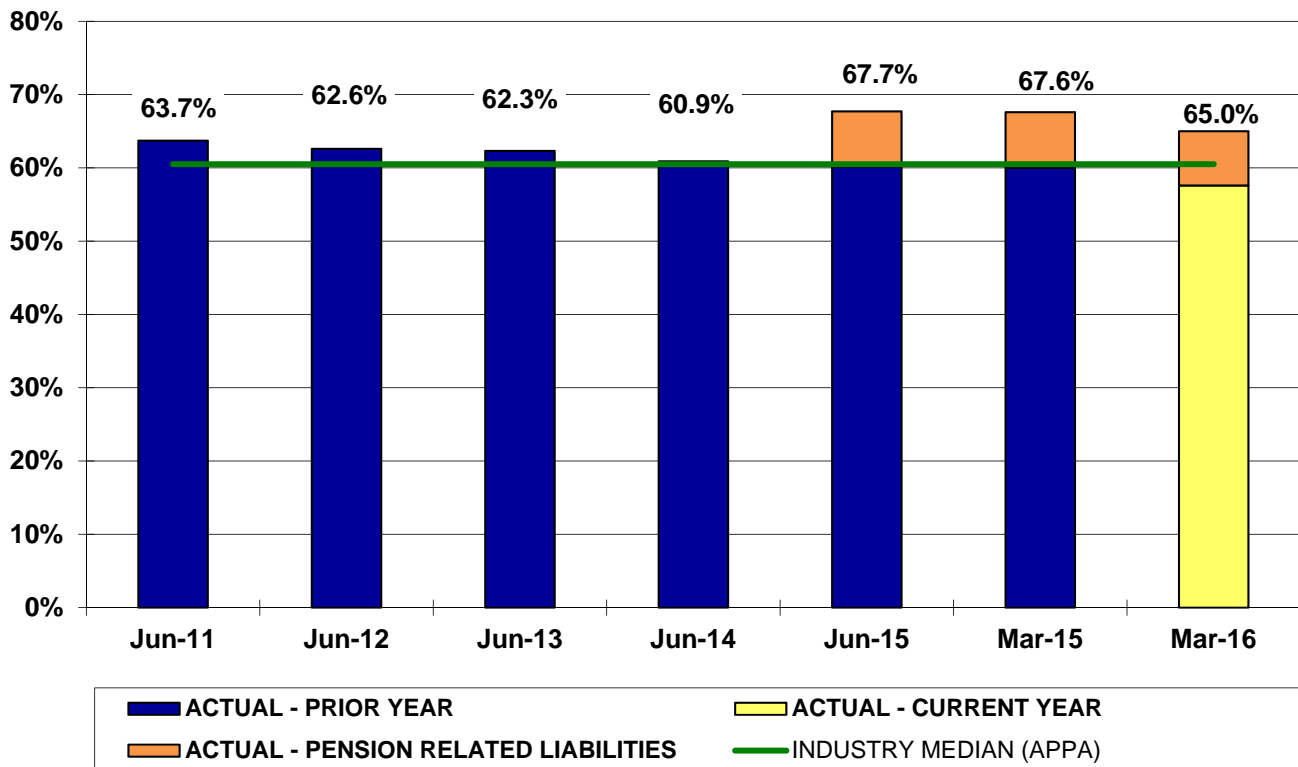


The Utility's Unrestricted Current Ratio shows a 2.1 point (favorable) change from last fiscal year-end. This ratio also reflects a .03 point change (favorable) compared to prior year due to the timing of accounts payable.

The Unrestricted Current Ratio of 16.5 is 14.5 points higher (favorable) than the industry median of 2.1, which indicates strong liquidity and positive operating results.

ELECTRIC UTILITY DEBT RATIO

The Debt Ratio indicates what proportion of debt the Utility has in relation to Utility assets. This ratio is favorable when it is lower.
Industry Median = 60.5%

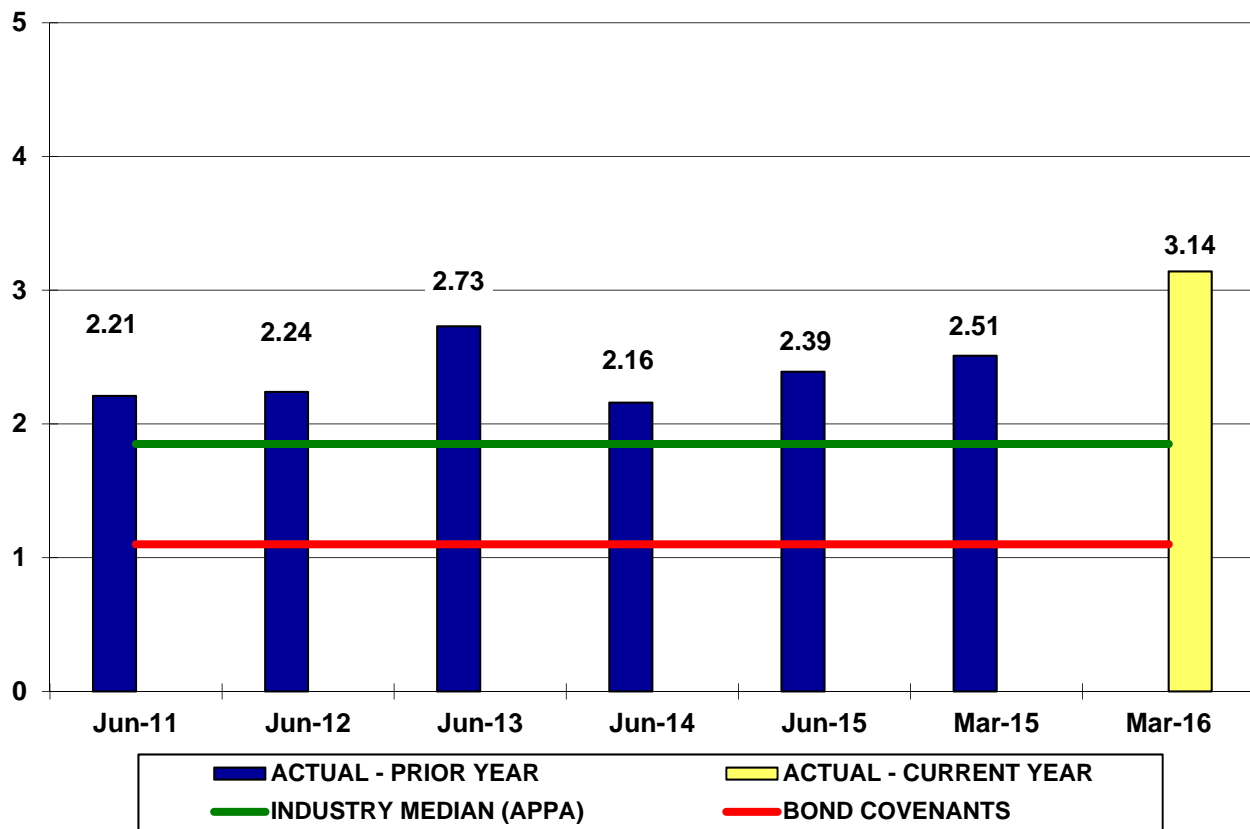


The Utility's Debt Ratio of 65.0% is 2.7 points lower (favorable) than last fiscal year-end and 2.6 points lower (favorable) than prior year primarily due to principal payments on outstanding debt.

The Debt Ratio of 65.0% is 4.5 points higher (unfavorable) than the industry median of 60.5%. Excluding pension liability, the ratio is below the industry median. The industry median does not reflect the effect of the addition of the net pension liability required of municipal agencies under new financial accounting standards, which was effective July 1, 2014. The most recent electric industry data reflects the fiscal year 2013-14.

ELECTRIC UTILITY DEBT SERVICE COVERAGE RATIO

The Debt Service Coverage Ratio is used as a benchmark to measure the Utility's ability to produce enough cash to cover our debt service payments. A higher ratio is more favorable.
Industry Median = 1.85

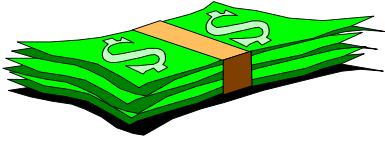


The Utility's Debt Service Coverage Ratio of 3.14 indicates that sufficient revenues are available to cover debt service. This ratio is higher than last fiscal year-end's ratio of 2.39 and prior year's ratio of 2.51 primarily due to positive operating results and the receipt of \$10.0M in insurance and project settlements. This ratio is higher than the industry median of 1.85.

*The 2003 Electric Refunding bond issue and all subsequent bond issues allowed for a new springing provision resulting in changes to the Debt Service Coverage Ratio calculation. This provision is only for the purposes of determining compliance with the Utility's Bond Covenants of 1.10. Under this method, the Debt Service Coverage Ratio would be 14.54 compared to the traditional calculation of 3.50.

Water Utility
Flow of Funds - Actual
(For the Nine Months Ended March 31, 2016)

BEGINNING CASH BALANCES - \$89.9M



SOURCES - \$50.5 M

Cash Sales - \$47.2M
Investment Income - \$0.5M
Other - \$0.8M
Capital Contributions - \$2.0M

OPERATING EXPENSES - \$(30.8)M

BALANCE - \$19.7M

DEBT SERVICE - \$(9.7)M

CAPITAL/EQUIPMENT - \$(11.8)M

Bonds \$(0.0)M
Cash \$(11.8)M

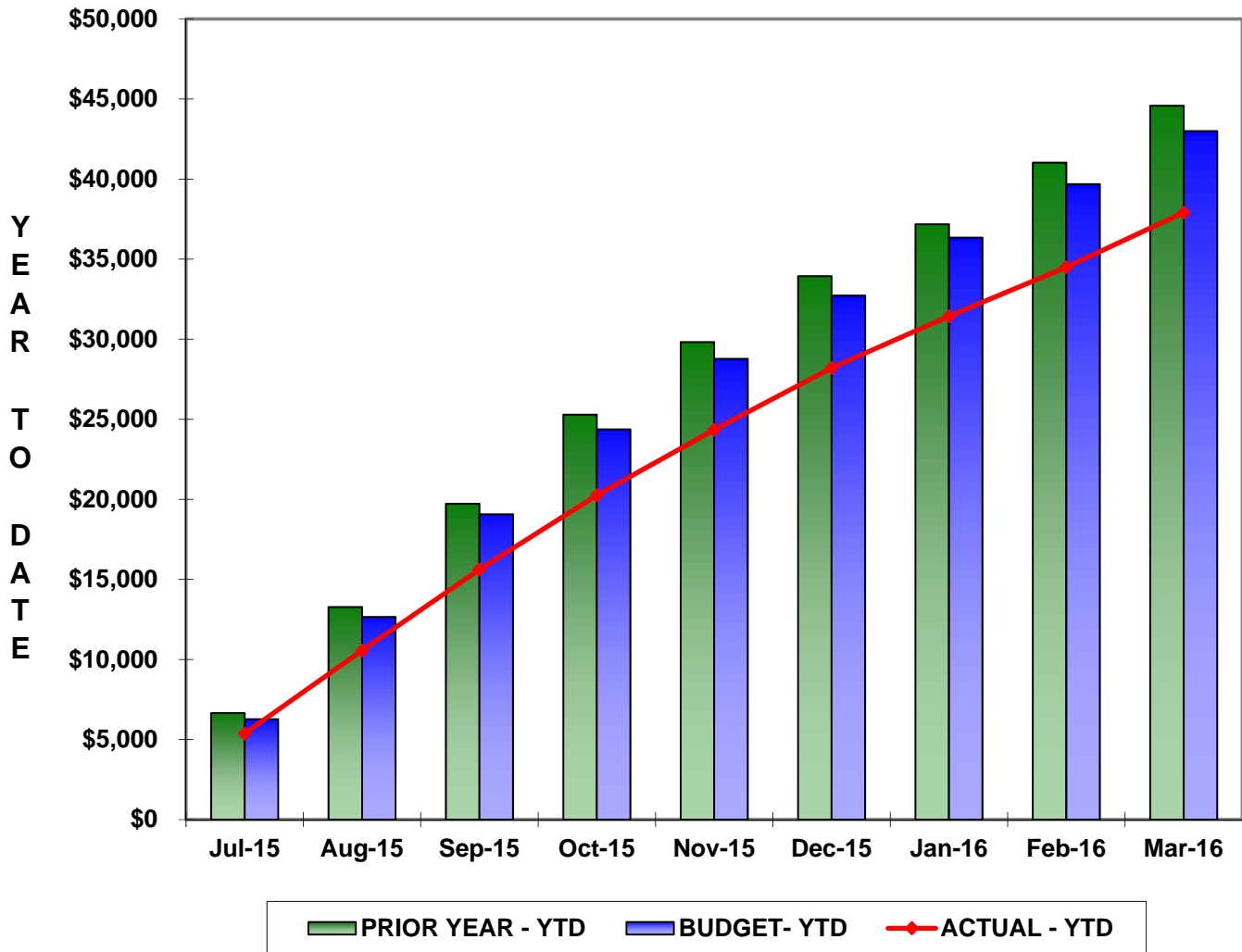
GENERAL FUND TRANSFER - \$(4.8)M

NET DECREASE TO CASH BALANCES- (\$6.6M)

Unrestricted – \$(10.4)M
Restricted – \$3.8M

ENDING CASH BALANCES - \$83.3M

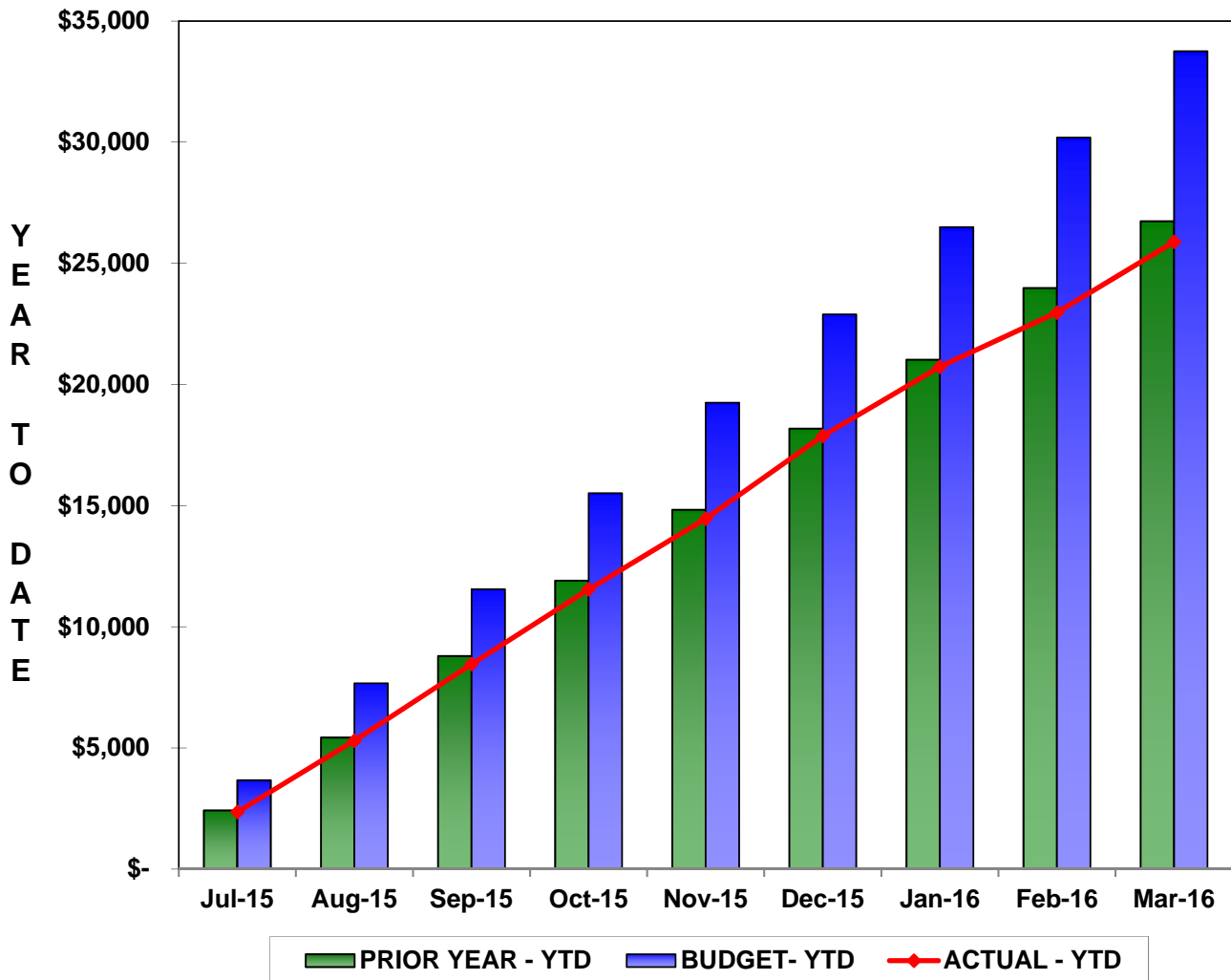
WATER UTILITY RETAIL SALES REVENUE FOR THE PERIOD ENDED MARCH 31, 2016 (In Thousands)



Actual to Prior: Year-to-date actual retail sales of \$37.9M are \$6.7M (15.0%) lower than prior year primarily due to a 16.5% decrease in consumption as a result of water conservation measures enacted due to the current drought conditions.

Actual to Budget: Year-to-date actual retail sales are \$5.1M (11.8%) lower than budget due to lower-than-anticipated consumption levels as a result of conservation measures taken by customers.

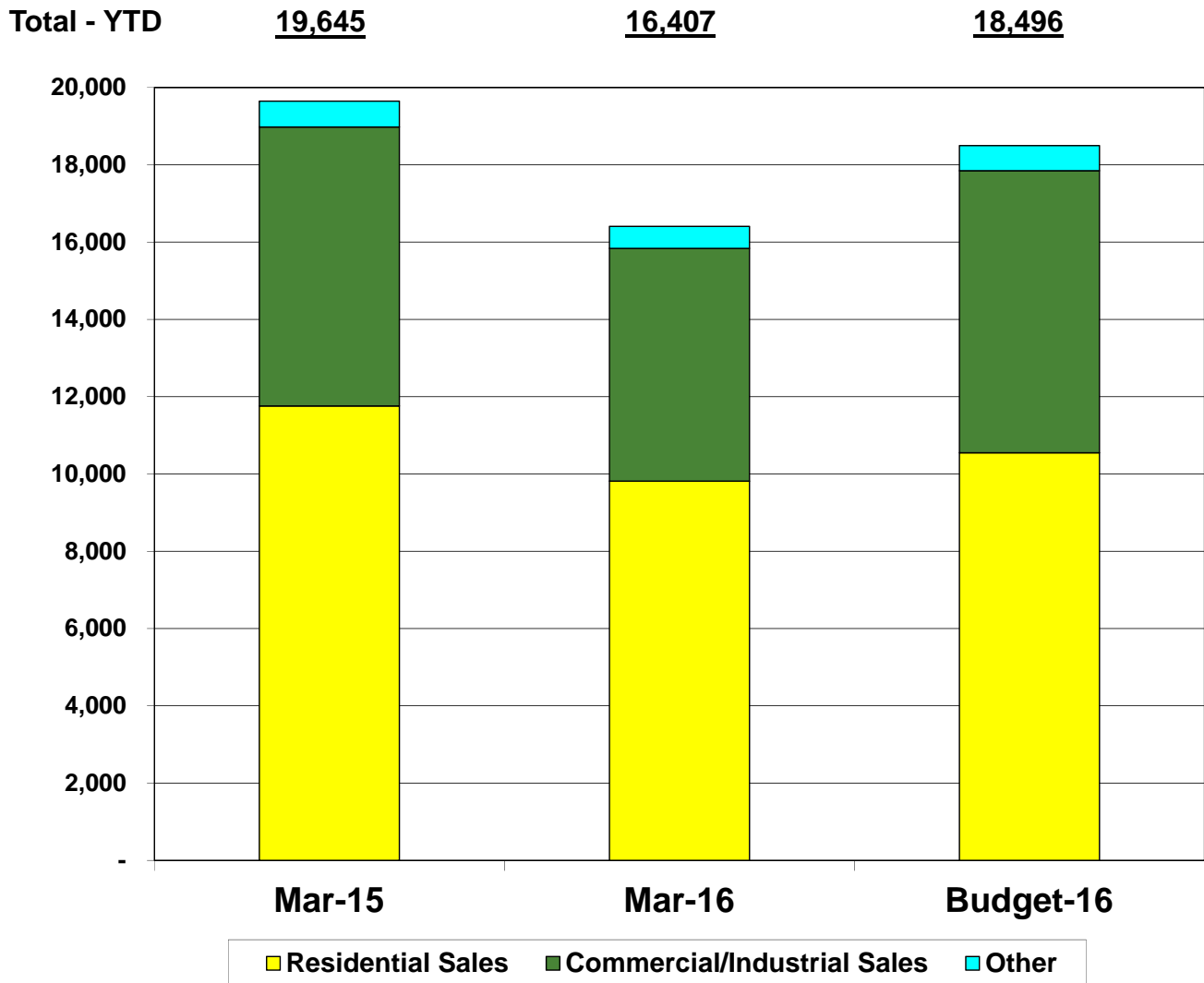
WATER UTILITY DISTRIBUTION OPERATING EXPENSES FOR THE PERIOD ENDED MARCH 31, 2016 (In Thousands)



Actual to Prior: Year-to-date distribution operating expenses of \$25.9M are \$0.8M (3.2%) lower than prior year due to a reduction in professional services and expenses related to water pumping and production costs associated with the lower consumption levels.

Actual to Budget: Year-to-date operating expenses are \$7.2M (21.7%) below anticipated levels due to savings in water pumping and production costs as a result of lower consumption levels and reducing controllable expenses resulting in savings in personnel costs, professional services, and other general operating expenses.

**WATER UTILITY
CCF SALES (In Thousands)
FOR THE PERIOD ENDED MARCH 31, 2016**



Actual to Prior: Retail CCF sales are 16.5% lower than prior year due to water conservation measures enacted for the current drought conditions.

Actual to Budget: Retail CCF sales are 11.3% below budget due to lower-than-anticipated consumption levels as a result of conservation measures taken by customers.

WATER UTILITY CASH BALANCE MARCH 31, 2016 (In Millions)

Total Cash as of March 31 :

	2016	2015
Unrestricted	\$ 73.5	\$ 86.0
Restricted *	\$ 9.8	\$ 10.6
Total Cash	\$ 83.3	\$ 96.6



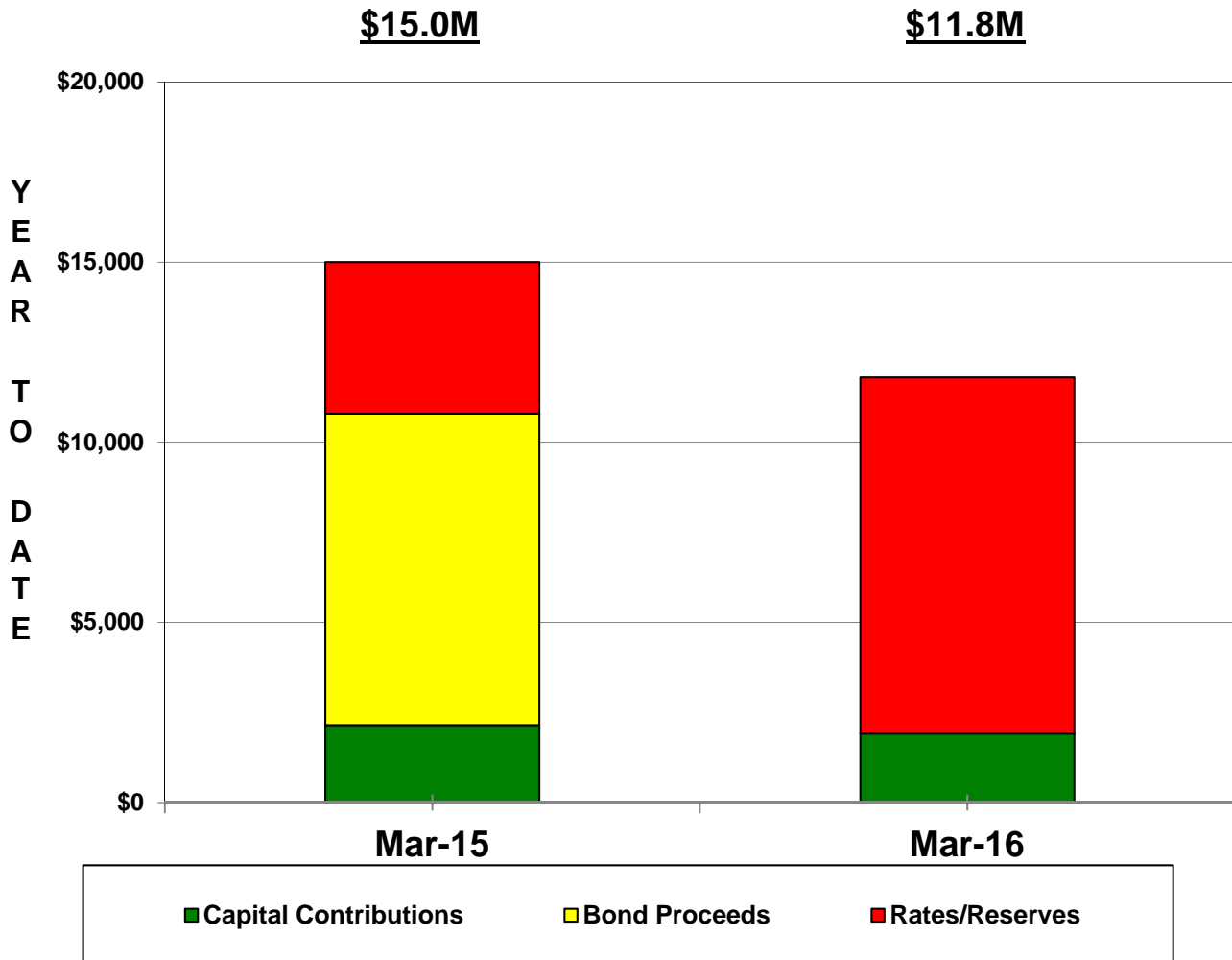
* Legally restricted for specific purposes.

The components of Unrestricted Designated Reserves are:

	FY 15/16
Property Reserve	\$ 26.0
Recycled Water Reserve	\$ 6.5
Capital Repair/Replacement Reserve	\$ 0.7
Customer Deposits Reserve	\$ 0.3
Total Designated Reserves	\$ 33.5

On March 22, 2016, the City Council approved a new cash reserve policy. Prior year amounts are not comparable due to the new unrestricted designated and undesignated structure. Overall cash balances are \$13.3M lower than prior year primarily due to the use of undesignated reserve for capital projects customarily funded by bonds. Staff is currently analyzing the Water Utility's future infrastructure needs including the source of funding. With the City Council approved Reimbursement Resolution, use of undesignated reserve currently for capital projects may be reimbursed by future bond proceeds should the City decide that a bond issuance will be beneficial for capital financing.

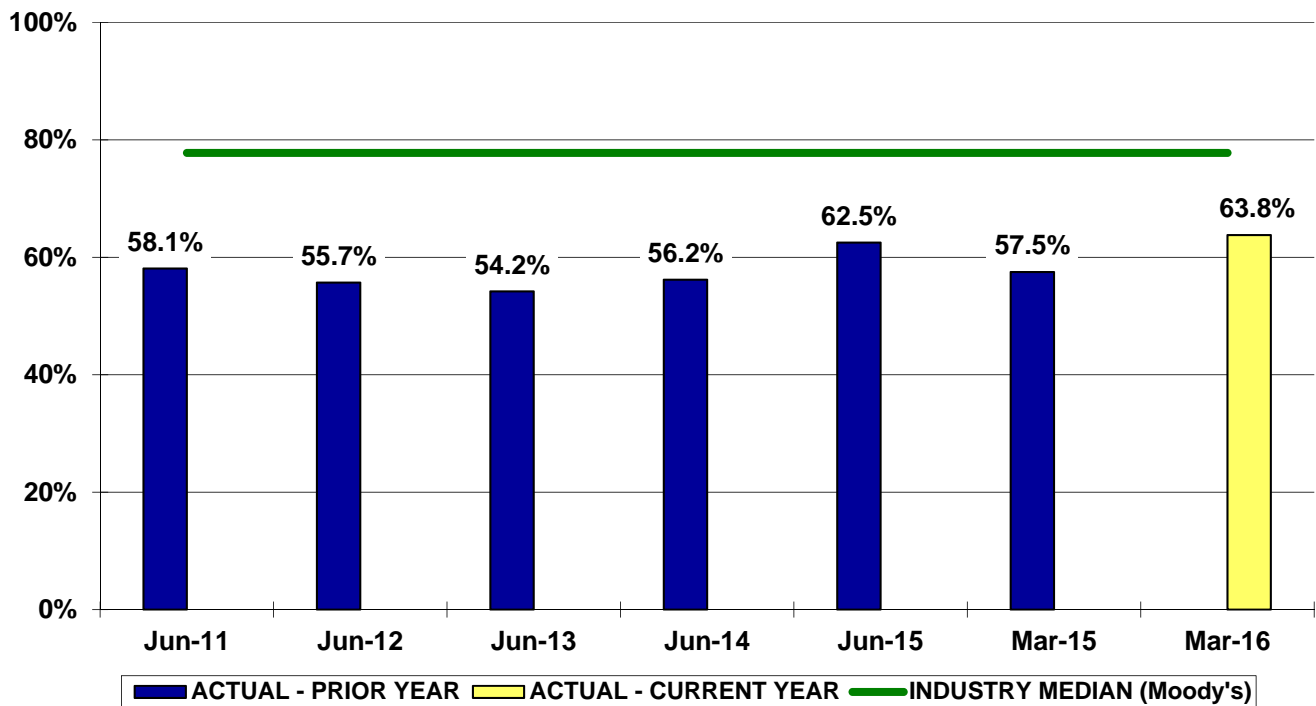
WATER UTILITY CAPITAL/EQUIPMENT FUNDING MARCH 31, 2015 AND 2016 (In Thousands)



Current year capital expenses (capital projects + equipment) of \$11.8M are \$3.2M lower than prior year mainly due to a reduction in main replacements as staff continues to monitor cash reserve levels as a response to the decrease in revenues due to the severe drought.

WATER UTILITY OPERATING RATIO

The Operating Ratio compares the Utility's Operating and Maintenance costs to operating revenues. A lower ratio indicates positive results.
Industry Median = 77.8%

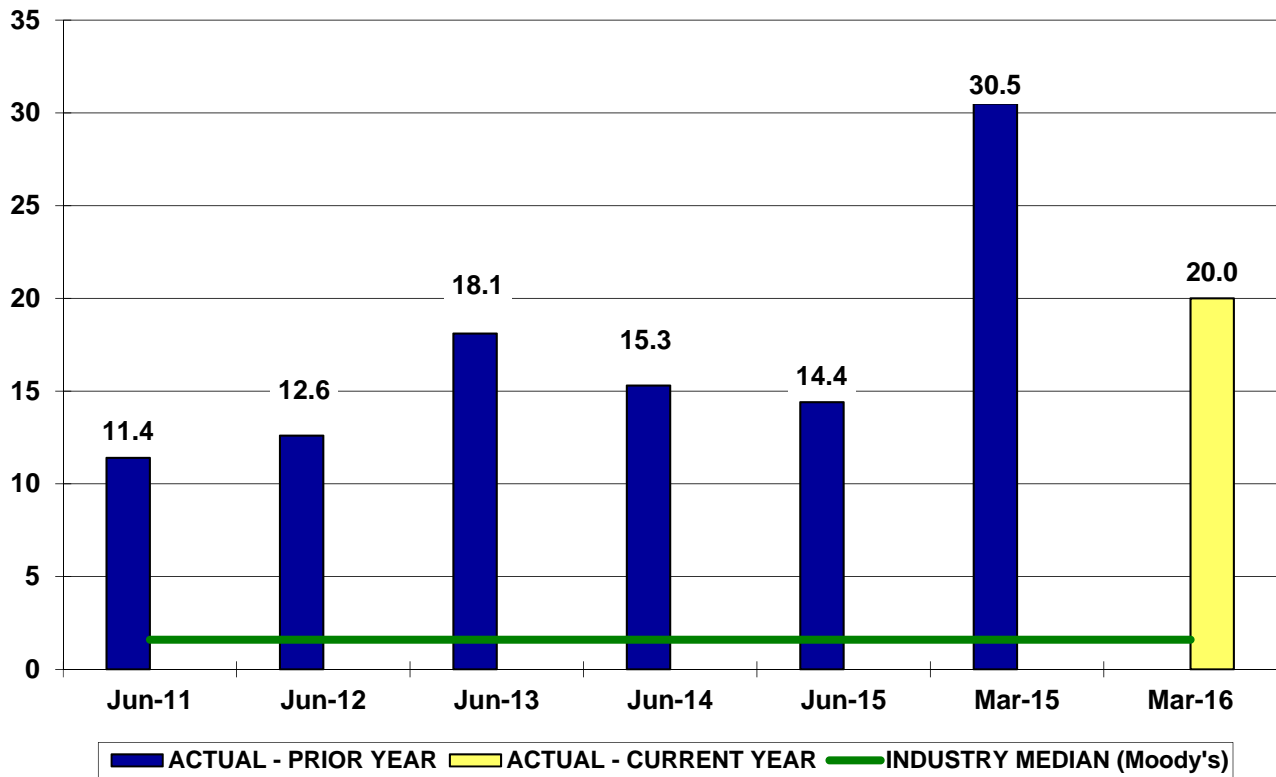


The Utility's Operating Ratio shows a 1.3 point (unfavorable) change from last fiscal year-end. This ratio also reflects a 6.3 point (unfavorable) change from prior year primarily due to a decrease in operating revenues as a result of conservation measures mandated by the State.

The Operating Ratio of 63.8% is 14.0 points lower (favorable) than the industry median of 77.8% which indicates strong operating results, as compared to other peer utilities.

WATER UTILITY UNRESTRICTED CURRENT RATIO

The Unrestricted Current Ratio indicates the Utility's ability to meet short-term liabilities. A higher ratio indicates positive results.
Industry Median = 1.6

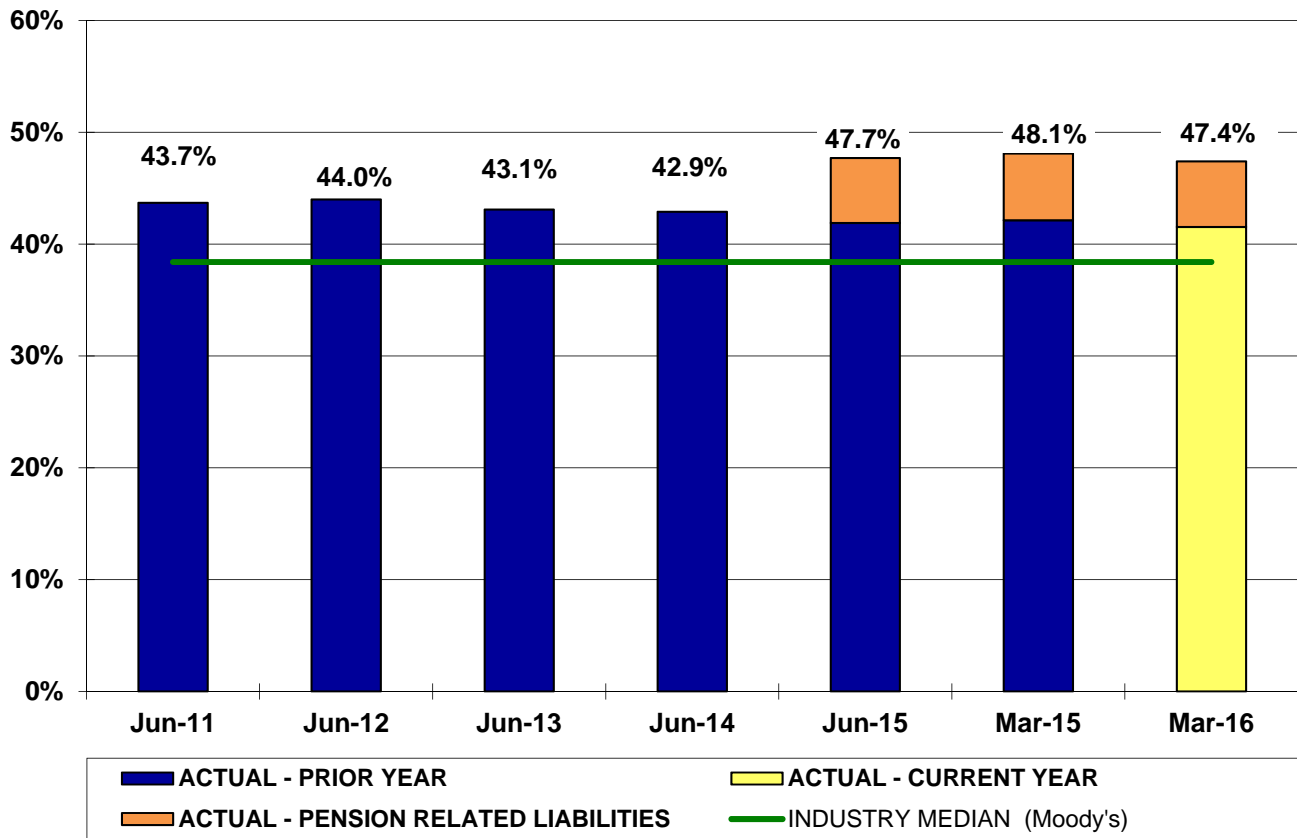


The Utility's Unrestricted Current Ratio shows a 5.6 point (favorable) increase from last fiscal year-end. This ratio also reflects a 10.5 point (unfavorable) change from prior year due to a decrease in cash and cash equivalents, due to the use of reserves on capital projects which are customarily funded by bonds.

The Unrestricted Current Ratio of 20.0 is 18.4 points higher (favorable) than the industry median of 1.6 which indicates strong liquidity and positive operating results, as compared to other peer utilities.

WATER UTILITY DEBT RATIO

The Debt Ratio indicates what proportion of debt the Utility has in relation to Utility assets. This ratio is favorable when it is lower.
Industry Median = 38.4%



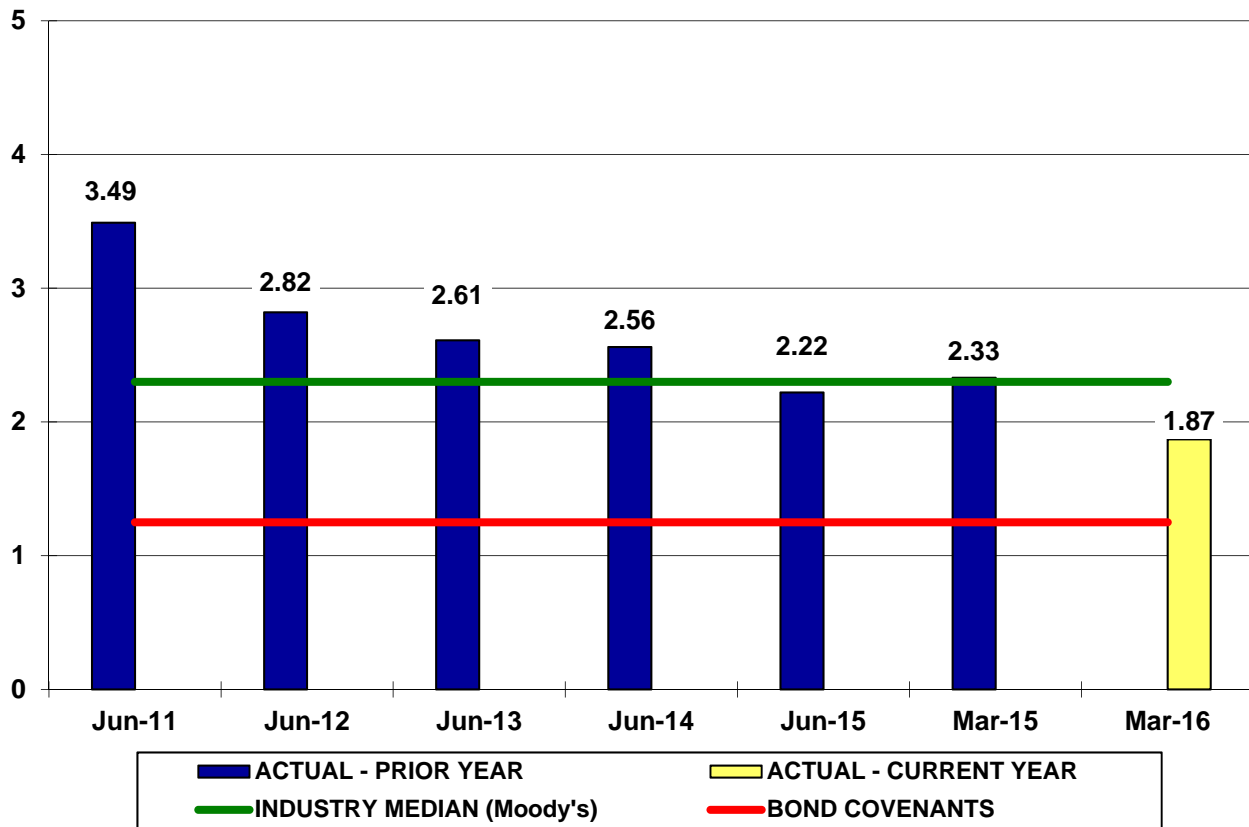
The Utility's Debt Ratio of 47.4% is 0.3 points lower (favorable) than last fiscal year-end and 0.7 points lower (favorable) than prior year primarily due to principal payments on outstanding debt.

The Debt Ratio is 9.0 points higher (unfavorable) than the industry median of 38.4%. The industry median does not reflect the effect of the addition of the net pension liability required of municipal agencies under new financial accounting standards, which was effective July 1, 2014. The most recent water industry data reflects the fiscal year 2013-14.

WATER UTILITY DEBT SERVICE COVERAGE RATIO

The Debt Service Coverage Ratio is used as a benchmark to measure the Utility's ability to produce enough cash to cover our debt service payments. A higher ratio is more favorable.

Industry Median = 2.3



The Debt Service Coverage Ratio of 1.87 indicates that sufficient revenues are available to cover debt service. This ratio is lower than last fiscal year-end's ratio of 2.22 and prior year's ratio of 2.33 as a result of lower operating revenues due to water conservation measures.

This ratio is higher than the Utility's Bond Covenants of 1.25.